

Supervisory Statement | SS20/13

Third country equivalence aspects of the credit risk provisions in the CRR, and recognised exchanges

December 2013



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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1 Introduction

1.1 This Supervisory Statement sets out the approach of the Prudential Regulation Authority (PRA) in respect of the following:

- a. certain credit risk treatments under the Capital Requirements Regulation (CRR) which may apply to exposures to third country entities until 1 January 2015 where those third countries have been approved as eligible for those treatments by the PRA prior to 1 January 2014 and where relevant third country equivalence determinations have not been made by the European Commission; and
- b. the identification of recognised exchanges prior to the adoption by the European Commission of a European Securities and Markets Authority (ESMA) Implementing Technical Standard specifying the individual markets and exchanges that qualify as recognised exchanges under the CRR.

1.2 This Supervisory Statement supplements SS 10/13, SS 11/13 and SS 17/13 and is aimed at firms to which CRD IV applies.

2 Exposures to entities in third countries eligible for particular credit risk treatments during 2014

2.1 A number of provisions in the CRR allow particular credit risk treatments to be applied to exposures to third country counterparties where those third countries apply prudential and supervisory requirements that are at least equivalent to those applied in the European Union.

2.2 The CRR empowers the European Commission to make decisions on whether a third country's prudential and supervisory requirements are equivalent for these purposes. Pending those decisions by the European Commission, the CRR allows national competent authorities' approvals of third countries as eligible for those treatments made prior to 1 January 2014 to be used by firms until 1 January 2015. This section sets out the PRA's approach in this regard during 2014. The effect of the approach set out here is generally to allow firms to maintain during 2014 the relevant treatment applied prior to 2014, pending decisions by the European Commission on third country equivalence.

2.3 Until 1 January 2015, and in the absence of a European Commission decision, CRR Articles 107(3) and 107(4) allow exposures to third country credit institutions and third country investment firms to be treated under the CRR as exposures to institutions where the PRA has approved the relevant third countries as eligible for that treatment. For these purposes,

the PRA has approved third countries as eligible where exposures to a credit institution or an investment firm authorised in those jurisdictions qualified as an exposure to an institution under BIPRU 3.2, 3.4 and 4.4, as applicable, as those sections of the PRA Handbook applied immediately prior to 1 January 2014.

2.4 Until 1 January 2015, and in the absence of a European Commission decision, CRR Articles 107(3) and 107(4) allow exposures to third country clearing houses and exchanges to be treated as exposures to institutions where the PRA has approved the relevant third countries as eligible for that treatment. For these purposes, the PRA has approved third countries as eligible where exposures to clearing houses or exchanges (as applicable) authorised in those jurisdictions qualified as exposures to institutions under BIPRU 3.2 or 4.4, as applicable, of the PRA Handbook in force immediately prior to 1 January 2014.

2.5 CRR Articles 114(7), 115(4), 116(5) and 132(3) also include provisions on the risk weighting of exposures under the standardised approach to counterparties established in third countries, ie central governments, central banks, regional governments or local authorities, certain public sector entities and collective investment undertakings. Until 1 January 2015, and in the absence of an equivalence determination by the European Commission, these articles allow firms to risk weight such exposures in the same manner as exposures to relevant EU counterparties where the PRA has approved those third countries as eligible for such treatment. For these purposes, the PRA has approved as eligible the third countries that the PRA permitted a firm to treat as equivalent under its implementation of BIPRU 3.4 of the PRA Handbook in force immediately prior to 1 January 2014.

2.6 The definition of 'large financial sector entity' in CRR Article 142(1)(4) also depends, in part, on the treatment of third country exposures. Until 1 January 2015, and in the absence of an equivalence determination by the European Commission, firms may treat as eligible under the definition in Article 142(1)(4)(b) financial sector entities established in third countries where the PRA has approved those third countries as eligible for that treatment. For these purposes, and in respect of all financial sector entities, the PRA has approved as eligible those jurisdiction that qualified for the third country credit institutions treatment set out in paragraph 2.3 above.

(CRR Articles 107(3) and (4), 114(7), 115(4), 116(5), 132(3), 142(1)(4) and 153(2))

3 Recognised exchanges

3.1 The CRR defines the term 'recognised exchange'. This term is used in: the part of the CRR definitions of 'repurchase agreement' and 'repurchase agreement'; the criteria for determining own funds requirements for investment firms; and in determining aspects of collateral eligibility and collateral volatility adjustments. To qualify as a recognised exchange under the CRR, an exchange must, amongst other things, meet the definition of a 'regulated market' set out in Directive 2004/39/EC (the Markets in Financial Instruments Directive (MIFID)). The MIFID definition of a regulated market requires authorisation and functioning of that market in accordance with MIFID.

3.2 Until such time as the ESMA implementing technical standards specifying the list of recognised exchanges are adopted by the European Commission, the PRA considers the following to qualify as recognised exchanges under the CRR:

- ICE Futures Europe;
- BATS Europe Regulated Market;
- ICAP Securities and Derivatives Exchange — Main Board;
- NYSE Euronext London;
- London Stock Exchange — Regulated Market;
- The London International Financial Futures and Options Exchange (LIFFE);
- London Metal Exchange; and
- any other exchange that has been authorised by another EEA competent authority and has been found by that authority to meet the CRR definition of recognised exchange set out in CRR Article 4(1)(72).

(CRR Articles 4(1)(72), 4(1)(82), 96(1)(a), 197(4) and (8), 198(1) and 224)