



CRR ARTICLE 113 (6) - CORE UK GROUP APPLICATION

PRA EXPECTATIONS	FIRM ANALYSIS
<p>Article 113</p> <p>Calculation of risk weighted exposure amounts</p> <p>...</p> <p>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><i>Please demonstrate using examples where appropriate how the specific CRR requirements are met.</i></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><i>The PRA will typically expect to receive the following information and documents in support of an application:</i></p> <ul style="list-style-type: none"> <i>an up-to-date organisation chart of the fully consolidated entities in the group, specifying, in relation to each entity, whether the entity is an institution, financial institution or an ancillary services undertaking as those terms are defined in the CRR;</i> 	

(c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the institution;

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

- *regular and transparent mechanisms for communication are established within the consolidated group to enable the senior management, business lines, the risk management function and other control functions to share and access information about risk measurement, analysis and monitoring;*
- *internal procedures and information systems are integrated, consistent and reliable throughout the consolidated group so that all sources of risk can be identified, measured and monitored on a consolidated basis and also, to the extent necessary, separately by entity, business line and portfolio; and*
- *key risk information is regularly reported to the central risk management function of the consolidated group to enable centralised evaluation, measurement and control of risk across the relevant group entities.*

The PRA will typically expect to receive the following information and documents in support of an application:

- *a description of the risk management policies and controls of the counterparty;*
- *written policies describing group company risk measurement, evaluation and control procedures in the areas of credit risk, market risk, liquidity risk and operational risk and a description of how these policies are applied by each entity;*

<p>(d) the counterparty is established in the same Member State as the institution;</p> <p><i>The PRA will consider this condition to have been satisfied if:</i></p> <ul style="list-style-type: none"> • <i>the relevant counterparty is incorporated in the United Kingdom; or</i> • <i>the counterparty is an undertaking of a type that falls within the scope of the Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC); and</i> • <i>it is established in the United Kingdom other than by incorporation; and</i> • <i>the firm can demonstrate that the counterparty's centre of main interests is situated in the United Kingdom.</i> 	
<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.</p> <p><i>The PRA will consider the following non-exhaustive list of factors when assessing whether this condition has been met:</i></p> <ul style="list-style-type: none"> • <i>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;</i> • <i>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;</i> • <i>whether there are any tax disadvantages for the firm or the undertaking as a result of the transfer of funds or repayment of liabilities;</i> • <i>whether the purpose of the undertaking</i> 	

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.*

When demonstrating how CRR Article 113(6)(e) is met, the PRA considers that in the case of a counterparty which is not a firm, the formal application should include a legally binding agreement between the firm and the counterparty. This agreement will be to promptly, on demand by the firm, increase the firm's eligible capital by an amount required to ensure that the firm complies with the provisions contained in CRR Part Two (Own funds) and any other requirements relating to eligible capital or concentration risk imposed on a firm by or under the regulatory system.

The PRA will typically expect to receive the following information and documents in support of an application:

- *a description of the process that ensures a prompt transfer of own funds and the repayment of liabilities; and*
- *a statement signed by representatives and approved by the management body of each of the parent undertaking and the relevant group entities attesting that there are no material practical or legal impediments to the transfer of funds or repayment of liabilities between group entities and the firm. This applies to all entities that do not need to provide a legally binding agreement as set out in paragraph 2.8 of SS16/13 'Large Exposures'*