PRA RULEBOOK CRR FIRMS INSTRUMENT 2013

Powers exercised

A. The Prudential Regulation Authority (the "PRA") 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 137G (The PRA's general rules); and
(2) section 137T (General supplementary powers)

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

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook CRR Firms Instrument 2013

D. The PRA makes the rules in Annexes A to M of this instrument.

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Commencement

E. This instrument comes into force on 1 January 2014, except for Rule 2.2 in Annex D which comes into force on the date specified by subsequent PRA Board Instrument.

Citation

F. This instrument may be cited as the PRA Rulebook CRR Firms Instrument 2013.

By order of the Board of the Prudential Regulation Authority
16 December 2013

Annex A

Glossary

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

After […] insert the following new Part.

building society

has the meaning given in section 119 of the Building Societies Act 1986.

CRD

means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

credit union

has the meaning given in section 31 of the Credit Unions Act 1979.

CRR

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

CRR firm

means a *UK bank*, a *building society* or a *UK designated investment firm.*

EBA

means the European Banking Authority.

firm

means a *PRA-authorised person* within the meaning of section 2B(5) of *FSMA.*

FSMA

means the Financial Services and Markets Act 2000.

market risk

means the risk that arises from fluctuations in values of, or income from assets, or in interest or exchange rates.

PRA

means the Prudential Regulation Authority.

third country

means a territory or country that is not an *EEA State.*

UK bank

means a *UK undertaking* that has permission under Part 4A of *FSMA* to carry on the *regulated activity* of accepting deposits and is a *credit institution*, but is not a *credit union*, *friendly society* or a *building society.*

UK designated investment firm

means a *UK undertaking* that is an investment firm that has been designated by the *PRA* under Article 3 of Financial Services and Markets Act 2000 (PRA-regulated Activities) Order (S.I. 2013/556).

UK undertaking

means an undertaking within the meaning of section 1161(1) of the Companies Act 2006 (meaning of "undertaking" and related expressions) whose registered office or, if the undertaking does not have a registered office, whose head office is in any part of the *UK*.

UK

means *United Kingdom*.

unregulated activity

means an activity that is not a *regulated activity*.

Annex B

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

Part

INTERNAL CAPITAL ADEQUACY ASSESSMENT

Chapter content

1 APPLICATION AND DEFINITIONS
2 ADEQUACY OF FINANCIAL RESOURCES
3 STRATEGIES, PROCESSES AND SYSTEMS
4 CREDIT AND COUNTERPARTY RISK
5 RESIDUAL RISK
6 CONCENTRATION RISK
7 SECURITISATION RISK
8 MARKET RISK
9 INTEREST RISK ARISING FROM NON-TRADING BOOK ACTIVITIES
10 OPERATIONAL RISK
11 RISK OF EXCESSIVE LEVERAGE
12 STRESS TESTS AND SCENARIO ANALYSIS
13 DOCUMENTATION OF RISK ASSESSMENTS
14 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS, A CONSOLIDATED BASIS AND A SUB-CONSOLIDATED BASIS

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

Article 12(1) relationship

means a relationship where undertakings are linked by a relationship within the meaning of Article 12(1) Directive 83/349/EEC.

business risk

means any risk to a *firm* arising from:

(1) changes in its business, including:

(a) the acute risk to earnings posed by falling or volatile income; and

(b) the broader risk of a *firm's* business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors; or

(2) its remuneration policy.

consolidation group

means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the CRR and Groups 2.1- 2.3.

central counterparty

has the meaning given in point (1) of Article 2 of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, central counterparties and trade repositories.

financial conglomerate

has the meaning given in point (14) of Article 2 of Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

group

means in relation to a *person* ("A"), A and any *person*:

(a) who has relationship with A of the kind specified in s. 421 of *FSMA*;

(b) who is a member of the same *financial conglomerate* as A;

(c) who has a *Article 12(1)* relationship with A;

(d) who has a *Article 12(1)* relationship with any *person* who falls into (a);

(e) who is a *subsidiary* of a person in (c) or (d) ;

(f) who is member of the same *consolidation group* as A; or

(g) whose omission from an assessment of the risks to A of A's connection to any person coming within (a)-(f) or an assessment of the financial resources available to such persons would be misleading.

group risk

means the risk that the financial position of a *firm* may be adversely affected by its relationships (financial or non-financial) with other entities in the same *group* or by risk which may affect the financial position of the whole *group*, including reputational contagion.

ICAAP rules

means the rules in Chapter 3 (Strategies, processes, and systems), Chapter 12 (Stress test and scenario analysis) and Chapter 13 (Documentation of risk assessments).

liquidity risk

means the risk that a *firm* although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

market risk

means the risk that arises from fluctuations in values of or income from assets or in interest or exchange rates.

parent financial holding company in a Member State

means (in accordance with point (26) of Article 1(1) of the *CRD*) a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent institution in a Member State

means (in accordance with point (24) of Article 1(1) of the *CRD*) an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding compan*y set up in the same *EEA State*.

parent mixed financial holding company in a Member State

means (in accordance with point (28) of Article 1(1) of the *CRD*) a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

pension obligation risk

means:

(1) the risk to a *firm* caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise); or

(2) the risk that the *firm* will make payments or other contributions to or with respect to a pension scheme because of a moral obligation or because the *firm* considers that it needs to do so for some other reason.

residual risk

means the risk that credit risk mitigation techniques used by the *firm* prove less effective than expected.

risk control rules

means the rules in Chapter 4 to Chapter 11 of this Part.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 ADEQUACY OF FINANCIAL RESOURCES

Overall financial adequacy rule

2.1 A *firm* must at all times maintain overall financial resources, including *own funds* and liquidity resources, which are adequate both as to amount and quality, to ensure there is no significant risk that its liabilities cannot be met as they fall due.

3 STRATEGIES, PROCESSES AND SYSTEMS

Overall Pillar 2 rule

3.1 A *firm* must have in place sound, effective and comprehensive strategies, processes and systems:

(1) to assess and maintain on an ongoing basis the amounts, types and distribution of financial resources, *own funds* and internal capital that it considers adequate to cover:

(a) the nature and level of the risks to which it is or might be exposed;

(b) the risk in the overall financial adequacy rule in 2.1; and

(c) the risk that the *firm* might not be able to meet the obligations in Part Three of the *CRR* in the future;

(2) that enable it to identify and manage the major sources of risk referred to in (1) including the major sources of risk in each of the following categories where they are relevant to the *firm* given the nature and scale of its business:

(a) credit and counterparty risk;

(b) *market risk;*

(c) *liquidity risk;*

(d) *operational risk;*

(e) concentration risk;

(f) *residual risk;*

(g) *securitisation* risk, including the risk that the *own funds* held by a *firm* in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction including the degree of risk transfer achieved;

(h) *business risk;*

(i) interest rate risk in the non-trading book;

(j) *risk of excessive leverage;*

(k) *pension obligation risk*; and

(l) *group risk*.

[Note: Art 73 (part) of the *CRD*]

3.2 As part of its obligations under the overall Pillar 2 rule in 3.1, a *firm* must identify separately the amount of *common equity tier one capital*, *additional tier one capital* and *tier two capital* and each category of capital (if any) that is not eligible to form part of its *own funds* which it considers adequate for the purposes described in the overall Pillar 2 rule.

3.3 The processes, strategies and systems required by the overall Pillar 2 rule in 3.1 must be comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

3.4 A *firm* must:

(1) carry out regularly the assessments required by the overall Pillar 2 rule in 3.1; and

(2) carry out regularly assessments of the processes, strategies and systems required by the overall Pillar 2 rule in 3.1 to ensure they remain comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

[Note: Art 73(part) of the *CRD*]

3.5 As part of its obligations under the overall Pillar 2 rule in 3.1, a *firm* must:

(1) make an assessment of the firm-wide impact of the risks identified in accordance with that rule, to which end a *firm* must aggregate the risks across its various business lines and units, taking appropriate account of any correlation between risks; and

(2) take into account the stress tests that the *firm* is required to carry out under the general stress test and scenario analysis rule in 12.1 and any stress tests that the *firm* is required to carry out under the *CRR*.

4 CREDIT AND COUNTERPARTY RISK

4.1 A *firm* must base credit-granting on sound and well-defined criteria and clearly establish the process for approving, amending, renewing and re-financing credits.

[Note: Art 79(a) of the *CRD*]

4.2 A *firm* must have internal methodologies that:

(1) enable it to assess the credit risk of exposures to individual obligors, securities or *securitisation positions* and credit risk at the portfolio level;

(2) do not rely solely or mechanistically on external credit ratings; and

(3) where its *own funds* requirements under Part Three of the *CRR* are based on a rating by an *ECAI* or based on the fact that an exposure is unrated, enable the *firm* to consider other relevant information for assessing its allocation of financial resources and internal capital.

[Note: Art 79(b) of the *CRD*]

4.3 A *firm* must operate through effective systems the ongoing administration and monitoring of its various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions.

[Note: Art 79(c) of the *CRD*]

4.4 A *firm* must adequately diversify credit portfolios given its target markets and overall credit strategy.

[Note Art 79(d) of the *CRD*]

5 RESIDUAL RISK

5.1 A *firm* must address and control, by means which include written policies and procedures, the risk that recognised credit risk mitigation techniques used by it prove less effective than expected.

[Note: Art 80 of the *CRD*]

6 CONCENTRATION RISK

6.1 A *firm* must address and control, by means which include written policies and procedures, the concentration risk arising from:

(1) exposures to each counterparty including central counterparties, groups of connected counterparties and counterparties in the same economic sector, geographic region or from the same activity or commodity;

(2) the application of credit risk mitigation techniques; and

(3) risks associated with large indirect credit exposures such as a single collateral issuer.

[Note: Art 81 of *CRD*]

7 SECURITISATION RISK

7.1 A *firm* must evaluate and address through appropriate policies and procedures the risks arising from *securitisation* transactions in relation to which the *firm* is investor, *originator* or *sponsor*, including reputational risks, to ensure in particular that the economic substance of the transaction is fully reflected in risk assessment and management decisions.

[Note: Art 82(1) of *CRD*]

7.2 A *firm* which is an *originator* of a revolving *securitisation* transaction involving *early amortisation provisions* must have liquidity plans to address the implications of both scheduled and early amortisation.

[Note Art 82(2) of the *CRD*]

8 MARKET RISK

8.1 A *firm* must implement policies and processes for the identification, measurement and management of all material sources and effects of market risks.

[Note: Art 83(1) of the *CRD*]

8.2 A *firm* must take measures against the risk of a shortage of liquidity if the short position falls due before the long position.

[Note: Art 83(2) of the *CRD*]

8.3 A *firm's* financial resources and internal capital must be adequate for material market risks that are not subject to an *own funds* requirement.

8.4 A *firm* which has, in calculating *own funds* requirements for position risk in accordance with Part Three, Title IV, Chapter 2 of the *CRR,* netted off its positions in one or more of the equities constituting a stock-index against one or more positions in the stock-index future or other stock-index product, must have adequate financial resources and internal capital to cover the basis risk of loss caused by the future's or other product's value not moving fully in line with that of its constituent equities.

8.5 A *firm* using the treatment in Article 345 of the *CRR* must ensure that it holds sufficient financial resources and internal capital against the risk of loss which exists between the time of the initial commitment and the following working day.

[Note: Art 83(3) of the *CRD*]

8.6 As part of its obligations under the overall Pillar 2 rule in 3.1, a *firm* must consider whether the value adjustments and provisions taken for positions and portfolios in the *trading book* enable

the *firm* to sell or hedge out its positions within a short period without incurring material losses under normal market conditions.

[Note: Art 98(4) of the *CRD*]

9 INTEREST RISK ARISING FROM NON-TRADING BOOK ACTIVITIES

9.1 A *firm* must implement systems to identify, evaluate and manage the risk arising from potential changes in interest rates that affect a *firm's* non-trading activities.

[Note: Art 84 of the *CRD*]

9.2 As part of its obligations under the overall Pillar 2 rule in 3.1, a *firm* must carry out an evaluation of its exposure to the interest rate risk arising from its non-trading activities.

9.3 The evaluation under 9.2 must cover the effect of a sudden and unexpected change in interest rates of 200 basis points in both directions.

9.4 A *firm* must immediately notify the *PRA* if any evaluation under this *rule* suggests that, as a result of the change in interest rates described in 9.3, the economic value of the *firm* would decline by more than 20% of its *own funds.*

9.5 A *firm* must carry out the evaluation under 9.2 as frequently as necessary for it to be reasonably satisfied that it has at all times a sufficient understanding of the degree to which it is exposed to the risks referred to in 9.2 and the nature of that exposure. In any case it must carry out those evaluations no less frequently than once a year.

[Note: Art 98(5) of the *CRD*]

10 OPERATIONAL RISK

10.1 A *firm* must implement policies and processes to evaluate and manage the exposure to operational risk, including model risk and to cover low-frequency high severity events. Without prejudice to the definition of *operational risk*, a firm must articulate what constitutes *operational risk* for the purposes of those policies and procedures.

[Note: Art 85(1) of the *CRD*]

10.2 A *firm* must have in place adequate contingency and business continuity plans aimed at ensuring that in the case of a severe business disruption the *firm* is able to operate on an ongoing basis and that any losses are limited.

[Note: Art 85(2) of the *CRD*]

11 RISK OF EXCESSIVE LEVERAGE

11.1 A *firm* must have in place policies and procedures for the identification, management and monitoring of the *risk of excessive leverage*.

11.2 Those policies and procedures must include, as an indicator for the *risk of excessive leverage*, the leverage ratio determined in accordance with Article 429 of the *CRR* and mismatches between assets and obligations.

[Note: Art 87(1) of the *CRD*]

11.3 A *firm* must address the *risk of excessive leverage* in a precautionary manner by taking due account of potential increases in that risk caused by reductions of the *firm's own funds* through expected or realised losses, depending on the applicable accounting rules. To that end, a *firm* must be able to withstand a range of different stress events with respect to the *risk of excessive leverage*.

[Note: Art 87(2) of the *CRD*]

12 STRESS TESTS AND SCENARIO ANALYSIS

General stress test and scenario analysis rule

12.1 As part of its obligation under the overall Pillar 2 rule in 3.1, a *firm* must, for the major sources of risk identified in accordance with that rule, carry out stress tests and scenario analyses that are appropriate to the nature, scale and complexity of those major sources of risk and to the nature, scale and complexity of the *firm's* business.

12.2 In carrying out the stress tests and scenario analyses in 12.1, a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the exposure of the *firm* to those circumstances, including:

(a) circumstances and events occurring over a protracted period of time;

(b) sudden and severe events, such as market shocks or other similar events; and

(c) some combination of the circumstances and events described in (a) and (b), which may include a sudden and severe market event followed by an economic recession.

12.3 In carrying out the stress tests and scenario analyses in 12.1, the *firm* must estimate the financial resources that it would need in order to continue to meet the overall financial adequacy rule in 2.1 and the obligations laid down in Part Three of the *CRR* under the adverse circumstances being considered.

12.4 In carrying out the stress tests and scenario analyses in 12.1, the *firm* must assess how risks aggregate across business lines or units, any material non-linear or contingent risks and how risk correlations may increase in stressed conditions.

13 DOCUMENTATION OF RISK ASSESSMENTS

13.1 A *firm* must make a written record of the assessments required under this Part. These assessments must include assessments carried out on a consolidated basis and on an individual basis. In particular it must make a written record of:

(a) the major sources of risk identified in accordance with the overall Pillar 2 rule in 3.1;

(b) how it intends to deal with those risks; and

(c) details of the stress tests and scenario analyses carried out, including any assumptions made in relation to scenario design, and the resulting financial resources estimated to be required in accordance with the general stress test and scenario analysis rule in 12.1.

13.2 A *firm* must maintain the records referred to in 13.1 for at least three years.

14 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS, A CONSOLIDATED BASIS AND A SUB-CONSOLIDATED BASIS

The ICAAP rules

14.1 A *firm* that is neither a *subsidiary* of a *parent undertaking* incorporated in or formed under the law of any part of the *UK* nor *a parent undertaking* must comply with the *ICAAP rules* on an individual basis.

14.2 A *firm* that is not a member of a *consolidation group* must comply with the *ICAAP rules* on an individual basis.

[Note: Art 108(1) of the *CRD*]

14.3 A *firm* which is a *parent institution in a Member State* must comply with the *ICAAP rules* on a *consolidated basis*.

14.4 A *firm* controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* must comply with the *ICAAP rules* on the basis of the *consolidated situation* of that holding company, if the *PRA* is responsible for supervision of the *firm* on a *consolidated basis* under Article 111 of the *CRD*.

[Note: Art 108(2) and 108(3) of the *CRD*]

14.5 A *firm* that is a *subsidiary* must apply the *ICAAP rules* on a *sub-consolidated basis* if the *firm*, or the *parent undertaking* where it is a *financial holding company* or *mixed financial holding company,* have an *institution* or *financial institution* or an *asset management company* as a *subsidiary* in a *third country* or hold a *participation* in such an undertaking.

[Note: Art 108(4) of the *CRD*]

14.6 If the *ICAAP rules* apply to a *firm* on a *consolidated basis* or on a *sub-consolidated basis* the *firm* must carry out consolidation to the extent and in the manner prescribed in Articles 18(1), 18(8), 19(1), 19(3), 23 and 24(1) of the *CRR* and Groups 2.1-2.3.

14.7 For the purpose of the *ICAAP rules* as they apply on a *consolidated basis* or on *a sub-consolidated basis*:

(1) 1the *firm* must ensure that the *consolidation group* has the processes, strategies and systems required by the overall Pillar 2 rule in 3.1;

(2) the risks to which the overall Pillar 2 rule in 3.1 and the general stress test and scenario analysis rule refer are those risks as they apply to each member of the *consolidation group*;

(3) the reference in the overall Pillar 2 rule in 3.1 to amounts and types of financial resources, *own funds* and internal capital (referred to in this *rule* as resources) must be read as being to the amounts and types that the *firm* considers should be held by the members of the *consolidation group*;

(4) other references to resources must be read as being to resources of the members of the *consolidation group*;

(5) the reference in the overall Pillar 2 rule in 3.1 to the distribution of resources must be read as including a reference to the distribution between members of the *consolidation group*;

(6) the reference in the overall Pillar 2 rule in 3.1 to the overall financial adequacy rule in 2.1 must be read as being to that *rule* as adjusted under 14.14-14.16 (level of application of the overall financial adequacy rule);

(7) a *firm* must be able to explain how it has aggregated the risks referred to in the overall Pillar 2 rule in 3.1 and the financial resources, *own funds* and internal capital required by each member of the *consolidation group*; and

(8) in particular, to the extent that the transferability of resources affects the assessment in (2), a *firm* must be able to explain how it has satisfied itself that resources are transferable between members of the group in question in the stressed cases and the scenarios referred to in the general stress test and scenario analysis rule in 12.1.

14.8 A *firm* must allocate the total amount of financial resources, *own funds* and internal capital identified as necessary under the overall Pillar 2 rule in 3.1 (as applied on a *consolidated basis* or on a *sub-consolidated basis*) between different parts of the *consolidation group*.

14.9 The *firm* must carry out the allocation in 14.8 in a way that adequately reflects the nature, level and distribution of the risks to which the *consolidation group* is subject.

14.10 A *firm* must also allocate the total amount of financial resources, *own funds* and internal capital identified as necessary under the overall Pillar 2 rule in 3.1 as applied on a *consolidated basis* or on a *sub-consolidated basis* between each *firm* which is a member of the *consolidated group* on the following basis:

(a) the amount allocated to each *firm* must be decided on the basis of the principles in 14.9; and

(b) if the process in (a) were carried out for each group member, the total so allocated would equal the total amount of financial resources, *own funds* and internal capital identified as necessary under the overall Pillar 2 rule in 3.1 as applied on a *consolidated basis* or on a *sub-consolidated basis*.

The risk control rules

14.11 The *risk control rules* apply to a *firm* on an individual basis whether or not they also apply to the firm on a *consolidated basis* or *sub-consolidated basis*.

[Note: Art 109(1) (part) of the *CRD*]

14.12 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in the *risk control rules* on a *consolidated basis* (or a *sub-consolidated basis*).

14.13 Compliance with the obligations referred to in 14.12 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) (part) of the *CRD*]

Level of application of the overall financial adequacy rule

14.14 The overall financial adequacy rule in 2.1 applies to a *firm* on an individual basis whether or not it also applies to the *firm* on a *consolidated basis* or *sub-consolidated basis.*

14.15 The overall financial adequacy rule in 2.1 applies to a *firm* on a *consolidated basis* if the *ICAAP rules* apply to it on a *consolidated basis* and applies to a *firm* on a *sub-consolidated basis* if the *ICAAP rules* apply to it on a *sub-consolidated basis*.

14.16 When the overall financial adequacy rule in 2.1 applies on a *consolidated basis* or *sub-consolidated basis*, the *firm* must ensure that at all times its *consolidation group* maintains overall financial resources, including *own funds* and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that the liabilities of any members of its *consolidation group* cannot be met as they fall due.

Annex C

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

Part

DEFINITION OF CAPITAL

Chapter content

1 APPLICATION AND DEFINITIONS
2 HOLDINGS OF OWN FUNDS INSTRUMENTS ISSUED BY FINANCIAL SECTOR ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATED SUPERVISION
3 QUALIFYING HOLDINGS OUTSIDE THE FINANCIAL SECTOR
4 CONNECTED FUNDING OF A CAPITAL NATURE
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6 INSTRUMENTS ISSUED UNDER NON-EEA LAW
7 NOTIFICATION REGIME – ISSUANCE
8 NOTIFICATION REGIME – AMENDMENT
9 NOTIFICATION REGIME – REDUCTION OF OWN FUNDS
10 BUILDING SOCIETIES – CREDITOR HIERARCHY
11 TRANSITIONAL PROVISIONS FOR OWN FUNDS
12 BASE CAPITAL RESOURCES REQUIREMENT

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

Small specialist bank

a *bank* that has capital resources equal to or in excess of the base capital resources requirement for a *small specialist bank* in 12.1 but less than the base capital resources requirement of a *bank* and that carries out one or more of the following activities:

(1) provides current and savings accounts;
(2) lending to *small and medium-sized enterprises*;
(3) lending secured by mortgages on residential property.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 HOLDINGS OF OWN FUNDS INSTRUMENTS ISSUED BY FINANCIAL SECTOR ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATED SUPERVISION

2.1 For the purposes of calculating *own funds* on an individual basis and a *sub-consolidated basis*, *firms* subject to supervision on a *consolidated basis* must deduct at least the relevant percentage of holdings of *own funds instruments* issued by *financial sector entities* included in the scope of consolidated supervision in accordance with Part Two of the *CRR*, except where the exception in 2.3 or 2.6 applies.

2.2 For the purposes of 2.1 the relevant percentage is as follows:

(1) 50% for the period from 1 January 2014 to 31 December 2014;

(2) 60% for the period from 1 January 2015 to 31 December 2015;

(3) 70% for the period from 1 January 2016 to 31 December 2016;

(4) 80% for the period from 1 January 2017 to 31 December 2017;

(5) 90% for the period from 1 January 2018 to 31 December 2018; and

(6) 100% for the period after 31 December 2018.

2.3 A *firm* must not apply the deduction in 2.1 to its holdings of *own funds instruments* issued by a venture capital investor that is included in the scope of consolidated supervision of the *firm*.

2.4 For the purposes of this Chapter, a venture capital investor is a *financial institution*, in relation to which:

(1) the sole purpose is to make venture capital investments and carry out unregulated activities in relation to the administration of venture capital investments; and

(2) none of its venture capital investments is in a *credit institution* or a *financial institution*, the principal activity of which is to perform any activity other than the acquisition of holdings in other undertakings (within the meaning of section 1161(1) of the Companies Act 2006).

2.5 For the purposes of this Chapter, a venture capital investment is a designated investment which, at the time the investment is made, is:

(1) in a new or developing company or venture; or

(2) in a management buy-out or buy-in; or

(3) made as a means of financing the investee company or venture and accompanied by a right of consultation, or rights to information, or board representation, or management rights; or

(4) acquired with a view to, or in order to, facilitate a transaction falling within (1) to (3).

2.6 For the purposes of this Chapter, a designated investment is a security or contractually-based investment specified in Articles 76 to 85 and 89 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

2.7 A *firm* must not apply the deduction in 2.1 to that percentage of its holdings of *own funds instruments* issued by a venture capital holding company included in the scope of consolidated supervision of the *firm* that represents the value of the venture capital holding company's investment in venture capital investors.

2.8 For the purposes of this Chapter, a venture capital holding company is a *financial institution*, in respect of which:

(1) it is a *financial institution* solely by reason of its principal activity being the acquiring of holdings;

(2) it holds shares (in the meaning of section 76 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001) in a venture capital investor; and

(3) the proportion of the value of the venture capital holding company attributable to investment in Venture Capital Investors and the proportion of the value of the venture capital holding company attributable to other investments can be identified and valued on a regular basis

[Note: Art 49(2) of the *CRR*]

3 QUALIFYING HOLDINGS OUTSIDE THE FINANCIAL SECTOR

3.1 In respect of the qualifying holdings described in Article 89(1) and (2) of the *CRR*, a *firm* must, in accordance with Article 89(3), comply with the requirement in Article 89(3)(a).

[Note: Art 89(3) of the *CRR*]

4 CONNECTED FUNDING OF A CAPITAL NATURE

4.1 This Chapter applies to every *firm* that is a *UK bank*.

4.2 A *firm* must not avoid the requirements of the *CRR* by structuring its investments as connected funding of a capital nature.

4.3 A *firm* must treat all connected funding of a capital nature as a holding of capital of the connected party and apply to it the treatment under the *CRR* and the PRA Rulebook applicable to such a holding, including any reporting or disclosure requirements in respect of such holding.

4.4 If the connected party is a *financial sector entity*, the *firm* must treat the connected funding of a capital nature as a holding of *Common Equity Tier 1 instruments*, *Additional Tier 1 instruments* or *Tier 2 instruments* of the connected party, as appropriate in light of the funding's characteristics when compared to the characteristics of each type of *own funds instruments*.

4.5 A *firm* must report to the *PRA* all connected funding of a capital nature at least 30 days in advance of entry into the relevant funding transaction and identify each relevant transaction with sufficient detail to allow the *PRA* to evaluate it.

4.6 A loan or other funding transaction is connected funding of a capital nature if it is made by the *firm* to a connected party and:

(1) based on its terms and other factors of which the *firm* is aware, the connected party would be able to consider it from the point of view of its characteristics as capital as being similar to an *own funds instrument*; or

(2) the position of the *firm* from the point of view of maturity and repayment is inferior to that of the senior unsecured and unsubordinated creditors of the connected party.

4.7 A loan or other funding transaction is connected funding of a capital nature if it:

(1) funds directly or indirectly a loan to a connected party that has the characteristics described in 4.6 or of a capital investment in a connected party; or

(2) has itself the characteristics described in 4.6.

4.8 A guarantee is connected funding of a capital nature if it is a guarantee by the *firm* of a loan or other funding transaction from a third party to a connected party of the *firm* and:

(1) the loan or other funding transaction has the characteristics described in 4.6 or the characteristics described in 4.7; or

(2) the rights that the *firm* would have against the connected party have the characteristics described in 4.6(2).

4.9 For the purposes of this Chapter and in relation to a *firm*, a connected party means another person ("P") in respect of whom the *firm* has not been permitted to apply the individual consolidation method under Article 8 of the *CRR* and one of the following applies:

(1) P is closely related to the *firm*;

(2) P is an associate of the *firm*; or

(3) the same persons significantly influence the *management body* of P and the *firm*.

4.10 For the purposes of 4.9(1), a *firm* and another person are closely related when:

(1) the insolvency of one of them is likely to be associated with the insolvency or default of the others;

(2) it would be prudent when assessing the financial condition or creditworthiness of one to consider that of the other; or

(3) there is, or there is likely to be, a close relationship between the financial performance of the *firm* and that person.

4.11 For the purposes of 4.9(2), a person is an associate of a *firm* if it is:

(1) in the same group as the *firm*;

(2) an appointed representative (in the sense of section 39 of *FSMA*) or tied agent (as described in Article 4(1)(25) of *MiFID*) of the *firm* or a member of the *firm*'s group; or

(3) any other person whose relationship with the *firm* or a member of the *firm*'s group might reasonably be expected to give rise to a community of interest between them which may involve a conflict of interest in dealings with third parties.

5 CONNECTED TRANSACTIONS

5.1 In determining whether an item of capital qualifies as a *Common Equity Tier 1 item*, an *Additional Tier 1 item* or a *Tier 2 item* a *firm* must take into account any connected transaction which, when taken together with the item of capital, would cause it not to display the characteristics of a *Common Equity Tier 1 item*, an *Additional Tier 1 item* or a *Tier 2 item*.

5.2 A *firm* must report to the *PRA* all connected transactions described in 5.1 at least 30 days in advance of entry into the relevant transaction and identify each relevant transaction with sufficient detail to allow the *PRA* to evaluate it.

6 OWN FUNDS INSTRUMENTS ISSUED UNDER NON-EEA LAW

6.1 A *firm* must demonstrate to the *PRA* that any *Additional tier 1 instruments* or *Tier 2 instruments* issued by it that are governed by the law of a *third country* are by their terms capable, as part of a resolution of the *firm*, of being written down or converted into *Common Equity Tier 1 instruments* of the *firm* to the same extent as an equivalent *own funds instrument* issued under the law of the United Kingdom.

6.2 A *firm* must include in the materials it provides to the *PRA* under 6.1 a properly reasoned independent legal opinion from an individual appropriately qualified in the relevant *third country*.

7 NOTIFICATION REGIME - ISSUANCE

7.1 A *firm* shall notify the *PRA* in writing of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to issue a capital instrument that it believes will qualify under the *CRR* as an *own funds instrument* at least thirty days before the intended date of issue. This rule does not apply to the capital instruments described in 7.3 below.

7.2 When giving notice under 7.1, the *firm* shall provide:

(1) details of the amount and type of *own funds* the *firm* is seeking to raise through the intended issue and whether the capital instruments are intended to be issued to external investors or to other members of its *group*;

(2) a copy of the term sheet and details of any features of the capital instrument which are novel, unusual or different from a capital instrument of a similar nature previously issued by the *firm* or widely available in the market;

(3) confirmation from a member of the *firm's senior management* responsible for authorising the intended issue or, in the case of an issue by another *group* member, for the issue's inclusion in the *firm*'s consolidated *own funds*, that the capital instrument meets the conditions for qualification as an own funds instrument; and

(4) a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the capital instrument meets the conditions for qualification as the relevant type of *own funds instrument*.

7.3 The *firm* does not have to give notice under 7.1 if the capital instrument is:

(1) an ordinary share with voting rights and no new or unusual features; or

(2) a debt instrument issued under a debt securities programme under which the *firm* or *group* member has previously issued and the *firm* has notified the *PRA* in accordance with this Chapter prior to a previous issuance under the programme.

7.4 A *firm* shall notify the *PRA* in writing no later than the date of issue of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to issue a capital instrument described in 7.3.

7.5 When giving notice under 7.4, the *firm* shall provide:

(1) confirmation that the terms of the capital instrument have not changed since the previous issue by the *firm* of that type of capital instrument; and

(2) the items described in 7.2(1) and (3).

7.6 The *firm* shall notify the *PRA* in writing of any change to the intended date of issue, amount of issue, type of investors, type of *own funds instrument* or any other feature of the capital instrument to that previously notified to the *PRA* under 7.1 or 7.4.

8 NOTIFICATION REGIME - AMENDMENT

8.1 A *firm* shall notify the *PRA* in writing of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to amend or otherwise vary the terms of any *own funds instrument* included in its *own funds* or the *own funds* of its consolidated group at least thirty days before the intended date of such amendment or other variation.

9 NOTIFICATION REGIME – REDUCTION OF OWN FUNDS

9.1 A *firm* shall notify the *PRA* of its intention, or the intention of another member of its *group* that is not a *firm* but is included in the supervision on a consolidated basis of the *firm*, to carry out in respect of an *own funds instrument* any of the actions described in Article 77 of the *CRR*.

10 BUILDING SOCIETIES – CREDITOR HIERARCHY

10.1 This Chapter applies to every *firm* that is a *building society*.

10.2 A *firm* must ensure that any *Additional Tier 1 instrument* or *Tier 2 instrument* issued by it is contractually subordinated to its non-deferred shares.

11 TRANSITIONAL PROVISIONS FOR OWN FUNDS

11.1 The *Common Equity Tier 1 capital ratio* which *firm*s must under Article 465(1)(a) of the *CRR* meet or exceed for the period from 1 January 2014 until 31 December 2014 shall be 4.0%.
[**Note: Art 465(1)(a) of the *CRR***]

11.2 The *Tier 1 capital ratio* which *firm*s must under Article 465(1)(b) of the *CRR* meet or exceed for the period from 1 January 2014 until 31 December 2014 shall be 5.5%.
[Note: Art 465(1)(b) of the *CRR*]

11.3 The applicable percentage for the purposes of Article 467(1) of the *CRR* shall be:

(1) 100% during the period from 1 January 2014 to 31 December 2014;

(2) 100% during the period from 1 January 2015 to 31 December 2015;

(3) 100% during the period from 1 January 2016 to 31 December 2016; and

(4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 467 of the *CRR*]

11.4 The applicable percentage for the purposes of Article 468(1) of the *CRR* shall be:

(1) 0% during the period from 1 January 2015 to 31 December 2015;

(2) 0% during the period from 1 January 2016 to 31 December 2016; and

(3) 0% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 468(1)-(3) of the *CRR*]

11.5 The applicable percentage for the purposes of Article 468(4) of the *CRR* shall be:

(1) 100% for the period from 1 January 2014 to 31 December 2014;

(2) 100% for the period from 1 January 2015 to 31 December 2015;

(3) 100% for the period from 1 January 2016 to 31 December 2016; and

(4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 468(4), 478(1) of the *CRR*]

11.6 The applicable percentage for the purposes of Article 469(1)(a) of the *CRR* as it applies to the items referred to in points (a)-(b) and (d)-(h) of Article 36(1) shall be:

(1) 100% during the period from 1 January 2014 to 31 December 2014;

(2) 100% during the period from 1 January 2015 to 31 December 2015;

(3) 100% during the period from 1 January 2016 to 31 December 2016; and

(4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 469(1)(a), 478(1) of the *CRR*]

11.7 The applicable percentage for the purposes of Article 469(1)(c) of the *CRR* as it applies to the items referred to in point (c) of Article 36(1) that existed prior to 1 January 2014 shall be:

(1) 100% for the period from 1 January 2014 to 31 December 2014;

(2) 100% for the period from 1 January 2015 to 31 December 2015;

(3) 100% for the period from 1 January 2016 to 31 December 2016;

(4) 100% for the period from 1 January 2017 to 31 December 2017;

(5) 100% for the period from 1 January 2018 to 31 December 2018;

(6) 100% for the period from 1 January 2019 to 31 December 2019;

(7) 100% for the period from 1 January 2020 to 31 December 2020;

(8) 100% for the period from 1 January 2021 to 31 December 2021;

(9) 100% for the period from 1 January 2022 to 31 December 2022; and

(10) 100% for the period from 1 January 2023 to 31 December 2023.

[Note: Art 469(1)(c), 478(2) of the *CRR*]

11.8 The applicable percentage for the purposes of Article 469(1)(c) of the *CRR* as it applies to the items referred to in point (c) of Article 36(1) that did not exist prior to 1 January 2014 and the items referred to in point (i) of Article 36(1) shall be:

(1) 100% during the period from 1 January 2014 to 31 December 2014;

(2) 100% during the period from 1 January 2015 to 31 December 2015;

(3) 100% during the period from 1 January 2016 to 31 December 2016; and

(4) 100% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 469(1)(c), 478(1) of the *CRR*]

11.9 The applicable percentage for the purposes of Article 474(a) of the *CRR* shall be:

(1) 20% during the period from 1 January 2014 to 31 December 2014;

(2) 40% during the period from 1 January 2015 to 31 December 2015;

(3) 60% during the period from 1 January 2016 to 31 December 2016; and

(4) 80% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 474(a), 478(1) of the *CRR*]

11.10 The applicable percentage for the purposes of Article 476(a) of the *CRR* shall be:

(1) 20% during the period from 1 January 2014 to 31 December 2014;

(2) 40% during the period from 1 January 2015 to 31 December 2015;

(3) 60% during the period from 1 January 2016 to 31 December 2016; and

(4) 80% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 476(a), 478(1) of the *CRR*]

11.11 The applicable percentage for the purposes of Article 479(2) of the *CRR* shall be:

(1) 0% for the period from 1 January 2014 to 31 December 2014;

(2) 0% for the period from 1 January 2015 to 31 December 2015;

(3) 0% for the period from 1 January 2016 to 31 December 2016; and

(4) 0% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 479 of the *CRR*]

11.12 The applicable factor for the purposes of Article 480(1) of the *CRR* as it applies to point (b) of Article 84(1) shall be:

(1) 1 in the period from 1 January 2014 to 31 December 2014;

(2) 1 in the period from 1 January 2015 to 31 December 2015;

(3) 1 in the period from 1 January 2016 to 31 December 2016; and

(4) 1 in the period from 1 January 2017 to 31 December 2017.

[**Note: Art 480 of the *CRR*]**

11.13 The applicable factor for the purposes of Article 480(1) of the *CRR* as it applies to point (b) of Article 85(1) and point (b) of Article 87(1) shall be:

(1) 0.2 in the period from 1 January 2014 to 31 December 2014;

(2) 0.4 in the period from 1 January 2015 to 31 December 2015;

(3) 0.6 in the period from 1 January 2016 to 31 December 2016; and

(4) 0.8 in the period from 1 January 2017 to 31 December 2017.

[**Note: Art 480 of the *CRR*]**

11.14 The applicable percentage for the purposes of Article 481(1) of the *CRR* shall be:

(1) 0% for the period from 1 January 2014 to 31 December 2014;

(2) 0% for the period from 1 January 2015 to 31 December 2015;

(3) 0% for the period from 1 January 2016 to 31 December 2016; and

(4) 0% for the period from 1 January 2017 to 31 December 2017.

[Note: Art 481 of the *CRR*]

11.15 The applicable percentage for the purposes of Article 486(2), (3) and (4) of the *CRR* shall be:

(1) 80% for the period from 1 January 2014 to 31 December 2014;

(2) 70% for the period from 1 January 2015 to 31 December 2015;

(3) 60% for the period from 1 January 2016 to 31 December 2016;

(4) 50% for the period from 1 January 2017 to 31 December 2017;

(5) 40% for the period from 1 January 2018 to 31 December 2018;

(6) 30% for the period from 1 January 2019 to 31 December 2019;

(7) 20% for the period from 1 January 2020 to 31 December 2020; and

(8) 10% for the period from 1 January 2021 to 31 December 2021.

[Note: Art 486 of the *CRR*]

12 BASE CAPITAL RESOURCES REQUIREMENT

12.1 A *CRR firm* must maintain at all times capital resources equal to or in excess of the base capital resources requirement set out in the table below:

Firm category	***Amount: Currency equivalent of***
bank	€5 million
small specialist bank	The higher of €1 million and £1 million
building society	The higher of €1 million and £1 million
designated investment firm	€730,000

Annex D

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

Part

BENCHMARKING OF INTERNAL APPROACHES

Chapter content

1 APPLICATION AND DEFINITIONS

2 SUPERVISORY BENCHMARKING OF INTERNAL APPROACHES FOR CALCULATING OWN FUNDS REQUIREMENTS

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 Unless otherwise defined, any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD*.

2 SUPERVISORY BENCHMARKING OF INTERNAL APPROACHES FOR CALCULATING OWN FUNDS REQUIREMENTS

2.1 Except for *operational risk,* a *firm* that is permitted to use *internal approaches* for the calculation of risk weighted exposure amounts or *own funds* requirements must report annually to the *PRA*:

(1) the results of the calculations of their *internal approaches* for their exposures or positions that are included in the benchmark portfolios; and

(2) an explanation of the methodologies used to produce those calculations.

2.2 *A firm* shall submit the results of the calculations referred to in 2.1 above to the *PRA* and to *EBA* in accordance with the template set out in the Commission Regulation adopted under Article 78(8) of the *CRD*.

[Note: Art 78(1) and (2) of the *CRD*]

Annex E

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

Part

CREDIT RISK

Chapter content

1 APPLICATION AND DEFINITIONS

2 STANDARDISED APPROACH – TREATMENT OF EXPOSURES TO REGIONAL GOVERNMENTS

3 SECURITISATION – RECOGNITION OF SIGNIFICANT RISK TRANSFER

4 CRITERIA FOR CERTAIN EXPOSURES SECURED BY MORTGAGES ON COMMERCIAL IMMOVABLE PROPERTY

5 SETTLEMENT RISK

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part, the following definitions shall apply:

exposure

means an asset or off-balance sheet item as defined for credit risk purposes by Article 5(1) of the *CRR.*

loss

means economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument as defined for credit risk purposes by Article 5(2) of the *CRR.*

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 STANDARDISED APPROACH – TREATMENT OF EXPOSURES TO REGIONAL GOVERNMENTS

2.1 For the purposes of Article 115 of the *CRR*, a *firm* may treat *exposures* to the following regional governments as *exposures* to the *UK* central government:

(1) The Scottish Parliament;

(2) The National Assembly for Wales; and

(3) The Northern Ireland Assembly.

[Note: Art 115 of the *CRR*]

3 SECURITISATION – RECOGNITION OF SIGNIFICANT RISK TRANSFER

3.1 A *firm* must notify the *PRA* that it is relying on the deemed transfer of significant credit risk under paragraph 2 of Article 243 of the *CRR* or paragraph 2 of Article 244 of the *CRR,* including when this is for the purposes of Article 337(5) of the *CRR*, no later than one month after the date of the transfer.

3.2 The notification in 3.1 must include sufficient information to allow the *PRA* to assess whether the possible reduction in risk weighted *exposure* amounts which would be achieved by the *securitisation* is justified by a commensurate transfer of credit risk to third parties.

4 CRITERIA FOR CERTAIN EXPOSURES SECURED BY MORTGAGES ON COMMERCIAL IMMOVABLE PROPERTY

4.1 For the purposes of Articles 124(2) and 126(2) of the *CRR* and in addition to the conditions set out therein, a *firm* may only treat *exposures* as fully and completely secured by mortgages on commercial immovable property located in the *UK* in accordance with Article 126 of the *CRR* where annual average *losses* stemming from lending secured by mortgages on commercial property located in the *UK* did not exceed 0.5% of risk-weighted exposure amounts over a representative period. A firm shall calculate the *loss* level referred to in this rule on the basis of the aggregate market data for commercial property lending published by the *PRA* in accordance with Article 101(3) of the *CRR*.

4.2 For the purposes of this rule, a representative period shall be a time horizon of sufficient length and which includes a mix of good and bad years.

[Note: Arts. 124(2) and 126(2) of the *CRR*]

5 SETTLEMENT RISK

5.1 In accordance with Article 380 of the *CRR*, where a system wide failure of a settlement system, a clearing system or a *CCP* occurs, the *own funds* requirements calculated as set out in Articles 378 and 379 of the *CRR* are waived until the situation is rectified. In this case, the failure of a counterparty to settle a trade shall not be deemed a default for purposes of credit risk.

[Note: Art. 380 of the *CRR*]

Annex F

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

Part

COUNTERPARTY CREDIT RISK

Chapter content

1 APPLICATION AND DEFINITIONS

2 HEDGING SETS

3 RECOGNITION OF NETTING: INTEREST RATE DERIVATIVES

Links

1 APPLICATION AND DEFINTIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

CCR Mark-to-Market method

means the method set out in in Chapter Six, Section 3 of the *CRR*.

interest-rate contract

means an interest rate contract of a type listed in paragraph 1 of Annex II of the *CRR*.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 HEDGING SETS

2.1 For the purpose of Article 282(6) of the *CRR*, a *firm* must apply the *CCR Mark-to-Market method* to:

(a) *transactions* with a non-linear risk profile; or

(b) *payment legs* and *transactions* with debt instruments as underlying

for which it cannot determine the delta or modified duration, as the case may be, using an internal model approved by the *PRA* under Title IV of the *CRR* for the purposes of determining *own funds* requirements for *market risk*.

2.2 For the purposes of 2.1, a *transaction* means a transaction to which Chapter Six of the *CRR* applies.

3 RECOGNITION OF NETTING: INTEREST RATE DERIVATIVES

3.1 For the purpose of Article 298(4) of the *CRR*, a *firm* must use the original maturity of the *interest-rate contract*.

Annex G

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

Part

MARKET RISK

Chapter content

1 APPLICATION AND DEFINITIONS

2 USE OF INTERNAL MODELS: RISK CAPTURE

3 NETTING: CONVERTIBLE BONDS

4 INSTRUMENTS FOR WHICH NO TREATMENT SPECIFIED

Links

1 APPLICATION AND DEFINTIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

convertible bond

means a *security* which gives the investor the right to convert the security into a *share* at an agreed price on an agreed basis.

equity

means a *share.*

security

has the meaning specified in Article 3(1) of the *Regulated Activities Order.*

share

means the investment specified in Article 76 of the *Regulated Activities Order.*

1.3 Unless otherwise defined, any italicised expression used in this Part and defined in the *CRR* has the same meaning as in the *CRR*.

2 USE OF INTERNAL MODELS: RISK CAPTURE

2.1 A *firm* which has a permission to use internal models in accordance with Title IV, Chapter 5 of the *CRR:*

(a) must identify any material risks, or risks that when considered in aggregate are material, which are not captured by those models; and

(b) must ensure that it holds *own funds* to cover those risk(s) in additional to those required to meet its *own funds* requirement calculated in accordance with Title IV, Chapter 5 of the *CRR*.

3 NETTING: CONVERTIBLE BONDS

3.1 For the purposes of Article 327(2) of the *CRR*, the netting of a *convertible bond* and an offsetting position in the instrument underlying is permitted. The *convertible bond shall* be:

(a) treated as a position in the *equity* into which it converts; and

(b) the *firm's own funds* requirement for the general and specific risk in its *equity* instruments shall be adjusted by making:

(i) an addition equal to the current value of any loss which the *firm* would make if it did convert to *equity*; or

(ii) a deduction equal to the current value of any profit which the *firm* would make if it did convert to *equity* (subject to a maximum deduction equal to the *own funds* requirements on the notional position underlying the *convertible bond*).

4 INSTRUMENTS FOR WHICH NO TREATMENT SPECIFIED

4.1 Where a *firm* has a position in a *financial instrument* for which no treatment has been specified in the *CRR*, it must calculate its *own funds* requirement for that position by applying the most appropriate *rules* relating to positions that are specified in the *CRR*, if doing so is prudent and appropriate, and if the position is sufficiently similar to those covered by the relevant *rules*.

4.2 A *firm* must document its policies and procedures for calculating own funds for such positions in its *trading book policy statement*.

4.3 If there are no appropriate treatments the *firm* must calculate an *own funds* requirement of an appropriate percentage of the current value of the position. An appropriate percentage is either 100%, or a percentage that takes into account the characteristics of the position.

4.4 For the purposes of this rule, *trading book policy statement* means the statement of policies and procedures relating to the *trading book*.

Annex H

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

Part

GROUPS

Chapter content

1 APPLICATION AND DEFINITIONS

2 METHODS OF PRUDENTIAL CONSOLIDATION

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

Article 12(1) relationship

means a relationship where undertakings are linked by a relationship within the meaning of Article 12(1) of Directive 83/349 EEC.

Article 18(5) relationship

means a relationship where undertaking are linked by participations or capital ties other than those referred to in paragraphs (1) and (2) of Article 18 of the *CRR*.

Article 18(6) relationship

means a relationship of one of the following kinds:

(a) where an *institution* exercises a significant influence over one or more *institutions* or *financial institutions*, but without holding a *participation* or other capital ties in these *institutions*; or

(b) where two or more *institutions* or *financial institutions* are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.

1.3 Unless otherwise defined:

(1) any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*; and

(2) any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD.*

2 METHODS OF PRUDENTIAL CONSOLIDATION

2.1 (1) In carrying out the calculations in (Part One, Title II, Chapter 2 of the *CRR*) for the purposes of prudential consolidation, a *firm* must include the relevant proportion of an undertaking with whom it has an:

(a) *Article 12(1) relationship*; or

(b) *Article 18(6) relationship*.

(2) In 2.1(1), the relevant proportion is such proportion (if any) as stated in a requirement imposed on the *firm* in accordance with section 55M of *FSMA*.

[Note: Art 18(3) and (6) of the *CRR*]

2.2 In carrying out the calculations in Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *firm* (for which the *PRA* is the *consolidating supervisor*) must include the proportion of the share of capital held of *participations* in *institutions* and *financial institutions* managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where those undertakings' liability is limited to the share of capital they hold.

[Note: Art 18(4) of the *CRR*]

2.3 In carrying out the calculations in Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *firm* must carry out a full consolidation of any undertaking with whom it has an *Article 18(5) relationship*.

[Note: Art 18(5) of the *CRR*]

Annex I

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

Part

LARGE EXPOSURES

Chapter content

1 APPLICATION AND DEFINITIONS

2 INTRA-GROUP EXPOSURES: NON-CORE LARGE EXPOSURES GROUP EXEMPTIONS

3 SOVEREIGN LARGE EXPOSURES EXEMPTION

4 CONDITIONS FOR THE NON-CORE LARGE EXPOSURES GROUP EXEMPTION AND THE SOVEREIGN LARGE EXPOSURES EXEMPTION

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

core UK group

means all counterparties that:

(a) are listed in a *firm's core UK group permission*;

(b) in relation to a *firm*, satisfy the conditions in Article 113(6) of the *CRR*; and

(c) in respect of which *exposures* are exempted, under Article 400(1)(f) of the *CRR*, from the application of Article 395(1) of the *CRR.*

core UK group eligible capital

means the sum of the following amounts for each member of the *core UK group* and the *firm* (the sub-group):

(a) for the ultimate *parent undertaking* of the sub-group, the amount calculated in accordance with Article 6 of the *CRR* (or other applicable prudential requirements);

(b) for any other member of the sub-group, the amount calculated in accordance with Article 6 of the *CRR* (or other applicable prudential requirements) less the book value of the sub-group's holdings of capital instruments in that member, to the extent not already deducted in calculations done in accordance with Article 6 of the *CRR* (or other applicable prudential requirements) for:

(i) the ultimate *parent undertaking* of the sub-group; or

(ii) any other member of the sub-group.

The deduction in (b) must be carried out separately for each type of capital instrument eligible as *own funds*.

core UK group permission

means a permission given by the *PRA* under Article 113(6) of the *CRR.*

exposure

has the meaning given to it in Article 389 of the *CRR*.

non-core large exposures group or NCLEG

means all counterparties that:

(a) are listed in a *firm's NCLEG non-trading book permission* or *NCLEG trading book permission*; and
(b) in relation to a *firm*, satisfy the conditions in 2.1 or 2.2.

NCLEG non-trading book exemption

means the exemption in 2.1.

NCLEG non-trading book permission

means a permission given by the *PRA* in respect of Article 400(2)(c) of the *CRR* to apply the *NCLEG non-trading book exemption*.

NCLEG trading book exemption

means the exemption in 2.2.

NCLEG trading book permission

means a permission given by the *PRA* in respect of Article 400(2)(c) of the *CRR* to apply the *NCLEG trading book exemption*.

sovereign large exposures exemption

means the exemption in 3.1.

sovereign large exposures permission

means a permission given by the *PRA* in respect of Article 400(2)(g) or (h) of the *CRR to* apply the *sovereign large exposures exemption*.

trading book exposure allocation

means the allocation in 2.2

1.3 Unless otherwise defined:

(1) any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*; and
(2) any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD.*

2 INTRA-GROUP EXPOSURES: NON-CORE LARGE EXPOSURES GROUP EXEMPTIONS

NCLEG non-trading book exemption

2.1 (1) A *firm* with an *NCLEG non-trading book permission* may (in accordance with that permission) exempt, from the application of Article 395(1) of the *CRR*, non-*trading book exposures*, including participations or other kinds of holdings, incurred by the *firm* to members of its *NCLEG* that are:

(a) its *parent undertaking*;

(b) other *subsidiaries* of that *parent undertaking*; or

(c) its own *subsidiaries*,

in so far as those undertakings are covered by the supervision on a *consolidated basis* to which the *firm* itself is subject, in accordance with the *CRR*, Directive 2002/87/EC or with equivalent standards in force in a third country.

(2) A *firm* may only use the *NCLEG non-trading book exemption* where:

(a) the total amount of non-*trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from the *firm* to its *NCLEG* does not exceed 100% of the *firm's eligible capital*; or

(b) (if the *firm* has a *core UK group permission*) the total amount of non-*trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from its *core UK group* (and the *firm*) to its *NCLEG* does not exceed 100% of the *core UK group eligible capital.*

A *firm* may calculate the total amount of such *exposures* after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the *CRR*.

[Note: Art 400(2)(c) of the *CRR*]

NCLEG trading book exemption

2.2 (1) A *firm* with an *NCLEG trading book permission* may (in accordance with that permission) exempt, from the application of Article 395(1) of the *CRR*, *trading book exposures* up to its *trading book exposure allocation*, including *participations* or other kinds of holdings, incurred by the *firm* to members of its *NCLEG* that are:

(a) its *parent undertaking*;

(b) other *subsidiaries* of that *parent undertaking*; or

(c) its own *subsidiaries*,

in so far as those undertakings are covered by the supervision on a *consolidated basis* to which the *firm* itself is subject, in accordance with the *CRR*, Directive 2002/87/EC or with equivalent standards in force in a third country;

(2) The *trading book exposure allocation* for a *firm* that does not have a *core UK group permission* is 100% of the *firm's eligible capital* less the total amount of *non-trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from the *firm* to its *NCLEG*.

(3) The *trading book exposure allocation* for a *firm* (F) that has a *core UK group permission* is equal to RxTTBE where:

(a) R is F's *trading book exposures* to its *NCLEG* divided by the total *trading book exposures* of the *core UK group* (and F) to F's *NCLEG*; and

(b) TTBE is 100% of F's *core UK group eligible capital* less the total amount of non-*trading book exposures* (whether or not exempted from Article 395(1) of the *CRR*) from the *core UK group* (and F) to F's *NCLEG.*

(4) A *firm* may calculate its *trading book exposure allocation* after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the *CRR*.

(5) A *firm* must allocate the *trading book exposures* it has to its *NCLEG* to its *trading book exposure allocation* in ascending order of specific-risk requirements in Part Three, Title IV, Chapter 2 and/or requirements in Article 299 and Part Three, Title V of the *CRR*.

[Note: Art 400(2)(c) of the *CRR*]

Notifications and reporting

2.3 (1) A *firm* with a *core UK group permission* and an *NCLEG trading book permission* or an *NCLEG non-trading book permission* must give the *PRA* written notice whenever the *firm*:

(a) intends, or becomes aware that a member of its *core UK group* intends, for the total amount of *exposures* from the *core UK group* (and the *firm*) to a particular member of the *firm's NCLEG* to exceed 25% of its *core UK group eligible capital;*

(b) becomes aware that the total amount of *exposures* from the *core UK group* (and the *firm*) to a particular member of the *firm's NCLEG* are likely to exceed, or have exceeded, 25% of its *core UK group eligible capital*;

(2) The written notice required under (1) must contain the following:

(a) details of the size and the expected duration of the relevant *exposures*; and

(b) an explanation of the reason for those *exposures*.

(3) A *firm* with a *core UK group permission* and an *NCLEG trading book permission* or an *NCLEG non-trading book permission* must submit FSA018 in accordance with SUP 16.12.

3 SOVEREIGN LARGE EXPOSURES EXEMPTION

3.1 (1) If a *firm* has a *sovereign large exposures permission*, the *exposures* specified in that permission are exempt from Article 395(1) of the *CRR* to the extent specified in that permission.

(2) For the purposes of the *sovereign large exposures permission*, and in relation to a *firm*, the e*xposures* referred to in (1) are limited to the following:

(a) asset items constituting claims on *central banks* in the form of required minimum reserves held at those *central banks* which are denominated in their national currencies; and

(b) asset items constituting claims on central governments in the form of statutory liquidity requirements held in government securities which are denominated and funded in their national currencies provided that, at the discretion of the *PRA*, the credit assessment of those central governments assigned by a *nominated ECAI* is investment grade.

[Note: Art 400(2)(g)-(h) of the *CRR*]

4 CONDITIONS FOR NON-CORE LARGE EXPOSURES GROUP EXEMPTIONS AND THE SOVEREIGN LARGE EXPOSURES EXEMPTION

4.1 A *firm* may only use the *NCLEG non-trading book exemption, the NCLEG trading book exemption* or the *sovereign large exposures exemption* where it can demonstrate to the *PRA* that the following conditions are met:

(1) the specific nature of the *exposure*, the counterparty or the relationship between the *firm* and the counterparty eliminate or reduce the risk of the *exposure*; and

(2) any remaining concentration risk can be addressed by other equally effective means such as the arrangements, processes and mechanisms provided for in Article 81 of *CRD*.

[Note: Art 400(3) of the *CRR*]

Annex J

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

Part

PUBLIC DISCLOSURE

Chapter content

1 APPLICATION AND DEFINITIONS
2 PUBLIC DISCLOSURE OF RETURN ON ASSETS

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

annual report and accounts

(1) (in relation to a company incorporated in the *UK*) an annual report and annual accounts as those terms are defined in:

(a) section 262(1) of the Companies Act 1985, together with an auditor's report prepared in relation to those accounts under section 235 of the same Act where these provisions are applicable; or

(b) section 471 of the Companies Act 2006 together with an auditor's report prepared in relation to those accounts under sections 495 to 497 of the same Act;

(2) (in relation to any other body) any similar or analogous documents which it is required to prepare whether by its constitution or by the law under which it is established.

2 PUBLIC DISCLOSURE OF RETURN ON ASSETS

2.1 A *firm* must disclose in its *annual report and accounts* among the key indicators their return on assets, calculated as their net profit divided by their total balance sheet.

[Note: Art 90 of the *CRD*]

Annex K

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

Part

WAIVERS TRANSITIONAL PROVISIONS

Chapter content

1 APPLICATION AND DEFINITIONS

2 WAIVERS TRANSITIONAL PROVISIONS

3 SCHEDULES

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

CRR permission

means a permission given to a *firm* by the *PRA* under any *CRR* Article listed in column B of the Tables in Schedules 1 and 2 in the exercise of the discretion afforded to it as a *competent authority.*

Waiver

means a direction waiving or modifying a rule given by the *PRA* under section 138A (waiver or modification of rules) *FSMA.*

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 WAIVERS TRANSITIONAL PROVISIONS

2.1 (1) This rule applies where, immediately before 1 January 2014, a *waiver* given in relation to a rule listed in column A of the Tables in Schedules 1 and 2 and any condition relevant to the application of that waiver has effect.

(2) Subject to paragraph (5), each *waiver* given in relation to a *PRA* rule listed in column A of the Tables in Schedules 1 and 2 is treated as a *CRR permission* given by the PRA to the *firm* under the *CRR* Article listed in the same row in column B of the Table.

(3) Each *CRR permission* given in accordance with paragraph (2) shall continue to have effect until the expiry date specified in the *waiver.*

(4) Where a *waiver* listed in Schedules 1 and 2 specifies that it applies to a *firm* on a consolidated basis in accordance with a relevant provision in *BIPRU* 8, the *CRR permission* shall apply to the *firm* on the basis of its *consolidated situation* in accordance with Article 11 of the *CRR*.

(5) Paragraphs (1) to (4) only have effect in relation to a *waiver* listed in Schedule 1 where the *firm* has confirmed to the *PRA* that it materially complies with the requirements relevant to the *rules* listed in Column A of the Table, as waived or modified by the *waiver*, and any conditions relevant to the application of the *waiver or the firm has a remediation plan.*

(6) Any condition relevant to the application of the waiver shall have effect on 1 January 2013 until the expiry date specified in the waiver.

(7) A *waiver* listed in row 1 of the Table in Schedule 2 (individual consolidation method) only includes a deemed *waiver* under the PRA's prudential sourcebook for Banks, Building Societies and Investment Firms transitional provision 22.3R where a *firm* has confirmed to

the *PRA* that the solo consolidation minimum standards are met with respect to the relevant *subsidiary undertaking*.

2.2 (1) This rule applies where, immediately before 1 January 2014, a *waiver* given in relation to a *rule* in the PRA's supervision manual listed in column A of the Table in Schedule 3 has effect.

(2) Each *waiver* given in relation to a *rule in the PRA's supervision manual* listed in column A of the Table in Schedule 3 is to be treated as a *waiver* given by the PRA to the *firm* under the *SUP rule* listed in the same row in column B of the Table.

SCHEDULES

Schedule 1

Internal model waivers

	CRR Permission	Column A PRA/FCA Rule (rule waiver or modification)	Column B CRR Reference
1	Internal Ratings Based (IRB) permission for credit risk	- *BIPRU* 4 applies to a *firm* with an *IRB permission* - *Rules* waived or modified: (a) *GENPRU* 2.1.51R (b) *BIPRU* 3.1.1R	- Part Three, Title II, Chapter 3 - Art. 143 - Art. 178.1(b) (where a *firm* is authorised by its *IRB waiver* to use a 180 days definition of default for exposures secured by residential real estate in the retail exposure class, as well as for exposures to public sector entities)
2	Eligibility of physical collateral under the IRB Approach	- *BIPRU* 4.10.16R (Where authorised by the *firm's IRB permission*)	Art. 199.6
3	Master netting agreement internal models approach	- *BIPRU* 5.6.1R in accordance with *BIPRU* 5.6.12R	Art. 221
4	Supervisory formula method for securitisation transactions	- *BIPRU* 9.12.3R - *BIPRU* 9.12.5R - *BIPRU* 9.12.21R (Where authorised by the *firm's IRB permission*)	Art. 259.1(b) Art. 262
5	ABCP internal assessment approach	- *BIPRU* 9.12.20R (Where authorised by the *firm's IRB permission*)	Art. 259.3
6	Exceptional treatment for liquidity facilities where pre-securitisation RWEA cannot be calculated	- *BIPRU* 9.11.10R as modified in accordance with *BIPRU* 9.12.28G (Where authorised by the *firm's IRB permission*)	Art. 263.2

7	Advanced Measurement Approach (AMA) permission	- *BIPRU* 6.5 applies to a firm with an *AMA permission* - *Rule* waived or modified: *BIPRU* 6.2.1R	- Art. 312.2 - Part Three, Title III, Chapter 4
8	Combined use of different approaches for operational risk – AMA and standardised approach or basic indicator approach	- *BIPRU* 6.2.9R (in accordance with *BIPRU* 6.2.10G and the *firm's AMA permission*)	Art. 314, par. 2 and 3
9	Permission to use internal models to calculate own funds requirements for market risk (Value at Risk)	- *BIPRU* 7.10 applies to a firm with a *VaR model permission* - *Standard market risk PRR rules* as specified and waived or modified by the *firm's VaR model permission waiver* - *GENPRU* 2.1.52R	- Art. 363 - Part Three; Title IV; Chapter 5; Sections 2, 3 and 4
10	Permission to use internal models to calculate own fund requirements for the correlation trading portfolio	- *BIPRU* 7.10.55T R to *BIPRU* 7.10 55ZA R (Where the *firm* is authorised to use the *all price risk measure* in its *VaR model permission waiver*)	Art. 377

Schedule 2

Other Waivers and Requirements

	CRR Permission	Column A PRA/FCA Rule (rule waiver or modification)	Column B CRR Reference
1	Individual consolidation method	- *BIPRU* 2.1.7R (*Solo consolidation waivers*)	Art. 9
2	Application of requirements of Part Five (exposures to transferred credit risk) on a consolidated basis	- *BIPRU* 9.15.16A R	Art. 14.3
3	Entities excluded from the scope of prudential consolidation	- *BIPRU* 8.5.9R - *BIPRU* 8.5.10R	Art. 19.2
4	Permission to revert to the use of a less sophisticated approach for credit risk	- *BIPRU* 4.2.23R (as modified in accordance with *BIPRU* 4.2.25G) - *BIPRU* 4.2.24R (as modified in accordance with *BIPRU* 4.2.25G)	Art. 149
5	Traditional securitisation – recognition of significant risk transfer	- *BIPRU* 9.4.11R - *BIPRU* 9.4.12R (subject to conditions in *BIPRU* 9.4.15D)	Art. 243 par. 2, 3, 4 and 5
6	Synthetic securitisation – recognition of significant risk transfer	- *BIPRU* 9.5.1R (6) and(7) (subject to conditions in *BIPRU* 9.5.1B D)	Art. 244, par. 2, 3, 4 and 5
7	Securitisations of revolving exposures with early amortisation provisions – similar transactions	- *BIPRU* 9.13.11R - *BIPRU* 9.13.13R - *BIPRU* 9.13.14R - *BIPRU* 9.13.15R - *BIPRU* 9.13.16R - *BIPRU* 9.13.17R (subject to conditions in *BIPRU* 9.13.18G)	Art. 256.7
8	Permission to revert to the use of a less sophisticated approach for operational risk	- *BIPRU* 6.2.5R (as modified in accordance with *BIPRU* 6.2.6G) - *BIPRU* 6.2.7R (as modified in accordance with *BIPRU* 6.2.8G)	Art. 313

9	Combined use of different approaches for operational risk – standardised approach and basic indicator approach	- *BIPRU* 6.2.12R (as modified in accordance with *BIPRU* 6.2.13G)	Art. 314.4
10	Waiver of the 3 year average for calculating the own funds requirement under the basic indicator approach for operational risk	- *BIPRU* 6.3.2R (as modified in accordance with *BIPRU* 6.3.9G)	Art. 315
11	Waiver of the 3 year average for calculating the own funds requirement under the standardised approach for operational risk	- *BIPRU* 6.4.5R (as modified in accordance with *BIPRU* 6.4.8G)	Art. 317.4
12	Own funds requirements for position risk for options and warrants on: (a) interest rates; (b) debt instruments; (c) equities; (d) equity indices; (e) financial futures; (f) swaps; and (g) foreign currencies	- *BIPRU* 7.9 applies to a *firm* with a *CAD1 model waiver*. - *Rules* waived or modified: (a) *GENPRU* 2.1.52R (b) *BIPRU* 7.6.1R	Art. 329
13	Own funds requirements for commodities risk for options and warrants on: (a) commodities; and (b) commodities derivatives	- *BIPRU* 7.9 applies to a *firm* with a *CAD1 model waiver*. - *Rules* waived or modified: (a) *GENPRU* 2.1.52R (b) *BIPRU* 7.4.1R	Art. 358.3
14	Interest rate risk on derivative instruments	- *CAD1 model waiver* for the use of an interest rate pre-processing model in accordance with BIPRU 7.9.44G - *Rule* waived: *GENPRU* 2.1.52R	Art. 331 Art. 340
15	Waiver of 100% large exposure limit where the €150 million limit applies	- *BIPRU* 10.6.32R – As waived in accordance with *BIPRU* 10.6.33G - *SUP* 15.3.11R	- Art. 396 in relation to the 100% large exposure limit set out in Art. 395(1)
16	Waiver of large exposure limits in relation to intra-group exposures: core group waivers	- *BIPRU* 3.2.25R(2) - *BIPRU* 10.8A	Art. 113.6 Art. 400.1(f)

17	Waiver of large exposure limits in relation to intra-group exposures: non-core group waivers	- *BIPRU* 10.9A	- Art. 400.2(c) as implemented by rule 2 at Annex I of the PRA Rulebook CRR Firms Instrument 2013
18	Waiver of large exposure limits in relation to sovereign exposures	- BIPRU 10.6.34R as waived in accordance with BIPRU 10.6.37G	- Art. 400.2(g) and (h) as implemented by rule 3 at Annex I of the PRA Rulebook CRR Firms Instrument 2013

Schedule 3

Waivers in Supervision Manual (SUP) 16

Column A SUP 16 rule as in force until 31 December 2013	Column B SUP 16 rule as in force from 1 January 2014
SUP 16.12.11R	SUP 16.12.11B R
SUP 16.12.12. R	SUP 16.12.12A R
SUP 16.12.15 R	SUP 16.12.15B R
SUP 16.12.16 R	SUP 16.12.16A R
SUP 16.12.22A R	SUP 16.12.22C R
SUP 16.12.25A R	SUP 16.12.25C R
SUP 16.12.26 R	SUP 16.12.26A R

Annex L

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

Part

INTERPRETATION

Chapter content

1 APPLICATION

2 INTERPRETATIVE PROVISIONS

Links

1 APPLICATION

1.1 This Part applies to a *firm.*

2 INTERPRETATIVE PROVISIONS

Purposive interpretation

2.1 Every provision in the *PRA* Rulebook must be interpreted in the light of its purpose.

Use of defined expressions

2.2 In the PRA Rulebook, save as otherwise indicated in a Part of the *PRA* Rulebook, an expression in italics defined:

(1) in the *PRA* Rulebook Glossary has the meaning given in that glossary;

(2) for the purposes of *FSMA* has the meaning given in that Act;

(3) in the Interpretation Act 1978 has the meaning given in that Act.

Application of the Interpretation Act 1978

2.3 Save as otherwise indicated, the Interpretation Act 1978 applies to the *PRA* Rulebook.

Cross-references in the PRA Rulebook

2.4 A reference in the *PRA* Rulebook to another provision in the *PRA* Rulebook is a reference to that provision as amended from time to time.

Activities covered by rules

2.5 In the *PRA* Rulebook, a rule made by the *PRA* under section 137G of *FSMA* applies to a *firm* with respect to the carrying on of any activities, except to the extent that a contrary intention appears.

Continuity of authorised partnerships and unincorporated associations

2.6 If a *firm* is dissolved, but its authorisation continues to have effect under section 32 (Partnerships and unincorporated associations) of *FSMA* in relation to any partnership or unincorporated association that succeeds to the business of the dissolved *firm*, the successor partnership or unincorporated association is to be regarded as the same *firm* for the purposes of the *PRA* Rulebook unless the context otherwise requires.

Annex M

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

Part

PERMISSIONS

Chapter content

1 APPLICATION AND DEFINITIONS

2 FORM AND MANNER OF APPLICATION FOR A CRR PERMISSION

3 NOTIFICATION OF ALTERED CIRCUMSTANCES

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every firm that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

CRR permission

means a permission given to a *firm* by the *PRA* under powers conferred on the *PRA* by the *CRR.*

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 FORM AND MANNER OF APPLICATION FOR A CRR PERMISSION

2.1 The *PRA* directs that a *firm* wishing to apply for a *CRR permission* must make a written application to the *PRA*.

2.2 The application must be accompanied by such information and documents as are necessary to demonstrate how the firm complies with the conditions contained in the relevant *CRR* Article.

3 NOTIFICATION OF ALTERED CIRCUMSTANCES

3.1 A *firm* that has applied for or has been granted a *CRR permission* must notify the *PRA* immediately if it becomes aware of any matter which could affect the continuing relevance or appropriateness of the application, the *CRR permission* or any condition to which the *CRR permission* is subject.