BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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

PRA EXPECTATIONS	FIRM ANALYSIS *Please demonstrate using examples where appropriate how the specific CRR requirements are met*.
Article 400 **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;	
Article 113 **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:	
(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;	

(b) the counterparty is included in the same consolidation as the institution on a full basis; *The PRA will typically expect to receive the following information and documents in support of an application:* • *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;*	
(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;*	
(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. *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.* *For the purposes of assessing whether a the condition in CRR Article 113(6)(e) is met, the PRA will consider the specific measures or restrictions, current or foreseen, that a regulator in other jurisdictions has placed or may place on the proposed member of the non-core large exposures group and whether such measures constitute a material impediment. The PRA expect firms to provide a description of any such specific measures or restrictions such as restrictions on dividend payment. The firm should confirm to the PRA that, insofar as it is aware, no such measures or restrictions are in place or foreseeable.*	
PRA Rulebook A firm may only make use of the non-core large exposures group (NCLEG) non-trading book exemption and/ or the NCLEG trading book exemption where the following conditions are met:	

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.	
2.1 (2) A firm may only use the NCLEG non-trading book exemption where 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 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.	
2.1 (3) With respect to the application of requirements laid down in Part Four of the CRR on a consolidated basis, a firm may treat the total amount of exposures that are exempt in accordance with an NCLEG non-trading book permission on an individual basis as exempt from the limit in Article 395(1) of the CRR on a consolidated basis.	

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;	
2.2 (2) The trading book exposure allocation for a firm 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.	
2.2 (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.	
2.2 (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.	
2.2 (6) With respect to the application of requirements laid down in Part Four of the CRR on a consolidated basis, a firm may treat the amount of exposures that are exempt in accordance with an NCLEG trading book permission on an individual basis as exempt from the limit in Article 395(1) of the CRR on a consolidated basis.	

2.3 (1) A firm with a core UK group permission and an NCLEG trading book permission and/or an NCLEG non-trading book permission must give the PRA written notice whenever the firm: (b) becomes aware that the total amount of exposures from the core UK group (including the firm) to a particular member of the firm's NCLEG are likely to exceed, or have exceeded, 25% of the eligible capital of the PRA-regulated firm with the largest eligible capital base in the core UK group; (c) becomes aware that the total exposures from the members of its core UK group (which are not firms) to the firm's NCLEG are likely to exceed, or have exceeded 25% of the eligible capital of the PRA-regulated firm with the largest eligible capital base in the core UK group.	
2.3 (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.	

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