



LARGE EXPOSURES EXEMPTION: CRR ARTICLE 400 (2) (C) - NON CORE LARGE EXPOSURES GROUP APPLICATION

PRA EXPECTATIONS	FIRM ANALYSIS
<p><i>Article 400</i> Exemptions ... 2. Competent authorities may fully or partially exempt the following exposures: ... (c) exposures, including participations or other kinds of holdings, incurred by an institution to its parent undertaking, to other subsidiaries of that parent undertaking or to its own subsidiaries, in so far as those undertakings are covered by the supervision on a consolidated basis to which the institution itself is subject, in accordance with this Regulation, Directive 2002/87/EC or with equivalent standards in force in a third country; exposures that do not meet these criteria, whether or not exempted from Article 395(1), shall be treated as exposures to a third party;</p>	<p><i>Please demonstrate using examples where appropriate how the specific CRR requirements are met.</i></p>
<p><i>Article 113</i> Calculation of risk weighted exposure amounts ... 6. With the exception of exposures giving rise to Common Equity Tier 1, Additional Tier 1 or Tier 2 items, an institution may, subject to the prior approval of the competent authorities, decide not to apply the requirements of paragraph 1 of this Article to the exposures of that institution to a counterparty which is its parent undertaking, its subsidiary, a subsidiary of its parent undertaking or an undertaking linked by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC. Competent authorities are empowered to grant approval if the following conditions are fulfilled:</p>	
<p>(a) the counterparty is an institution, a financial holding company or a mixed financial holding company, financial institution, asset management company or ancillary services undertaking subject to appropriate prudential requirements;</p>	
<p>(b) the counterparty is included in the same consolidation as the institution on a full basis;</p>	
<p>(c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the institution;</p>	



(e) there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities from the counterparty to the institution.

The PRA will consider the following non-exhaustive list of factors when assessing whether this condition has been met:

- *the speed with which funds can be transferred or liabilities repaid to the firm and the simplicity of the method for the transfer or repayment. As part of our overall assessment, we would consider one of the indicators to achieving prompt transfer as being ownership of 100% of the subsidiary undertaking;*
- *whether there are any interests other than those of the firm in the undertaking, and what impact those other interests may have on the firm's control over the undertaking and the ability of the firm to require a transfer of funds or repayment of liabilities;*
- *whether there are any tax disadvantages for the firm or the undertaking as a result of the transfer of funds or repayment of liabilities;*
- *whether the purpose of the undertaking prejudices the prompt transfer of funds or repayment of liabilities;*
- *whether the legal structure of the undertaking prejudices the prompt transfer of funds or repayment of liabilities;*
- *whether the contractual relationships of the undertaking with the firm and other third parties prejudices the prompt transfer of funds or repayment of liabilities; and*
- *whether past and proposed flows of funds between the undertaking and the firm demonstrate the ability to make prompt transfer of funds or repayment of liabilities.*



<p>PRA Rulebook</p> <p>2.2 A firm may only make use of the non-core large exposures group non-trading book exemption and/ or the non-core large exposures trading book exemption where the following conditions are met:</p>	
<p>(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:</p> <ul style="list-style-type: none"> (a) its parent undertaking; (b) other subsidiaries of that parent undertaking; or (c) its own subsidiaries, <p>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.</p>	
<p>(2) A firm may only use the NCLEG non-trading book exemption where:</p> <ul style="list-style-type: none"> (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. <p>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.</p>	
<p>(3) 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:</p> <ul style="list-style-type: none"> (a) its parent undertaking; (b) other subsidiaries of that parent undertaking; or (c) its own subsidiaries, <p>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;</p>	
<p>(4) 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</p>	



amount of non-trading book exposures (whether or not exempted from Article 395(1) of the CRR) from the firm to its NCLEG.	
(5) 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.	
(6) 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.	
(7) 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.	
(8) 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;	
(9) The written notice required under (8) 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.	
(10) where the firm has a core UK group permission and an NCLEG trading book permission or an NCLEG non-trading book permission the <i>firm</i> submits FSA018 in accordance with SUP 16.12.	