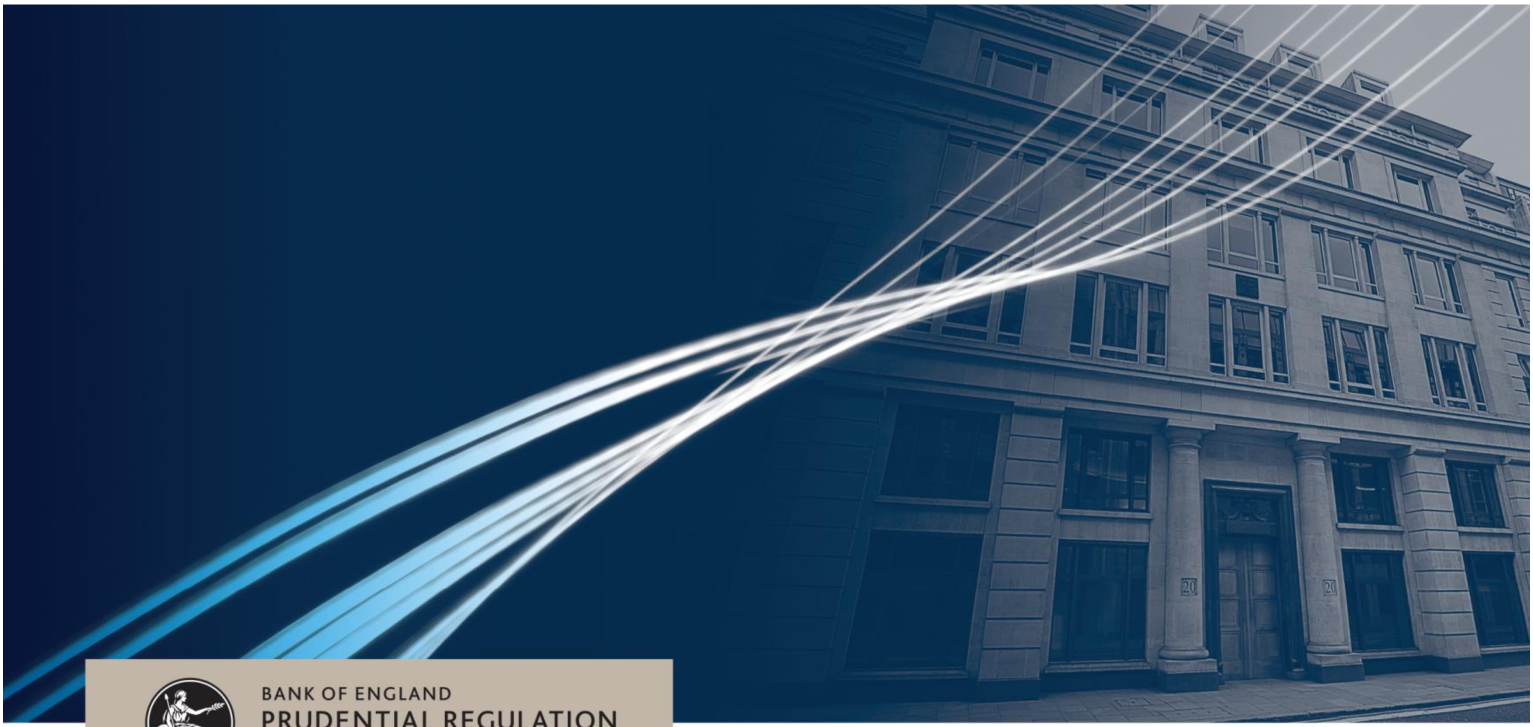

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Consultation Paper | CP15/19

Large exposures: Reciprocation of French measure

July 2019

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Consultation Paper | CP15/19

Large exposures: Reciprocation of French measure

July 2019

By responding to this consultation, you provide personal data to the Bank of England. This may include your name, contact details (including, if provided, details of the organisation you work for), and opinions or details offered in the response itself.

The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

The consultation paper will explain if responses will be shared with other organisations (for example, the Financial Conduct Authority). If this is the case, the other organisation will also review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing regulatory policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit bankofengland.co.uk/legal/privacy.

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure to other parties in accordance with access to information regimes including under the Freedom of Information Act 2000 or data protection legislation, or as otherwise required by law or in discharge of the Bank's functions.

Please indicate if you regard all, or some of, the information you provide as confidential. If the Bank of England receives a request for disclosure of this information, we will take your indication(s) into account, but cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system on emails will not, of itself, be regarded as binding on the Bank of England.

Responses are requested by Friday 6 September 2019.

Please address any comments or enquiries to:
Josh Wignall and Anthony Brown
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Email: CP15_19@bankofengland.co.uk

Contents

1 Overview

1.1 In this consultation paper (CP), the Prudential Regulation Authority (PRA) sets out its proposal to apply a tighter limit for large exposures (LE) to certain French non-financial corporations (NFCs), to reciprocate the same measure imposed by France. The proposal would be effected through amendments to the Large Exposures Part of the PRA Rulebook (see Appendix 1).

1.2 The proposed measure applies on a consolidated basis to firms identified by the PRA as global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs), under the Capital Requirements Directive (2013/36/EU) (CRD) as implemented in the Capital Requirements (Capital Buffers and Macro-prudential measures) Regulations 2014. This CP is therefore relevant to such firms and their subsidiaries.

Background

1.3 The European Systemic Risk Board (ESRB) has recommended European Economic Area (EEA)-wide reciprocation of a macroprudential measure imposed by the Haut Conseil de stabilité financière (HCSF) in France in July 2018 under CRR Article 458 ('the HCSF measure').[1]

1.4 The HCSF measure lowers the LE limit for French G-SIIs and French O-SIIs in respect of their exposures to French NFCs that are 'highly indebted'. 'Highly-indebted' is defined as having both a leverage ratio greater than 100%, and a ratio of earnings before interest and taxation to interest payment of below three, calculated at the highest level of group consolidation.

1.5 The new limit for these exposures is 5% of the institution's eligible capital. This compares to the general LE limit, specified under Article 395(1) of the Capital Requirements Regulation (575/2013/EU) (CRR), of 25% of an institution's eligible capital.

1.6 HM Treasury have decided to reciprocate this measure under Article 458(5) of the CRR, and have asked the PRA to implement a measure in the UK consistent with that decision.

1.7 The Financial Policy Committee (FPC) considered the ESRB Recommendation to reciprocate the measure in July 2019. It noted in its Record of that meeting that "Reciprocation would be in line with the FPC's previously stated intention of reciprocating foreign non-CCyB macroprudential capital actions where appropriate, recognising both the likely benefits to UK financial stability and to maintain consistency with its approach to reciprocating foreign CCyB rates" and that "while currently no UK banks met the materiality threshold set out by the ESRB, banks could do so in the future due to ordinary fluctuations of business. Reciprocation would ensure compliance with the ESRB regime. The FPC noted the measure, through targeting corporate indebtedness, was related to leveraged lending. The FPC had previously identified the rapid growth of leveraged lending globally as a risk to UK financial stability."

1.8 The proposal in this CP is intended to ensure the UK's compliance with the ESRB Recommendation and to comply with the request from HM Treasury.

1 See Recommendation ESRB/2015/2 as amended by Recommendation ESRB/2018/8. Further details of the HCSF measure can be found at https://www.esrb.europa.eu/national_policy/reciprocation/html/france_exposure_NFCs.en.html.

Implementation

1.9 The planned implementation date for the proposal in this CP is 1 January 2020.

Responses and next steps

1.10 This consultation closes on Friday 6 September 2019. The PRA invites feedback on the proposal set out in this consultation. Please address any comments or enquiries to CP15_19@bankofengland.co.uk.

1.11 The proposal set out in this CP have been designed in the context of the current UK and EU regulatory framework. The PRA has assessed that the proposal will be affected in the event that the UK leaves the EU with no implementation period in place.

1.12 A second version of the proposed amendments to the PRA Rulebook rules, which includes the relevant changes relating to the UK's withdrawal from the EU, is set out in Appendix 2.

2 Proposal

2.1 The PRA proposes to tighten the LE limit in CRR Article 395(1) to 5% of eligible capital in respect of the exposures of UK G-SIIs and O-SIIs to French NFCs meeting the definition of 'highly indebted' set out in the HCSF measure. The limit will apply on a consolidated basis, at the highest level of UK consolidation only.

2.2 The limit will apply only to exposures with an original value (prior to the application of any credit risk mitigation techniques and exemptions under the Large Exposures Part of the CRR) greater than €300 million, treating exposures to a group of connected French NFCs as a single exposure.

2.3 The proposed rule incorporates the materiality threshold contained in the ESRB's Recommendation. The threshold exempts firms that have an aggregate exposure to the French NFC sector (on a consolidated basis) of less than €2 billion (prior to the application of any credit risk mitigation techniques and exemptions under the Large Exposures part of the CRR).

2.4 The materiality threshold also exempts firms which do not have relevant exposures greater than both €300m and 5% of eligible capital to a single French NFC, or a 'connected group' of French NFCs. For the purposes of the materiality threshold only, 'connected group' is defined so as to correspond to the connected exposures which firms already report in their LE reporting template.

2.5 The proposed rule is based on the HCSF measure as set out in Recommendation ESRB/2015/2 (as amended). The PRA has made amendments to the language of the HCSF measure where these are considered appropriate in order to (a) incorporate the measure within the PRA Rulebook and the wider UK regulatory framework and (b) clarify certain features of the measure within a UK context to assist firms in complying with its terms.

2.6 Under CRR Article 458, the HCSF will need to seek approval if it wishes to extend the HCSF measure beyond July 2020. The PRA does not propose to set a fixed duration for the reciprocal measure, but will review the appropriateness of the rule in light of the status of the HCSF measure and other relevant circumstances.

2.7 The HSCF measure was imposed following consultation with the ESRB, the European Banking Authority and the European Commission. The intention of the measure, as stated by the HCSF, is to meet two objectives:

- limit concentration risk with regard to highly indebted large French NFCs and, as a result, preserve the overall resilience of the French financial system; and
- send a warning signal regarding the increased leverage of large French NFCs, and to prevent the build-up of unsustainable risk developments in the French NFC sector.

2.8 In recommending reciprocation of the measure, the ESRB has stated that the objectives of reciprocation are to:

(i) prevent regulatory arbitrage;

(ii) signal the systemic risks associated with the increased leverage of large French NFCs; and

(iii) increase the resilience of systemically important institutions in other Member States.

3 The PRA's statutory obligations

3.1 Before making any rules, the Financial Services and Markets Act 2000 (FSMA)[2] requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;
- an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objective,[3] insurance objective[4] (if applicable), and secondary competition objective;[5]
- an explanation of the PRA's reasons for believing that making the proposed rules are compatible with its duty to have regard to the regulatory principles;[6] and
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons.[7]

3.2 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.[8]

3.3 The PRA is also required by the Equality Act 2010[9] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

3.4 As described below, the proposal in this CP is compatible with the PRA's obligations under FSMA.

2 Section 138J of FSMA.
3 Section 2B of FSMA.
4 Section 2C of FSMA.
5 Section 2H(1) of FSMA.
6 Sections 2H(2) and 3B of FSMA.
7 Section 138K of FSMA.
8 Section 30B of the Bank of England Act 1998.
9 Section 149.

Cost benefit analysis

3.5 There are financial stability benefits from the proposed measure. The FPC has previously recognised the likely benefits to UK financial stability from reciprocating foreign macroprudential actions where appropriate. With respect to the HCSF measure in particular, the FPC noted that the measure targets corporate indebtedness so is related to leveraged lending. The FPC had previously identified the rapid growth of leveraged lending globally as a risk to UK financial stability.

3.6 The PRA notes that no firm currently exceeds the materiality threshold set out by the ESRB Recommendation, although UK banks could exceed the threshold due to ordinary fluctuations of business. The proposal will therefore not restrict current business. There may be an opportunity cost to firms, by limiting the capacity to invest in a highly indebted French NFC in future. But the proposal prevent firms from arbitraging rules set by the HCSF.

3.7 There is a small incremental cost to affected firms of monitoring the restriction in this proposal. Firms already monitor large exposures in accordance with Article 395 of the Capital Requirements Regulation (575/2013/EU). The measure only applies to exposures greater than €300 million. These exposures are already reported by firms under the CRR reporting framework so the measure does not impose additional reporting requirements.

3.8 Firms will be able to determine whether they meet the measure's materiality threshold through information on the jurisdiction and sector of counterparties which they already identify for the purposes of regulatory reporting.

3.9 If a firm does meet the materiality threshold, the measure would require it to specifically monitor the size of large exposures to highly indebted French NFCs and connected entities. The cost to firms of determining whether a French NFC counterparty is highly indebted is expected to be low. The information needed to identify whether a French counterparty meets the criteria for being highly indebted is readily available and located in the public accounts of French firms or their consolidated groups.

Compatibility with the PRA's objectives

3.10 As noted above, one of the objectives of reciprocation stated by the ESRB is to support the resilience of G-SIIs and O-SIIs outside France. The proposal may reduce the probability that corporate defaults in France adversely affect a UK firm by preventing concentrated exposures to individual highly indebted French NFCs. The FPC has also noted the general benefits to UK financial stability of accommodating requests for reciprocation where appropriate. Therefore, the PRA considers that the proposal supports the PRA's general objective of promoting the safety and soundness of authorised firms.

3.11 The PRA has assessed whether the proposal in this CP has a material impact on the secondary competition objective. There are two issues with respect to competition. The proposal:

(i) does not currently limit UK firms' ability to compete in lending to highly indebted French-resident NFCs as no UK firm currently has a material exposure to these NFCs; and

(ii) may have a positive impact on UK firms' ability to compete with existing suppliers of loans to highly indebted French-resident NFCs where those existing suppliers are now constrained, and up to the point at which UK banks reach the new exposure limit. Moreover, as the advantage to UK firms will be limited to the point at which the large exposure limit applies, the improvement in UK firms' competitiveness will not compromise the PRA's primary objective of safety and soundness.

Regulatory principles

3.12 In developing the proposal in this CP, the PRA has had regard to the regulatory principles. Two of the principles are of particular relevance:

- The principle that a burden or restriction should be proportionate to the benefits. The PRA proposes to apply the restriction within the scope of the ESRB request, and not to extend the measure to other firms or exposures, to ensure the proposed measure remains proportionate.

- The principle that the PRA should exercise transparency. The purpose of this consultation is to ensure that the reciprocated measure is implemented in a transparent manner.

Impact on mutuals

3.13 The PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

HM Treasury recommendation letter

3.14 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.[10]

3.15 The aspect of the Government's economic policy most relevant to the proposal in this CP is competitiveness. This proposal would help ensure that the UK financial system is in alignment with other regulatory regimes in Europe. The PRA believes this helps the UK remain an attractive domicile for internationally active financial institutions by promoting robust institutions and a resilient system.

Equality and diversity

3.16 The PRA considers that the proposal does not give rise to equality and diversity implications.

10 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at https://www.bankofengland.co.uk/about/people/prudential-regulation-committee.

Appendices

Appendix 1: Draft amendments to the Large Exposure Part of the PRA Rulebook

PRA RULEBOOK: CRR FIRMS: LARGE EXPOSURES AMENDMENT INSTRUMENT 2019

Powers exercised

A. The Prudential Regulation Authority ("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 referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

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

Reciprocating measure

D. On 1 July 2018, by a Decision of the Haut Conseil de stabilité financière and pursuant to Article 458(2) of 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 ("CRR"), France implemented a tightening of the large exposure limit provided for in Article 395(1) of the CRR, applicable to exposures to certain French counterparties ("the French measure").

E. On 1 February 2019, the European Systemic Risk Board issued Recommendation ESRB/2018/8, recommending reciprocation of the French measure by other member states of the European Union.

F. On [**DATE**], HM Treasury gave notice under Article 458(6) of the CRR of its decision under Article 458(5) of the CRR to recognise the French measure in the United Kingdom.

PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2019

G. The PRA makes the rules in the Annex to this instrument.

Commencement

H. This instrument comes into force on 1 January 2020.

Citation

I. This instrument may be cited as the PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2019.

By order of the Prudential Regulation Committee
[DATE]

Annex A

Amendments to the Large Exposures Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

…

1.2 In this Part the following definitions shall apply:

Capital Buffers Regulations

means the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894).

…

French NFC

means a counterparty that has its registered office in France, and which, at its level and at the highest level of consolidation of its *group*, belongs to the non-financial corporations sector as defined in point 2.45 of Annex A to Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union.

group of connected French NFCs

means

(a) where a *French NFC* is part of a *group* and the ultimate parent of the *group* has its registered office in France, the *group* and all its connected entities within the meaning of point (39) of Article 4(1) of the *CRR*;

(b) where a *French NFC* is part of a *group* and the ultimate parent of the *group* has its registered office outside France, the set of French NFCs in the same *group* and all other entities in France or abroad over which those French NFCs have direct or indirect control, or which are economically dependent on them, within the meaning of point (39) of Article 4(1) of the *CRR*.

G-SII

means a *person* identified by the *PRA* in accordance with Part 4 of the *Capital Buffers Regulations*.

highly indebted

in relation to a *French NFC* or a *group of connected French NFCs*, means that, at the highest level of *group* consolidation, the following two conditions are met, each condition being calculated based on accounting items defined in accordance with the applicable standard, as presented in the *group's* financial statements, such statements certified where appropriate by a chartered accountant:

(a) the first condition is that the leverage ratio is greater than 100%, where the leverage ratio is the ratio between total debt net of cash, and equity; and

(b) the second condition is that the financial charges coverage ratio is less than 3, where the financial charges coverage ratio is the ratio between, on the one hand, earnings before interest and tax (EBIT), and, on the other hand, interest and similar charges.

…

O-SII

means a person identified by the *PRA* in accordance with Part 5 of the *Capital Buffers Regulations*.

parent financial holding company in a Member State

means (in accordance with point (26) of Article 3(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 mixed financial holding company in a Member State

means (in accordance with point (28) of Article 3(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.*

parent institution in a Member State

means (in accordance with point (24) of Article 3(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 company* set up in the same *EEA State*.

qualifying exposure

means an *exposure* which has an original exposure value greater than or equal to €300 million, calculated in accordance with Articles 389 and 390 of the *CRR* before taking into account the effect of credit risk mitigation techniques and exemptions set out in Articles 399 to 403 of the *CRR* (and as required to be reported in accordance with Article 9 of the *Supervisory Reporting ITS*).

…

5 LARGE EXPOSURES – STRICTER REQUIREMENT FOR EXPOSURES OF G-SIIS AND O-SIIS TO CERTAIN FRENCH COUNTERPARTIES

Application and interpretation

5.1 This Chapter applies to *firms* that are *CRR firms* and are, or are controlled by, a *G-SII* or an *O-SII.*

5.2 In 5.6 and 5.7, a reference to an *exposure* to multiple counterparties means the sum of the *exposures* to the individual counterparties.

Level of application

5.3 A *firm* which is a *parent institution in a Member State* must comply with this Chapter on the basis of its *consolidated situation*.

5.4 A *firm* controlled by a *parent institution in a Member State* or a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* must comply with this Chapter on the basis of the *consolidated situation* of that parent institution or holding company.

5.5 A *firm* to which 5.3 and 5.4 do not apply must comply with this Chapter on an individual basis.

Materiality threshold

5.6 The reduced limit in 5.7 does not apply unless a *firm* meets each of the following conditions on the applicable basis determined in accordance with 5.3 to 5.5:

(1) The sum of the *firm's exposures* to all *French NFCs* is greater than €2 billion;

(2) The *firm* has a *qualifying exposure* to a *French NFC* or *a group of connected French NFCs,* but considering, in the case of a *group of connected French NFCs* the ultimate parent of which is outside France, only *exposures* to the *French NFCs* in the group as required to be reported in templates C 28.00 and C 29.00 of Annex VIII to the *Supervisory Reporting ITS*; and

(3) The *firm* has an *exposure* meeting the conditions in (2) which is greater than 5% of its *eligible capital,* after taking into account the effect of the credit risk mitigation techniques and exemptions in accordance with Article 399 to 403 of the *CRR*.

Reduced limit on exposures

5.7 The limit on *exposures* as a proportion of capital referred to in Article 395(1) of the *CRR* is reduced to 5% in respect of a *qualifying exposure* to a *highly indebted French NFC* or a *highly indebted group of connected French NFCs.*

Appendix 2: Draft amendments to the Large Exposure Part of the PRA Rulebook in the event of a no deal Brexit

PRA RULEBOOK: CRR FIRMS: LARGE EXPOSURES AMENDMENT INSTRUMENT 2019

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(3) Section 137G (the PRA's general rules); and
(4) Section 137T (general supplementary powers).

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

Pre-conditions to making

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

Reciprocating measure

D. On 1 July 2018, by a Decision of the Haut Conseil de stabilité financière and pursuant to Article 458(2) of 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 ("CRR"), France implemented a tightening of the large exposure limit provided for in Article 395(1) of the CRR, applicable to exposures to certain French counterparties ("the French measure").

E. On 1 February 2019, the European Systemic Risk Board issued Recommendation ESRB/2018/8, recommending reciprocation of the French measure by other member states of the European Union.

F. On [**DATE**], HM Treasury gave notice under Article 458(6) of the CRR of its decision under Article 458(5) of the CRR to recognise the French measure in the United Kingdom.

PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2019

G. The PRA makes the rules in the Annex to this instrument.

Commencement

H. This instrument comes into force on the later of (a) 1 January 2020 and (b) exit day.

Citation

I. This instrument may be cited as the PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2019.

By order of the Prudential Regulation Committee
[DATE]

Annex A

Amendments to the Large Exposures Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

…

1.2 In this Part the following definitions shall apply:

Capital Buffers Regulations

means the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894).

…

French NFC

means a counterparty that has its registered office in France, and which, at its level and at the highest level of consolidation of its *group*, belongs to the non-financial corporations sector as defined in point 2.45 of Annex A to Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union.

group of connected French NFCs

means

(a) where a *French NFC* is part of a *group* and the ultimate parent of the *group* has its registered office in France, the *group* and all its connected entities within the meaning of point (39) of Article 4(1) of the *CRR*;

(b) where a *French NFC* is part of a *group* and the ultimate parent of the *group* has its registered office outside France, the set of French NFCs in the same *group* and all other entities in France or abroad over which those French NFCs have direct or indirect control, or which are economically dependent on them, within the meaning of point (39) of Article 4(1) of the *CRR*.

G-SII

means a *person* identified by the *PRA* in accordance with Part 4 of the *Capital Buffers Regulations*.

highly indebted

in relation to a *French NFC* or a *group of connected French NFCs*, means that, at the highest level of *group* consolidation, the following two conditions are met, each condition being calculated based on accounting items defined in accordance with the applicable standard, as presented in the *group's* financial statements, such statements certified where appropriate by a chartered accountant:

(a) the first condition is that the leverage ratio is greater than 100%, where the leverage ratio is the ratio between total debt net of cash, and equity; and

(b) the second condition is that the financial charges coverage ratio is less than 3, where the financial charges coverage ratio is the ratio between, on the one hand, earnings before interest and tax (EBIT), and, on the other hand, interest and similar charges.

…

O-SII

means a person identified by the *PRA* in accordance with Part 5 of the *Capital Buffers Regulations*.

qualifying exposure

means an *exposure* which has an original exposure value greater than or equal to €300 million, calculated in accordance with Articles 389 and 390 of the *CRR* before taking into account the effect of credit risk mitigation techniques and exemptions set out in Articles 399 to 403 of the *CRR* (and as required to be reported in accordance with Article 9 of the *Supervisory Reporting ITS*).

…

5 LARGE EXPOSURES – STRICTER REQUIREMENT FOR EXPOSURES OF G-SIIS AND O-SIIS TO CERTAIN FRENCH COUNTERPARTIES

Application and interpretation

5.1 This Chapter applies to *firms* that are *CRR firms* and are, or are controlled by, a *G-SII* or an *O-SII.*

5.2 In 5.6 and 5.7, a reference to an *exposure* to multiple counterparties means the sum of the *exposures* to the individual counterparties.

Level of application

5.3 A *firm* which is a *UK parent institution* must comply with this Chapter on the basis of its *consolidated situation*.

5.4 A *firm* controlled by a *UK parent institution* or a *UK parent financial holding company* or a *UK parent mixed financial holding company* must comply with this Chapter on the basis of the *consolidated situation* of that parent institution or holding company.

5.5 A *firm* to which 5.3 and 5.4 do not apply must comply with this Chapter on an individual basis.

Materiality threshold

5.6 The reduced limit in 5.7 does not apply unless a *firm* meets each of the following conditions on the applicable basis determined in accordance with 5.3 to 5.5:

(1) The sum of the *firm's exposures* to all *French NFCs* is greater than €2 billion;

(2) The *firm* has a *qualifying exposure* to a *French NFC* or *a group of connected French NFCs,* but considering, in the case of a *group of connected French NFCs* the ultimate parent of which is outside France, only *exposures* to the *French NFCs* in the group as required to be reported in templates C 28.00 and C 29.00 of Annex VIII to the *Supervisory Reporting ITS*; and

(3) The *firm* has an *exposure* meeting the conditions in (2) which is greater than 5% of its *eligible capital,* after taking into account the effect of the credit risk mitigation techniques and exemptions in accordance with Article 399 to 403 of the *CRR*.

Reduced limit on exposures

5.7 The limit on *exposures* as a proportion of capital referred to in Article 395(1) of the *CRR* is reduced to 5% in respect of a *qualifying exposure* to a *highly indebted French NFC* or a *highly indebted group of connected French NFCs.*