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# PRA RULEBOOK: CRR FIRMS: (CRR) INSTRUMENT 2026

**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);
(2) section 137T (General supplementary powers);
(3) section 144G(1) (Disapplication or modification of CRR rules in individual cases);
(4) section 144H(1) (Relationship with the CRR);
(5) section 192XA (Rules applying to holding companies); and
(6) section 192XC (Disapplication or modification of rules in individual cases).

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

**PRA Rulebook: CRR Firms: (CRR) Instrument 2026**

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Required Level of Own Funds (CRR) | B |
| Credit Risk: General Provisions (CRR) | C |
| Credit Risk: Standardised Approach (CRR) | D |
| Credit Risk: Internal Ratings Based Approach (CRR) | E |
| Credit Risk Mitigation (CRR) | F |
| Market Risk: General Provisions (CRR) | G |
| Market Risk: Internal Model Approach (CRR) | H |
| Market Risk: Advanced Standardised Approach (CRR) | I |
| Market Risk: Simplified Standardised Approach (CRR) | J |
| Credit Valuation Adjustment Risk | K |
| Operational Risk | L |
| Credit Risk | M |
| Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) | N |

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| | |
|---|---|
| Trading Book (CRR) | O |
| Market Risk | P |
| Credit Valuation Adjustment Risk (CRR) | Q |
| Counterparty Credit Risk (CRR) | R |
| Benchmarking of Internal Approaches | S |
| Operational Risk (CRR) | T |
| Disclosure (CRR) | U |
| Regulatory Reporting | V |
| Reporting (CRR) | W |
| Reporting Pillar 2 | X |
| Interpretation | Y |
| Groups | Z |
| Capital Buffers | AA |

**Notes**

D. In the Annexes to this instrument, the "notes" (indicated by "[Note: ]") are included for the convenience of readers but do not form part of the legislative text.

**Templates, Annexes and instruction documents**

E. The rules in this Instrument include any template, Annex or instruction document referred to in the rules. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

**Commencement**

F. All Annexes to this instrument come into force on 1 January 2027.

**Citation**

G. This instrument may be cited as the PRA Rulebook: CRR Firms: (CRR) Instrument 2026.

**By order of the Prudential Regulation Committee**

13 January 2026

Effective from 1 January 2027

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**Annex A**

**Amendments to the Glossary Part**

In this Annex the text is all new and is not underlined.

…

*ACTP*

means the alternative correlation trading portfolio as determined in accordance with the Market Risk: General Provisions (CRR) Part.

*ACTP CSR*

means *CSR* for securitisation included in the *ACTP*.

…

*ADC exposure*

means an exposure to a corporate or special purpose entity financing any land acquisition for development and construction purposes, or financing development and construction of any *residential real estate* or *commercial real estate*.

…

*Advanced IRB Approach*

means:

(1) in relation to *PDs*, the approach referred to in paragraph 6 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 151;

(2) in relation to *LGDs* and exposure values, the approach referred to in point (b) of paragraph 7 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 151; and

(3) in relation to maturity for exposures to corporates and *institutions*, the approach referred to in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162.

…

*BA-CVA*

means the basic approach to the calculation of own funds requirements for *CVA risk* set out in Chapter 4 of Credit Valuation Adjustment Risk Part.

…

*charge*

means a *legal mortgage* or, if the land in question is outside of the *UK*, a security interest of an equivalent nature.

…

*commercial real estate*

means immovable property that is not *residential real estate*.

*commitment*

means any off-balance sheet contractual arrangement that has been offered by the *institution* and accepted by the obligor, including to extend credit, purchase assets or issue

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off-balance sheet items (but which is not itself an issued off-balance sheet item). This includes but is not limited to any such arrangement that may be:

(1) unconditionally cancelled by the *institution* at any time without prior notice to the obligor; or

(2) cancelled by the *institution* if the obligor fails to meet conditions set out in the relevant agreement, including conditions that must be met by the obligor prior to any initial or subsequent drawdown under the arrangement.

…

*commodities finance exposure*

means an exposure that is providing short-term lending to finance reserves, inventories, or receivables of exchange-traded commodities (including crude oil, metals, or crops), where the exposure will be repaid from the proceeds of the sale of the commodity and the obligor has no independent capacity to repay the exposure.

…

*conversion factor*

unless the context otherwise requires, means the expected ratio of the currently undrawn amount of a *commitment* from a single facility that could be drawn from that facility before default and that would therefore be outstanding at default to the currently undrawn amount of the *commitment* from that facility, the extent of the *commitment* being determined by the advised limit.

[Note: This rule corresponds to Article 4(1)(56) of *CRR* as it applied immediately before its revocation]

…

*CSR*

means credit spread risk.

*CVA*

means an adjustment of the default risk-free price of a derivative or securities financing transaction due to a potential default of the counterparty.

*CVA risk*

means the risk of losses arising from changing *CVA* values in response to changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions and securities financing transactions.

…

*eligible covered bonds*

has the meaning in paragraphs 1 and 6 of Credit Risk: Standardised Approach (CRR) Part Article 129.

…

*equity exposure*

in the Credit Risk: General Provisions (CRR) Part, the Credit Risk: Standardised Approach (CRR) Part and the Credit Risk: Internal Ratings Based Approach (CRR) Part means an exposure which meets the requirements in paragraphs 1 and 2 of Credit Risk: Standardised Approach (CRR) Part Article 133.

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…

*Financial Collateral Comprehensive Method*

means the method set out in Credit Risk Mitigation (CRR) Part Article 223 for calculating an exposure value which takes into account both price volatility and the risk mitigating effects of collateral held.

*Financial Collateral Simple Method*

means the method set out in paragraphs 2 to 7 of Credit Risk Mitigation (CRR) Part Article 222 for calculating exposure values and assigning risk weights to collateralised exposures.

…

*Foundation Collateral Method*

means the method set out in Credit Risk Mitigation (CRR) Part Articles 229 to 231 for calculating risk-weighted exposure amounts and expected loss amounts.

*Foundation IRB Approach*

means:

(1) in relation to *PDs*, the approach referred to in paragraph 6 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 151;

(2) in relation to *LGDs* and exposure values, the approach referred to in point (a) of paragraph 7 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 151; and

(3) in relation to maturity for exposures to corporates and *institutions*, the approach referred to in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162.

…

*higher risk equity exposure*

means an *equity exposure* that is:

(1) not listed on a recognised exchange; and

(2) to an *undertaking* ('A') whose business has existed for a period of less than five years, beginning with:

(a) where the business was first established within A, the date A was first established;

(b) where the business was first established within a different *undertaking* ('B') and either:

(i) the risk profile and nature of the business did not substantially change as a result of the transfer of the business to A, the date B was first established; or

(ii) the risk profile or nature of the business substantially changed as a result of the transfer of the business to A, the date the business was transferred to A.

…

*IMA transitional period*

means the period beginning with 1 January 2027 and ending with 31 December 2027.

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*IMA transitional permission*

means a permission granted to an *institution* by the *PRA* pursuant to Article 363(1) of Part A of Annex 3 of the Market Risk: Internal Model Approach (CRR) Part.

…

*IRB Approach*

has the meaning given in Credit Risk: Internal Ratings Based Approach (CRR) Part 1.1.

*IRB Permission*

has the meaning given in Credit Risk: Internal Ratings Based Approach (CRR) Part 1.1.

…

*legal mortgage*

includes a legal charge and, in Scotland, a heritable security.

…

*LGD Adjustment Method*

means the method set out in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 183.

*LGD Modelling Collateral Method*

means the method set out in paragraph 1 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 169A.

…

*loss given default* or *LGD*

unless the context otherwise requires, means:

(1) the expected ratio of the loss on an exposure related to a single facility due to the default of an obligor or facility, to the amount outstanding at default of that facility; and

(2) in the context of dilution risk, the loss given dilution, namely the expected ratio of the loss on an exposure due to dilution, to the amount outstanding according to the pledged or purchased receivable.

[Note: This rule corresponds to Article 4(1)(55) of *CRR* as it applied immediately before its revocation]

…

*multilateral development bank*

means an organisation created by a group of countries with:

(1) independent legal and operational status;

(2) large sovereign membership; and

(3) whose purpose is to provide financing and professional advice for economic and social development projects,

including the Inter-American Investment Corporation, the Black Sea Trade and Development Bank, the Central American Bank for Economic Integration, the CAF-Development Bank of Latin America and any organisation listed in paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 117.

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…

*object finance exposure*

means an exposure that is the funding of the acquisition of physical assets (including ships, aircraft, satellites, railcars, and fleets) where the repayment of the exposure is dependent on the cash-flows generated by the specific assets that have been financed and pledged or assigned to the lender.

…

*on-balance sheet netting*

means determining the exposure value in accordance with Article 219.

…

*output floor*

means the floor laid down in paragraph 3A of Required Level of Own Funds (CRR) Part Article 92.

…

*Parameter Substitution Method*

means calculating:

(1) the risk weight in accordance with the formula in paragraph 1 of Credit Risk Mitigation (CRR) Part Article 236; and

(2) expected loss in accordance with the formula in paragraph 1A of Credit Risk Mitigation (CRR) Part Article 236

…

*probability of default* or *PD*

unless the context otherwise requires, means:

(1) the probability of default of an obligor or, where applicable, facility, over a one-year period; and

(2) in the context of dilution risk, the probability of dilution over that one-year period.

[Note: This rule corresponds to Article 4(1)(54) of *CRR* as it applied immediately before its revocation]

…

*project finance exposure*

means an exposure in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure.

…

*real estate exposure*

means an *ADC exposure* or an exposure secured by a *charge* on immovable property.

…

*regulatory real estate exposure*

means a *real estate exposure* that meets the requirements in Credit Risk: Standardised Approach (CRR) Part Article 124A.

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*regulatory residential real estate exposure*

means a *residential real estate exposure* that meets the requirements in Credit Risk: Standardised Approach (CRR) Part Article 124A.

*regulatory retail exposure*

means a retail exposure as defined in Credit Risk: Standardised Approach (CRR) Part 1.2 which meets the requirements in Credit Risk: Standardised Approach (CRR) Part Article 123A.

…

*residential real estate*

means immovable property that predominantly has, or will have, the nature of a dwelling and that satisfies all applicable laws and regulations enabling the property to be occupied for housing purposes.

*residential real estate exposure*

means a *real estate exposure* that is not an *ADC exposure* and that is secured by *residential real estate* and is not secured by *commercial real estate*.

…

*revolving facilities*

means any facility where the outstanding balance owed by the obligor is permitted to fluctuate based on its decisions to borrow and repay, up to an agreed limit and in accordance with the terms of the facility agreement.

…

*Risk-Weight Substitution Method*

means calculating:

(1) the risk weight in accordance with the formula in paragraph 1 of Credit Risk Mitigation (CRR) Part Article 235; and

(2) where the exposure is subject to the *IRB Approach*, expected loss in accordance with the formula in paragraph 1A of Credit Risk Mitigation (CRR) Part Article 235.

…

*SA-CVA*

means the standardised approach to the calculation of own funds requirements for *CVA risk* set out in Chapter 5 of Credit Valuation Adjustment Risk Part.

…

*SFT VaR Method*

means the method set out in paragraphs 6 to 8 of Credit Risk Mitigation (CRR) Part Article 221 for calculating an exposure value resulting from a securities financing transaction that is adjusted to take account of the effects of correlation between the positions of securities and their liquidity.

…

*Slotting Approach*

means the approach set out in paragraph 5 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 151 in relation to specialised lending.

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…

*SME*

in the Credit Risk: Standardised Approach (CRR) Part and the Credit Risk: Internal Ratings Based Approach (CRR) Part means a micro, small or medium enterprise with an annual turnover of not more than GBP 44 million where:

(1) the annual turnover shall be calculated on the basis of the highest consolidated accounts of the group to which the enterprise belongs, if any, according to the rules on accounting consolidation in the applicable jurisdiction; and

(2) an enterprise shall be considered to be any undertaking regularly engaged in an economic activity irrespective of its legal form, including without limitation: self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations of natural persons.

*Standardised Approach*

means the approach set out in the Credit Risk: Standardised Approach (CRR) Part.

…

*third country banking and investment group*

means a *group* that meets the following conditions:

(1) it is headed by a *third country undertaking* that would be:

(a) an *institution*;

(b) a *financial holding company*; *or*

(c) a *mixed financial holding company*,

if its head office were in the *UK*; and

(2) it is not part of a wider *consolidation group*.

…

*transactor exposure*

means an exposure to an obligor for the following *revolving facilities*:

(1) *revolving facilities* where:

(a) the balance to be repaid at each scheduled repayment date is determined as the amount drawn at a pre-defined reference date (including credit cards and charge cards); and

(b) the obligor has repaid the balance in full at each scheduled repayment date for the previous 12-*month* period; and

(2) an overdraft facility which the obligor has not drawn down over the previous 12-*month* period.

…

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**Annex B**

**Required Level of Own Funds (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# REQUIRED LEVEL OF OWN FUNDS (CRR)

**Chapter Content**

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. REQUIRED LEVEL OF OWN FUNDS
   ARTICLE 92 OWN FUNDS REQUIREMENTS
5. PERMISSION

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

*credit risk rules*

means the:

(1) Credit Risk: General Provisions (CRR) Part;

(2) Credit Risk: Standardised Approach (CRR) Part;

(3) Credit Risk: Internal Ratings Based Approach (CRR) Part; and

(4) Credit Risk Mitigation (CRR) Part.

*international subsidiary*

means an institution or *CRR consolidation entity* that:

(1) is not a *ring-fenced body*;

(2) is part of a *third country banking and investment group*; and

(3) where the *third country banking and investment group* (including the institution or *CRR consolidation entity*) is subject to consolidated supervision which includes measures implementing the output floor as it is described in the document issued by the Basel Committee on Banking Supervision's titled 'Basel III: Finalising post-crisis reforms' (2017).

*international subsidiary approach*

means the approach set out in this Part applicable to an *international subsidiary*.

*market risk rules*

means the:

(1) Market Risk: General Provisions (CRR) Part;

(2) Market Risk: Simplified Standardised Approach (CRR) Part;

(3) Market Risk: Advanced Standardised Approach (CRR) Part; and

(4) Market Risk: Internal Model Approach (CRR) Part.

*stand-alone institution in the UK*

means an institution that is:

(1) not an *international subsidiary*; and

(2) not subject to prudential consolidation pursuant to Chapter 2 of Title II of Part One of *CRR* and that has no *UK parent undertaking* subject to such prudential consolidation.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution shall comply with this Part on an individual basis.

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[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis shall comply with this Part on the same basis.

[Note: Rule 2.6 sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

3.2 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 4 REQUIRED LEVEL OF OWN FUNDS

### Article 92 OWN FUNDS REQUIREMENTS

1. Subject to Article 93 of *CRR*, an institution shall at all times satisfy the following own funds requirements:

   (a) a Common Equity Tier 1 capital ratio of 4.5%;

   (b) a Tier 1 capital ratio of 6%;

   (c) a total capital ratio of 8%.

2. An institution shall calculate its capital ratios as follows:

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(a) the Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;

(b) the Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;

(c) the total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

2A. Subject to paragraph 5, the total risk exposure amount shall be calculated as follows:

(a) for the purposes of complying with the obligations of this Part:

(i) on an individual basis, a *stand-alone institution in the UK* and a *ring-fenced body* that is not a member of a *sub-consolidation group*;

(ii) on a sub-consolidated basis, a *ring-fenced body* that is a member of a *sub-consolidation group*; and

(iii) on the basis of its consolidated situation, a *CRR consolidation entity* that is not an *international subsidiary*,

shall calculate the total risk exposure amount as follows:

$$TREA = max \{U\text{-}TREA; x \cdot S\text{-}TREA + OF\text{-}ADJ\}$$

where:

| | |
|---|---|
| *TREA*= | the total risk exposure amount of the entity; |
| *U-TREA*= | the un-floored total risk exposure amount of the entity calculated in accordance with paragraph 3; |
| *S-TREA*= | the standardised total risk exposure amount of the entity calculated in accordance with paragraph 3A; |
| *x*= | 72.5%; |

**Output Floor Adjustments**

| | |
|---|---|
| *OF-ADJ*= | 12.5 * (IRB T2 – IRB CET1 – GCRA + SA T2); |

**IRB Adjustments**

| | |
|---|---|
| *IRB T2*= | amounts calculated in accordance with point (d) of Own Funds (CRR) Part Article 62; |
| *IRB CET1*= | amounts calculated in accordance with point (d) of paragraph 1 of Article 36 and Article 40 of Own Funds (CRR) Part; |

**Components of Net SA GP Adjustment (up to cap)**

| | |
|---|---|
| *GCRA*= | general credit risk adjustments, gross of tax effects, of up to 1.25% of risk-weighted exposure amounts calculated in accordance with paragraph 3A; |
| *SA T2*= | amounts calculated in accordance with point (c) of Own Funds (CRR) Part Article 62. |

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(b) for the purposes of complying with the obligations of this Part on a sub-consolidated basis, the total risk exposure amount of an institution other than a *ring-fenced body* shall be the un-floored total risk exposure amount calculated in accordance with paragraph 3;

(c) for the purposes of complying with the obligations of this Part on an individual basis, the total risk exposure amount of a *ring-fenced body* that is a member of a *sub-consolidation group* and an institution which is not a *stand-alone institution in the UK* shall be the un-floored total risk exposure amount calculated in accordance with paragraph 3;

(d) for the purposes of complying with the obligations of this Part on a consolidated basis, the total risk exposure amount of a *CRR consolidation entity* that is an *international subsidiary* shall be the un-floored total risk exposure amount calculated in accordance with paragraph 3.

3. The un-floored total risk exposure amount shall be calculated as the sum of points (a) to (f) of this paragraph after having taken into account paragraph 4:

(a) the risk-weighted exposure amounts for credit risk and dilution risk, calculated in accordance with Title II of Part Three of *CRR*, the *credit risk rules*, the Counterparty Credit Risk (CRR) Part and Articles 379 and 380 of *CRR* in respect of all the business activities of an institution, excluding risk-weighted exposure amounts arising from the trading book business of the institution;

(b) the own funds requirements for the trading book business of an institution for the following:

(i) market risk as calculated in accordance with the *market risk rules*;

(ii) large exposures exceeding the limits specified in Large Exposures (CRR) Part Articles 395 to 401, to the extent that an institution is permitted to exceed those limits, as calculated in accordance with the Large Exposures (CRR) Part;

(c) the own funds requirements for market risk as calculated in accordance with the *market risk rules* for all business activities that are subject to foreign exchange risk or commodity risk;

(ca) the own funds requirements for settlement risk calculated in accordance with Articles 378 and 380 of *CRR*;

(d) the own funds requirements calculated in accordance with the Credit Valuation Adjustment Risk Part;

(e) the own funds requirements calculated in accordance with the Operational Risk Part;

(f) the risk-weighted exposure amounts calculated in accordance with Title II of Part Three of *CRR*, the *credit risk rules* and the Counterparty Credit Risk (CRR) Part for counterparty credit risk arising from the trading book business of the institution for the following types of transactions and agreements:

(i) contracts listed in Annex II of *CRR* and credit derivatives;

(ii) repurchase transactions, securities or commodities lending or borrowing transactions based on securities or commodities;

(iii) margin lending transactions based on securities or commodities;

(iv) long settlement transactions.

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3A. The standardised total risk exposure amount shall be calculated as the sum of points (a) to (f) of paragraph 3:

(a) after having taken into account paragraph 4; and

(b) calculated without using any of the following approaches or as if permission to use the following approaches has not been granted:

(i) the *SFT VaR Method*;

(ii) the *IRB Approach* provided for in the Credit Risk: Internal Ratings Based Approach (CRR) Part except that, where permission to use the Internal Ratings Based Approach has been given, exposures for which a credit assessment by a nominated ECAI is not available and are not covered by paragraph 11 of Credit Risk: Standardised Approach (CRR) Part Article 122 may be assigned the risk weights set out in points (a) or (b), as applicable, of paragraph 8 of Credit Risk: Standardised Approach (CRR) Part Article 122;

(iii) the Securitisation Internal Ratings Based Approach set out in Articles 258 to 260 of *CRR* and the Internal Assessment Approach set out in Article 265 of *CRR*;

(iv) the Internal Model Method approach set out in Section 6 of Chapter 6 of Title II of Part Three of *CRR*;

(v) the internal model approaches set out in Market Risk: Internal Model Approach (CRR) Part 1.1 or 4.2.

4. The following provisions shall apply to the calculations of the total un-floored risk exposure amount referred to in paragraph 3 and of the standardised risk exposure amount referred to in paragraph 3A:

(a) the own funds requirements referred to in points (c), (ca), (d) and (e) of paragraph 3 shall include those arising from all the business activities of an institution;

(b) an institution shall multiply the own funds requirements set out in points (b) to (e) of paragraph 3 by 12.5.

5. When calculating TREA for the purposes of paragraph 2A(a), an institution or *CRR consolidation entity* may apply the following factor *x* during the periods specified below:

(a) 60% during the period from 1 January 2027 to 31 December 2027;

(b) 65% during the period from 1 January 2028 to 31 December 2028;

(c) 70% during the period from 1 January 2029 to 31 December 2029.

[Note: This rule corresponds to Article 92 of *CRR* as it applied immediately before revocation by the *Treasury*]

## 5 PERMISSION

5.1 An institution or *CRR consolidation entity*, other than a *ring-fenced body*, may, with the prior permission of the *PRA*, use the *international subsidiary approach* if it can demonstrate to the satisfaction of the *PRA* that:

(a) the institution or *CRR consolidation entity* is part of *a third country banking and investment group*;

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(b) the *third country banking and investment group* (including the institution or *CRR consolidation entity*) is subject to consolidated supervision;

(c) the institution or *CRR consolidation entity* that is part of the *third country banking and investment group* has been granted permission to use one or more of the approaches listed under paragraph 3A of Article 92; and

(d) the central government, central bank, competent authority or other appropriate authority, in the jurisdiction undertaking the consolidated supervision, has made specific and public proposals to implement the output floor as it is described in the document issued by the Basel Committee on Banking Supervision's titled 'Basel III: Finalising post-crisis reforms' (2017).

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

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**Annex C**

**Credit Risk: General Provisions (CRR) Part**

In this Annex all text is new and is not underlined.

**Part**

# CREDIT RISK: GENERAL PROVISIONS (CRR) PART

**Chapter content**

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. CREDIT RISK GENERAL PROVISIONS
   - ARTICLE 107 APPROACHES TO CREDIT RISK
   - ARTICLE 108 USE OF CREDIT RISK MITIGATION TECHNIQUES UNDER THE STANDARDISED APPROACH AND THE IRB APPROACH
   - ARTICLE 109 TREATMENT OF SECURITISATION POSITIONS
   - ARTICLE 110 TREATMENT OF CREDIT RISK ADJUSTMENTS
4. TRANSITIONAL PROVISIONS

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a firm that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definition shall apply:

*IRB equities and CIU transition period*

means the three year period beginning with 1 January 2027 and ending with 31 December 2029.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: This rule sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]

**Organisational structure and control mechanisms**

2.7 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

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2.8 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 2.8 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 3 CREDIT RISK GENERAL PROVISIONS

### Article 107 APPROACHES TO CREDIT RISK

1. Institutions shall apply either the *Standardised Approach* provided for in Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* or, if permitted by the *PRA* in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part 1.1 and 1.2 and paragraphs 1 and 2A of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 143, the *IRB Approach* to calculate their risk-weighted exposure amounts for the purposes of points (a) and (f) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92.

2. For trade exposures and for default fund contributions to a central counterparty, institutions shall apply the treatment set out in Section 9 of Chapter 3 of Counterparty Credit Risk (CRR) Part to calculate their risk-weighted exposure amounts for the purposes of points (a) and (f) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92. For all other types of exposures to a central counterparty, institutions shall treat those exposures as follows:

   (a) as exposures to an institution for other types of exposures to a qualifying CCP;

   (b) as exposures to a corporate for other types of exposures to a non-qualifying CCP.

3. [Note: Provision not in *PRA* Rulebook]

4. [Note: Provision not in *PRA* Rulebook]

[Note: This rule corresponds to Articles 107(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 108 USE OF CREDIT RISK MITIGATION TECHNIQUES UNDER THE STANDARDISED APPROACH AND THE IRB APPROACH

1. An institution may take into account credit risk mitigation in accordance with Credit Risk Mitigation (CRR) Part Article 191A.

[Note: This rule and Credit Risk Mitigation (CRR) Part Article 191A correspond to Article 108 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 109 TREATMENT OF SECURITISATION POSITIONS

[Note: Provision not in *PRA* Rulebook]

### Article 110 TREATMENT OF CREDIT RISK ADJUSTMENTS

1. An institution applying the *Standardised Approach* shall treat general credit risk adjustments in accordance with point (c) of Own Funds (CRR) Part Article 62.

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2. An institution applying the *IRB Approach* shall treat general credit risk adjustments in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 159, and point (d) of paragraph 1 of Article 36 and point (d) of Article 62 of Own Funds (CRR) Part. For the purposes of this Article, Credit Risk: Standardised Approach (CRR) Part and Credit Risk: Internal Ratings Based Approach (CRR) Part, general and specific credit risk adjustments shall exclude funds for general banking risk.

3. Institutions using the *IRB Approach* that apply the *Standardised Approach* for a part of their exposures on a consolidated or individual basis, in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 148 and 150, shall determine the part of general credit risk adjustments that shall be assigned to the treatment of general credit risk adjustments under the *Standardised Approach* and to the treatment of general credit risk adjustments under the *IRB Approach* as follows:

   (a) where applicable, when an institution included in the consolidation exclusively applies the *IRB Approach*, general credit risk adjustments of this institution shall be assigned to the treatment set out in paragraph 2;

   (b) where applicable, when an institution included in the consolidation exclusively applies the *Standardised Approach*, general credit risk adjustments of this institution shall be assigned to the treatment set out in paragraph 1; and

   (c) the remainder of credit risk adjustments shall be assigned on a pro rata basis according to the proportion of risk-weighted exposure amounts subject to the *Standardised Approach* and subject to the *IRB Approach*.

3A. For the purposes of paragraph 3, institutions using the *IRB Approach*, and taking into account credit risk mitigation using the *Risk-Weight Substitution Method*, shall treat the covered part of an exposure, calculated in accordance with Credit Risk Mitigation (CRR) Part Article 235, as if it was subject to the *Standardised Approach*.

4. [Note: Provision not in *PRA* Rulebook]

[Note: This rule corresponds to Article 110(1) to (3) of *CRR* as it applied immediately before revocation by the *Treasury*]

## 4 TRANSITIONAL PROVISIONS

**Standardised Transitional Approach: equities**

4.1 4.2 and 4.3 only apply to an institution that did not have permission to use the Internal Ratings Based Approach under Article 143 of *CRR* on 31 December 2026.

4.2 This rule modifies paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 133 for a transitional period beginning with 1 January 2027 and ending with 31 December 2029, in which *equity exposures* that are not *higher risk equity exposures* or within the scope of paragraph 6 of Credit Risk: Standardised Approach (CRR) Part Article 133 shall be assigned the following risk weights:

   (1) 160% during the period beginning with 1 January 2027 and ending with 31 December 2027;

   (2) 190% during the period beginning with 1 January 2028 and ending with 31 December 2028; and

   (3) 220% during the period beginning with 1 January 2029 and ending with 31 December 2029.

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4.3 This rule modifies paragraph 4 of Credit Risk: Standardised Approach (CRR) Part Article 133 for a transitional period between 1 January 2027 and 31 December 2029, in which *equity exposures* that are *higher risk equity exposures* and are not within scope of paragraph 6 of Credit Risk: Standardised Approach (CRR) Part Article 133 shall be assigned the following risk weights:

(1) 220% during the period beginning with 1 January 2027 and ending with 31 December 2027;

(2) 280% during the period beginning with 1 January 2028 and ending with 31 December 2028; and

(3) 340% during the period beginning with 1 January 2029 and ending with 31 December 2029.

**IRB Transitional Approach: equities and CIUs**

4.4 During the *IRB equities and CIU transition period*, 4.5 to 4.6 apply by way of derogation from the treatment laid down in paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 133 to an institution which, on 31 December 2026, had permission to apply the Internal Ratings Based Approach under Article 143 of *CRR*.

4.5 Subject to 4.9, an institution shall:

(1) apply the approaches in 4.2 and 4.3 for *equity exposures* for which, on 31 December 2026, the institution had permission to apply the Standardised Approach under Article 148 of *CRR* or Article 150 of *CRR*; and

(2) apply the approach in 4.6 for *equity exposures* for which, on 31 December 2026, the institution had permission to apply the Internal Ratings Based Approach under Article 143 of *CRR*.

4.6 Subject to 4.9, an institution shall calculate the risk weight for each *equity exposure* as the higher of:

(1) the risk weight calculated using the relevant methodology used by the institution as specified in its permission to use the Internal Ratings Based Approach under Article 155 of *CRR* as that provision was in force on 31 December 2026; and

(2) the risk weight calculated under 4.2 or 4.3.

4.7 During the *IRB equities and CIU transition period*, 4.8 applies by way of derogation from the treatment laid down in Credit Risk: Standardised Approach (CRR) Part Article 132A and Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152 to an institution which, on 31 December 2026, had permission to apply the Internal Ratings Based Approach under Article 143 of *CRR*.

4.8 Subject to 4.9, an institution which calculates risk weights of CIUs using:

(1) the look-through approach in paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 132A or paragraph 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152; or

(2) the mandate-based approach in paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 132A or paragraph 5 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152,

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shall assign a risk weight to each underlying exposure in the CIUs to which the institution would have applied the simple risk weight approach in accordance with point (a) of paragraph 4 of Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part Article 152, as that provision was in force before 1 January 2027, by using the higher of:

(3) the risk weight that would have applied to the underlying exposure under the simple risk weight approach set out in Article 155(2) of *CRR,* as that provision was in force before 1 January 2027; and

(4) the risk weight calculated under 4.2 or 4.3.

4.9 Subject to 4.10, instead of using the alternative approaches set out in 4.5, 4.6 and 4.8, an institution may choose to calculate both:

(1) risk weights for *equity exposures* in accordance with Credit Risk: Standardised Approach (CRR) Part Article 133, instead of in accordance with the two approaches set out in 4.5 and 4.6; and

(2) risk weights of exposures underlying CIUs within the scope of 4.8(1) and 4.8(2) in accordance with:

(a) if the institution has an *IRB Permission*, Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152;

(b) if the institution does not have an *IRB Permission*, Credit Risk: Standardised Approach (CRR) Part Article 132A.

4.10 An institution shall give the *PRA* prior notice of its use of the approaches in 4.9. Once an institution uses the approach in 4.9 it shall not use the approaches in 4.5 to 4.8.

**Unfunded Credit Protection Transitional**

4.11 During the period beginning with 1 January 2027 and ending with 30 June 2028, point (b) of paragraph 1A of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 183 and point (c)(i) of paragraph 1 of Credit Risk Mitigation (CRR) Part Article 213 shall apply to unfunded credit protection entered into prior to 1 January 2027 with the words ‘or change’ wherever they appear omitted.

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**Annex D**

**Credit Risk: Standardised Approach (CRR) Part**

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

**Part**

# CREDIT RISK: STANDARDISED APPROACH (CRR)

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2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. STANDARDISED APPROACH

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ARTICLE 111 EXPOSURE VALUE
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ARTICLE 124F RISK WEIGHTS FOR REGULATORY RESIDENTIAL REAL ESTATE EXPOSURES THAT ARE NOT MATERIALLY DEPENDENT ON THE CASH-FLOWS GENERATED BY THE PROPERTY
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**CHAPTER 2 (STANDARDISED APPROACH) OF TITLE II OF PART THREE OF THE CRR**

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

*commercial real estate exposure*

means a *real estate exposure* that is not an *ADC exposure* and that is secured by *commercial real estate* and is not secured by *residential real estate*.

*defaulted exposure*

means an exposure where the obligor or facility, as applicable, has defaulted in the circumstances set out in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 178 save that, for the purposes of this Part, a reference in that Article to a 'retail exposure' shall mean an exposure which is either:

(1) a *retail exposure*; or

(2) a *real estate exposure* that is not an *ADC exposure* and that would meet the qualifying conditions for a *retail exposure* if Article 123(2) was disapplied.

*financial hedge*

means a situation where the obligor has entered into a financial instrument, which has the purpose and effect of offsetting the foreign exchange risk resulting from a mismatch between the currency of the obligor's income and the lending currency.

*first charge*

means a *charge* affecting the land in question:

(1) ranking in priority ahead of all other *charges*, if any; or

(2) ranking in equal priority with one or more other *charges* which, together with the *charge*, rank in priority ahead of all other *charges*, if any.

*junior charge*

means a *charge* ranking in priority behind at least one other *charge* affecting the land in question.

*mixed real estate exposure*

means a *real estate exposure* that is not an *ADC exposure* and that is secured by both *residential real estate* and *commercial real estate*.

*natural hedge*

means a situation where:

(1) in the ordinary course of an obligor's business or activities, it receives income in a foreign currency that matches the lending currency; or

(2) an obligor holds assets:

(a) denominated in the lending currency;

(b) that are freely available to the obligor to re-pay the next instalment of the relevant exposure, and for these purposes assets shall be considered freely

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available even if they are pledged as collateral or otherwise used as security provided the collateral or security, as the case may be, can be sold or otherwise realised in a timely manner to repay the next instalment;

(c) that can be sold or otherwise realised:

(i) as part of the normal operating procedures of the obligor; and

(ii) in a timely way to make full payment when due and in the currency of the next instalment of the relevant exposure; and

(d) that are a type of asset or collateral listed in Credit Risk Mitigation (CRR) Part Articles 197 and 198 as an item of eligible collateral for use under the *Financial Collateral Comprehensive Method*.

*Northern Ireland Executive*

means the Executive Committee referred to in section 20(1) of the Northern Ireland Act 1998.

*other real estate exposure*

means a *real estate exposure* that is not a *regulatory real estate exposure* or an *ADC exposure*.

*regulatory commercial real estate exposure*

means a *commercial real estate exposure* that meets the requirements in Article 124A.

*relevant CIU*

means a CIU:

(1) that is managed by a company which is registered in a *third country*; and

(2) for which an institution applies the look-through approach in accordance with Article 132A(1) or the mandate-based approach in accordance with Article 132A(2) to calculate the risk-weighted exposure amount for their exposures in the form of units or shares in the CIU.

*retail exposure*

means an exposure which meets the requirements in Article 123(1) and (2).

*Scottish Government*

means the Scottish Government referred to in section 44(1) of the Scotland Act 1998.

*self-build exposure*

means a *residential real estate exposure* secured by property or land that has been acquired or held for development and construction purposes and that meets the following criteria:

(1) the property does not, or will not, have more than four residential housing units; and

(2) the property will be the borrower's primary residence.

*vehicle financing arrangement*

means a loan, lease or other finance arrangement in respect of vehicle classes AM, A1, A2, A and B and B1 as specified in Parts 1 and 3 of Schedule 2 of The Motor Vehicles (Driving Licenses) Regulations 1999, provided that such arrangement does not qualify as an *object finance exposure* for the purposes of Articles 122A and 122B.

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*Welsh Government*

means the Welsh Government referred to in section 45(1) of the Government of Wales Act 2006.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: This rule sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]

~~[Note: Provision left blank]~~

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

3.2 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

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~~[Note: Provision left blank]~~

## 4 STANDARDISED APPROACH

### SECTION 1 GENERAL PRINCIPLES

#### Article 110A DUE DILIGENCE

1. This Article applies to an institution subject to the *Standardised Approach* to credit risk set out in this Part.

2. An institution shall perform due diligence to ensure that it has an adequate understanding of the risk profile, creditworthiness and characteristics of exposures to individual obligors and at a portfolio level.

3. The sophistication of the due diligence undertaken by the institution in accordance with paragraph 2 shall be appropriate to the nature, scale and complexity of the institution's activities.

4. As part of its obligations under paragraph 2, an institution shall:

   (a) take reasonable and adequate steps to assess the operating and financial condition of each obligor;

   (b) ensure that it has in place effective internal policies, processes, systems and controls to ensure that the appropriate risk-weighted exposure amounts are assigned to an obligor;

   (c) perform the due diligence prior to incurring an exposure to an obligor and at least annually thereafter;

   (d) to the extent reasonably practicable, perform the due diligence at the level of each individual exposure; and

   (e) if applicable, take into account the extent to which membership of a corporate group affects an obligor's risk profile and credit worthiness.

5. The obligations in paragraph 2 do not apply in respect of exposures in scope of:

   (a) points (a) to (c) of Article 112(1);

   (b) Article 117(2); and

   (c) Article 118(1).

#### Article 111 EXPOSURE VALUE

1. The exposure value of:

   (a) an asset item shall be its accounting value remaining after specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014), additional value adjustments in accordance with Own Funds (CRR) Part Article 34 and Trading Book (CRR) Part Article 105 and own funds reductions related to the asset item have been applied;

   (b) subject to point (c), an off-balance sheet item listed in Column A of Table A1 shall be the product of:

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(i) its nominal value after reduction of specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014); and

(ii) the applicable conversion factor (the percentage specified in the corresponding row of Column B);

(c) a *commitment* to issue an off-balance sheet item listed in Table A1 shall be calculated in accordance with point (b) of paragraph 1, but using the lower of:

(i) the percentage specified in Column B that is applicable to the off-balance sheet item on which the *commitment* is made; and

(ii) the percentage specified in Column B that is applicable to the type of *commitment*,

instead of the percentage specified in point (b)(ii) of paragraph 1.

Table A1

| **Column A: Issued off-balance sheet items and *commitments*** | **Column B: Applicable conversion factor** |
|---|---|
| (1) The following issued off-balance sheet items:<br>(a) financial guarantees having the character of credit substitutes, (including guarantees for the good payment of credit facilities);<br>(b) credit derivatives;<br>(c) acceptances;<br>(d) endorsements on bills not bearing the name of another institution or investment firm;<br>(e) irrevocable standby letters of credit having the character of credit substitutes; and<br>(f) any other issued off-balance sheet items that have the character of credit substitutes.<br>(2) The following types of *commitment*:<br>(a) transactions with recourse (including factoring and invoice discount facilities);<br>(b) assets purchased under outright forward purchase agreements;<br>(c) asset sale and repurchase agreements:<br>(i) including agreements where the transferee is merely entitled to return the assets at the purchase price or for a | 100% |

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| different amount agreed in advance on a date specified or to be specified; and<br>(ii) excluding agreements where the transferor is not entitled to show in their balance sheets the assets transferred;<br>(d) forward deposits;<br>(e) the unpaid portion of partly-paid shares and securities; and<br>(f) other *commitments* that have similar economic substance as the types of *commitments* in points (a) to (e), in particular with regard to having certain drawdowns. | |
| (3) Other issued off-balance sheet items that do not have the character of credit substitutes.<br>(4) The following *commitments*:<br>(a) note issuance facilities and revolving underwriting facilities; and<br>(b) *UK* residential mortgage *commitments* that are not subject to a conversion factor of 10% or 100%. | 50% |
| (5) Any other *commitment* that is not subject to a conversion factor of 10%, 50% or 100%. | 40% |
| (6) The following issued off-balance sheet items:<br>(a) documentary credits issued or confirmed and other self-liquidating transactions;<br>(b) warranties, tender bonds, performance bonds, advance payment guarantees, retention guarantees, and guarantees not having the character of credit substitutes;<br>(c) irrevocable standby letters of credit not having the character of credit substitutes; and<br>(d) shipping guarantees, customs and tax bonds.<br>Items (a) to (c) that are trade finance shall be considered trade finance off-balance sheet related products for the | 20% |

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| | |
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| purpose of Liquidity (CRR) Part Articles 428s and 428ra. | |
| (7) Undrawn *commitments* which may be cancelled unconditionally at any time without notice, or that effectively provide for automatic cancellation due to a deterioration in an obligor's creditworthiness. Retail credit lines may be considered as unconditionally cancellable if the terms permit the institution to cancel them to the full extent allowable under the applicable consumer protection and related legislation. | 10% |

[Note: Column A of Table A1 corresponds to Annex I of *CRR* as it applied immediately before revocation by the *Treasury*]

1A. Unless otherwise determined by paragraph 2A, where an exposure takes the form of securities or commodities sold, posted, or lent under securities financing transactions or long settlement transactions, the institution shall use the exposure value of the securities or commodities determined in accordance with Article 24 of *CRR*, reduced by any specific credit risk adjustments relating to the securities or commodities. When the institution uses the *Financial Collateral Comprehensive Method* in accordance with Credit Risk Mitigation (CRR) Part Article 223, such exposure value shall be increased by the volatility adjustment appropriate to such securities or commodities as prescribed in Credit Risk Mitigation (CRR) Part Articles 223 to 224.

2. The exposure value of a derivative instrument listed in Annex II of *CRR* shall be determined in accordance with Chapter 6 of Title II of Part Three of *CRR* and Sections 3 to 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part.

2A. An institution that takes into account credit risk mitigation techniques in calculating the exposure value of securities financing transactions and long settlement transactions shall calculate such exposure values consistently with Credit Risk Mitigation (CRR) Part Article 191A in accordance with either Chapter 6 of Title II of Part Three of *CRR* and Chapter 3 of Counterparty Credit Risk (CRR) Part, or Chapter 3 of Credit Risk Mitigation (CRR) Part; provided that where the institution takes into account a master netting agreement in relation to a set of securities financing transactions, it shall calculate the exposure value for all transactions covered by that master netting agreement as a single exposure value at netting set level.

3. Where an exposure not in scope of paragraph 2 or 2A is subject to funded credit protection, the exposure value applicable to that item may be amended in accordance with the Credit Risk Mitigation (CRR) Part.

[Note: This rule (other than column A of Table A1) corresponds to Article 111 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 112 EXPOSURE CLASSES**

1. Each exposure shall be assigned to one of the following exposure classes in accordance with paragraph 2:

(a) exposures to central governments or central banks;

(b) exposures to regional governments or local authorities;

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(c) exposures to public sector entities;

(d) exposures to multilateral development banks;

(e) exposures to international organisations;

(f) exposures to institutions;

(g) exposures to corporates;

(h) retail exposures;

(i) real estate exposures;

(j) exposures in default;

(k) exposures associated with particularly high risk;

(l) exposures in the form of eligible covered bonds;

(m) items representing securitisation positions;

(n) [Note: Provision left blank]

(o) exposures in the form of units or shares in collective investment undertakings ('CIUs');

(p) subordinated debt, equity and other own funds instruments;

(q) other items.

[Note: This rule corresponds to Article 112 of *CRR* as it applied immediately before revocation by the *Treasury*]

2. An institution shall assign exposures to the exposure classes listed in Column A of Table A2 according to the criteria in the corresponding row of Column B of Table A2. Where an exposure meets the criteria for more than one exposure class it shall be assigned to the exposure class that has the highest position in Table A2.

Table A2

| | **Column A: Exposure Class** | **Column B: Criteria** |
|---|---|---|
| (1) | Items representing securitisation positions (point (m) of paragraph 1). | Exposures to securitisation positions for which a risk-weight treatment is set out in Chapter 5 of Title II of Part Three of *CRR*. |
| (2) | Exposures in the form of units or shares in collective investment undertakings ('CIUs') (point (o) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Articles 132 to 132C other than exposures excluded in accordance with Article 132B. |
| (3) | Subordinated debt, equity and other own funds instruments (point (p) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 133, paragraph 3 of Own Funds (CRR) Part Article 89 or, for exposures that are not deferred tax assets, paragraph 4 of Own Funds (CRR) Part Article 48. |
| (4) | Exposures associated with particularly | Exposures for which a risk-weight treatment |

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| | | |
|---|---|---|
| | high risk (point (k) of paragraph 1). | is set out in Article 128. |
| (5) | Exposures in default (point (j) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 127. |
| (6) | Exposures in the form of eligible covered bonds (point (l) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 129. |
| (7) | Real estate exposures (point (i) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Articles 124 to 124L. |
| (8) | Exposures to international organisations (point (e) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 118. |
| (9) | Exposures to multilateral development banks (point (d) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 117. |
| (10) | Exposures to institutions (point (f) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Articles 119 to 121 or Article 119(5) of *CRR*. |
| (11) | Exposures to central governments or central banks (point (a) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 114, Article 115(2), Article 137(2), Article 114(7) of *CRR*, Article 115(4) of *CRR* or, for exposures that are deferred tax assets, paragraph 4 of Own Funds (CRR) Part Article 48. |
| (12) | Exposures to regional governments or local authorities (point (b) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 115. |
| (13) | Exposures to public sector entities (point (c) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 116 or Article 116(5) of *CRR*. |
| (14) | Retail exposures (point (h) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Articles 123 or 123A. |
| (15) | Exposures to corporates (point (g) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Articles 122 to 122B. |
| (16) | Other items (point (q) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Articles 113(5) or 134. |

**Article 113 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS**

1. Subject to paragraph 6, to calculate risk-weighted exposure amounts, risk weights shall be applied to all exposures, unless deducted from own funds, in accordance with the provisions of Articles 114 to 134, Article 137(2), Articles 48(4) and 89(3) of Own Funds (CRR) Part and Section 2 of Chapter 2 of Title II of Part Three of *CRR*. The application of risk weights shall be based on the exposure class to which the exposure is assigned and, to the extent specified in Articles 114 to 134 and Article 137(2), its credit quality. Where applicable, credit quality shall be determined by reference to the credit assessments of ECAIs or the credit assessments of export credit agencies in accordance with Articles 135 to 141.

2. For the purposes of applying a risk weight, as referred to in paragraph 1, the exposure value shall be multiplied by the risk weight specified or determined in accordance with Articles 114 to 134, Article 137(2), Articles 48(4) and 89(3) of Own Funds (CRR) Part and Section 2 of Chapter 2 of Title II of Part Three of *CRR*.

3. Where an exposure is subject to credit protection the risk weight applicable to that item may be amended in accordance with the Credit Risk Mitigation (CRR) Part.

4. Risk-weighted exposure amounts for securitised exposures shall be calculated in accordance with Chapter 5 of Title II of Part Three of *CRR*.

5. Exposures for which no calculation is provided in Articles 114 to 134, Article 137(2), Articles 48(4) and 89(3) of Own Funds (CRR) Part and Section 2 of Chapter 2 of Title II of Part Three of *CRR* shall be assigned a risk weight of 100%.

6. With the exception of exposures giving rise to Common Equity Tier 1, Additional Tier 1 or Tier 2 items, an institution may with the prior permission of the *PRA*, assign a risk weight of 0% 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 common management relationship, to the extent and subject to any modifications set out in the permission. When applying for such permission, an institution shall demonstrate to the satisfaction of the *PRA* that:

   (a) the counterparty is an institution, a financial institution or an ancillary services undertaking subject to appropriate prudential requirements;

   (b) the counterparty is included in the same consolidation as the institution on a full basis;

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

   (d) the counterparty is established in the *UK*; and

   (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.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

7. An institution that has been granted permission in accordance with paragraph 6 shall comply with requirements in points (a) to (e) of paragraph 6.

[Note: This rule corresponds to Article 113 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 2 RISK WEIGHTS

### Article 114 EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS

1. Exposures to central governments or central banks shall be assigned a 100% risk weight, unless any of the treatments set out in the following provisions apply:

   (a) paragraphs 2 to 4 and Article 137(2);

   (b) Article 114(7) of *CRR*; or

   (c) paragraph 4 of Own Funds (CRR) Part Article 48.

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2. Exposures to central governments or central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 1 which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

Table 1

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 0% | 20% | 50% | 100% | 100% | 150% |

2A. Exposures to a central bank for which a credit assessment by a nominated ECAI is not available shall be treated in accordance with paragraph 2 if a credit assessment by a nominated ECAI is available for the central government of the jurisdiction of the central bank. In this case, the central government's credit assessment shall be used to determine the risk weight for exposures to the central bank.

3. Exposures to the European Central Bank shall be assigned a 0% risk weight.

4. Exposures to the central government of the *UK* and the *Bank of England* denominated and funded in sterling shall be assigned a risk weight of 0%.

5. [Note: Provision left blank]

6. [Note: Provision left blank]

7. [Note: Provision not in *PRA* Rulebook]

[Note: This rule corresponds to Article 114(1) to (4) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 115 EXPOSURES TO REGIONAL GOVERNMENTS OR LOCAL AUTHORITIES**

1. Unless they are treated as exposures to central governments under paragraph 2, fall within scope of Article 115(4) of *CRR* or receive a risk weight as specified in paragraph 5, exposures to regional governments or local authorities shall be assigned risk weights as follows:

(a) where a credit assessment by a nominated ECAI is not available for the exposure to the regional government or local authority:

(i) the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 1A which corresponds to a credit assessment for which exposures to the central government of the jurisdiction in which the regional government or local authority is based as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016, where a credit assessment by a nominated ECAI is available for that central government; or

(ii) the exposure shall be assigned a risk weight of 100% where a credit assessment by a nominated ECAI is not available for the central government of the jurisdiction in which the regional government or local authority is based.

Table 1A

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| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 100% | 100% | 100% | 150% |

(b) in respect of exposures for which a credit assessment by a nominated ECAI is available, the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 1B which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016:

Table 1B

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 50% | 100% | 100% | 150% |

2. Exposures to the following regional governments:

(a) the *Scottish Government*;

(b) the *Welsh Government*; and

(c) the *Northern Ireland Executive*,

shall be treated as exposures to the central government of the *UK* and assigned a risk weight in accordance with Article 114.

3. Exposures to churches or religious communities constituted in the form of a legal person under public law shall, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as exposures to regional governments or local authorities.

4. [Note: Provision not in *PRA* Rulebook]

5. Exposures to regional governments or local authorities of the *UK* that are not referred to in paragraphs 2 or 3 and are denominated and funded in sterling shall be assigned a risk weight of 20%.

[Note: This rule corresponds to Articles 115(1) to (3) and (5) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 116 EXPOSURES TO PUBLIC SECTOR ENTITIES**

1. Subject to paragraphs 3 and 3A, in respect of exposures to *UK* public sector entities for which a credit assessment by a nominated ECAI is not available:

(a) the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 2 which corresponds to a credit assessment for the central government of the *UK* as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016, where a credit assessment by a nominated ECAI is available for the central government of the *UK*; or

(b) the exposure shall be assigned a risk weight of 100% where a credit assessment by a nominated ECAI is not available for the central government of the *UK*.

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Table 2

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 100% | 100% | 100% | 150% |

2. Subject to paragraphs 3 and 3A, exposures to *UK* public sector entities for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in the following Table 2A which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016:

Table 2A

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 50% | 100% | 100% | 150% |

3. For exposures to *UK* public sector entities with an original maturity of three *months* or less, the risk weight shall be 20%.

3A. For the purpose of Article 116(5) of *CRR*, the references in paragraphs 1 and 2 to:

(a) the central government of the *UK* means the central government of the jurisdiction in which the *third country* public sector entity is based; and

(b) *UK* public sector entities means *third country* public sector entities.

4. [Note: Provision left blank]

5. [Note: Provision not in *PRA* Rulebook]

[Note: This rule corresponds to Articles 116(1) to (3) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 117 EXPOSURES TO MULTILATERAL DEVELOPMENT BANKS**

1. Exposures to *multilateral development banks* that are not referred to in paragraph 2 shall be assigned risk weights in accordance with the following provisions:

(a) exposures to a *multilateral development bank* for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 2B which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016:

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Table 2B

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 30% | 50% | 100% | 100% | 150% |

(b) exposures to a *multilateral development bank* for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight of 50%.

2. Exposures to the following *multilateral development banks* shall be assigned a 0% risk weight:

(a) the International Bank for Reconstruction and Development;

(b) the International Finance Corporation;

(c) the Inter-American Development Bank;

(d) the Asian Development Bank;

(e) the African Development Bank;

(f) the Council of Europe Development Bank;

(g) the Nordic Investment Bank;

(h) the Caribbean Development Bank;

(i) the European Bank for Reconstruction and Development;

(j) the European Investment Bank;

(k) the European Investment Fund;

(l) the Multilateral Investment Guarantee Agency;

(m) the International Finance Facility for Immunisation;

(n) the Islamic Development Bank;

(o) the International Development Association; and

(p) the Asian Infrastructure Investment Bank.

[Note: This rule corresponds to Article 117 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 118 EXPOSURES TO INTERNATIONAL ORGANISATIONS**

1. Exposures to the following international organisations shall be assigned a 0% risk weight:

(a) the European Union;

(b) the International Monetary Fund;

(c) the Bank for International Settlements;

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(d) the European Financial Stability Facility; and

(e) the European Stability Mechanism.

[Note: This rule corresponds to Article 118 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 119 EXPOSURES TO INSTITUTIONS**

1. Exposures to institutions for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Article 120.

1A. Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight in accordance with Article 121.

2. [Note: Provision left blank]

3. [Note: Provision left blank]

4. [Note: Provision left blank]

5. [Note: Provision not in *PRA* Rulebook]

6. [Note: Provision not in *PRA* Rulebook]

[Note: This rule corresponds to Article 119(1) of *CRR* as it applied immediately before revocation by the *Treasury*]

**ARTICLE 120 EXPOSURES TO RATED INSTITUTIONS**

1. Subject to paragraph 2A, exposures to institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was more than three *months* shall be assigned a risk weight in accordance with the credit quality step in Table 3 which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

Table 3

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 30% | 50% | 100% | 100% | 150% |

2. Subject to paragraph 3, exposures to institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was three *months* or less shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

2A. Subject to paragraph 3, exposures to institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was six *months* or less and the exposure arose from the movement of goods shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

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Table 4

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 20% | 20% | 50% | 50% | 150% |

2B. Subject to paragraph 3, exposures to institutions for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 4A which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

Table 4A

| **Credit quality step** | 1 | 2 | 3 | Others |
|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 100% | 150% |

3. The interaction between the treatment of exposures under paragraph 2B and the general preferential treatment for short-term exposures set out in paragraphs 2 or 2A shall be as follows:

(a) if there is no short-term credit assessment, the general preferential treatment for short-term exposures as specified in paragraphs 2 or 2A shall apply;

(b) if there is a short-term credit assessment and such an assessment determines the application of a more favourable or identical risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraphs 2 or 2A, then the treatment as specified in paragraph 2B shall be used for that specific exposure only. Other short-term exposures shall be subject to the general preferential treatment for short-term exposures, as specified in paragraphs 2 or 2A; or

(c) if there is a short-term credit assessment and such an assessment determines a less favourable risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraphs 2 or 2A, then the general preferential treatment for short-term exposures shall not be used and all unrated short-term claims against that obligor shall be assigned the same risk weight as that determined by the specific short-term assessment.

4. An institution shall conduct due diligence to ensure that the external credit assessments appropriately and prudently reflect the risk of the exposure to which the institution is exposed. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the institution shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

[Note: This rule corresponds to Article 120 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 121 EXPOSURES TO UNRATED INSTITUTIONS**

1. Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be classified as Grade A, Grade B or Grade C in accordance with the following principles:

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(a) where the counterparty institution has adequate capacity to meet their financial commitments in a timely manner for the projected life of the assets or exposures and its ability to do so is robust against adverse changes in the economic cycle and business conditions, it may be classified as Grade A. A counterparty institution classified as Grade A shall meet or exceed the published minimum financial regulatory requirements and buffers as implemented in the jurisdiction where it is incorporated, except for institution-specific minimum financial regulatory requirements or buffers that may be imposed through supervisory actions and not made public. If such minimum financial regulatory requirements and buffers (other than institution-specific minimum requirements or buffers) are not publicly disclosed or otherwise made available by the counterparty institution, the counterparty institution may not be classified as Grade A;

(b) where the counterparty institution is subject to substantial credit risk, such as when the counterparty's repayment capacity is dependent on stable or favourable economic or business conditions, it may not be classified as Grade A. A counterparty institution may be classified as Grade B provided it meets or exceeds the published minimum financial regulatory requirements (excluding buffers) established by its national supervisor as implemented in the jurisdiction where it is incorporated, except for institution-specific minimum financial regulatory requirements that may be imposed through supervisory actions and not made public. If such minimum financial regulatory requirements are not publicly disclosed or otherwise made available by the counterparty institution, the counterparty institution shall be classified as Grade C;

(c) where the counterparty institution has material default risks it shall be classified as Grade C. For this purpose, material default risks includes circumstances where adverse business, financial or economic conditions are very likely to lead, or have led, to an inability of the counterparty to meet its financial commitments. Counterparty institutions with any of the following characteristics shall be classified as Grade C:

(i) the counterparty institution does not meet the criteria for being classified as Grade B with respect to its published minimum regulatory requirements; or

(ii) where audited financial statements are required, the external auditor has issued an adverse audit opinion or has expressed substantial doubt about the counterparty institution's ability to continue as a going concern in its financial statements or audited reports within the previous 12 *months*.

1A. For the purposes of paragraph 1, where a counterparty institution is a *CRR firm* the references to minimum financial regulatory requirements include:

(a) the requirements in Required Level of Own Funds (CRR) Part Article 92;

(b) the additional own funds an institution is required to hold in accordance with regulation 34(1) of the *Capital Requirements Regulations*; and

(c) the minimum *leverage ratio* requirement referred to in Leverage Ratio – Capital Requirements and Buffers Part 3.1; and

the references to buffers include:

(d) the combined buffer defined in Capital Buffers Part 1.1;

(e) the *countercyclical leverage ratio buffer* referred to in Leverage Ratio – Capital Requirements and Buffers Part 4.1; and

(f) the additional leverage ratio buffer referred to in Leverage Ratio – Capital Requirements and Buffers Part 4A.1,

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in each case, if they apply to the relevant counterparty institution.

1B. For the purposes of classifying exposures to *third country* institutions for which a credit assessment by a nominated ECAI is not available in accordance with paragraph 1 or 5, an institution shall consider any local equivalent or additional regulatory requirements and buffers to those set out in paragraph 1A, in so far as they are published and required to be met by Common Equity Tier 1 capital, Tier 1 capital or other own funds.

2. Exposures to institutions for which a credit assessment by a nominated ECAI is not available where the original maturity of the exposure was more than three *months* shall be assigned a risk weight in accordance with Table 5.

Table 5

| **Credit quality step** | Grade A | Grade B | Grade C |
|---|---|---|---|
| **Risk weight** | 40% | 75% | 150% |

3. Exposures to institutions for which a credit assessment by a nominated ECAI is not available where the original maturity of the exposure was three *months* or less shall be assigned a risk weight in accordance with Table 5A.

4. Exposures to institutions for which a credit assessment by a nominated ECAI is not available, where the original maturity of the exposure was six *months* or less and the exposure arose from the movement of goods, shall be assigned a risk weight in accordance with Table 5A.

Table 5A

| **Credit quality step** | Grade A | Grade B | Grade C |
|---|---|---|---|
| **Risk weight** | 20% | 50% | 150% |

5. Notwithstanding paragraph 2, exposures to institutions for which a credit assessment by a nominated ECAI is not available may be assigned a risk weight of 30% if the original maturity of the exposure was more than three *months*, the exposure is classified as Grade A and the institution has:

(a) a Common Equity Tier 1 ratio which meets or exceeds 14%; and

(b) a *leverage ratio* which meets or exceeds 5%.

6. Notwithstanding paragraphs 2 to 5, the risk weight assigned to an exposure to an institution for which a credit assessment by a nominated ECAI is not available may not be less than the risk weight applicable to exposures to the central government of the jurisdiction where the institution is incorporated as set out in Article 114(1) and (2) if:

(a) the exposure:

(i) is not in the local currency of the jurisdiction of incorporation of the debtor institution; or

(ii) for a borrowing booked in a branch of the debtor institution in a foreign jurisdiction, is not in the local currency of the jurisdiction in which the branch operates; and

(b) the exposure is not a self-liquidating, trade-related contingent item arising from the movement of goods with an original maturity of less than one year.

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[Note: This rule corresponds to Article 121 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 122 EXPOSURES TO CORPORATES**

1. Exposures to corporates shall be assigned a risk weight in accordance with this Article unless they are a *retail exposure* or they are treated as a specialised lending exposure in accordance with Articles 122A and 122B.

2. Exposures to corporates for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 6 which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

Table 6

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 75% | 100% | 150% | 150% |

3. Exposures to corporates for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 6A which corresponds to the relevant credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

Table 6A

| **Credit quality step** | 1 | 2 | 3 | Others |
|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 100% | 150% |

4. Where a credit assessment by a nominated ECAI is available, an institution shall conduct due diligence to ensure that the external credit assessment appropriately and prudently reflects the risk of the exposure. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the institution shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

5. Subject to paragraph 11, exposures for which a credit assessment by a nominated ECAI is not available shall, unless the institution has permission to apply the approach in paragraph 6, be assigned a 100% risk weight.

6. Subject to paragraph 11, an institution shall assign the risk weights in (a) to (b) to exposures for which a credit assessment by a nominated ECAI is not available if it has obtained the prior permission from the *PRA* to use this approach. When applying for such permission, an institution shall demonstrate to the satisfaction of the *PRA* that it has sound, effective and comprehensive strategies, processes, systems and risk management practices that enable it to adequately identify and manage its sources of credit and counterparty risk.

   (a) Exposures to corporates which the institution has assessed as being investment grade shall be assigned a risk weight of 65%.

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(b) Exposures to corporates which the institution has assessed as not being investment grade shall be assigned a risk weight of 135%.

[Note: This is a permission under sections 144G and section 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

7. An institution that has been granted permission in accordance with paragraph 6 shall ensure it continues to have sound, effective and comprehensive strategies, processes, systems and risk management practices that enable it to adequately identify and manage its sources of credit and counterparty risk.

8. For the purposes of calculating the *output floor*, an institution with permission to use the *IRB Approach* shall, for exposures to which it applies the *IRB Approach* within the exposure class set out in point (g) of Article 112(1), subject to paragraph 11:

(a) assign a 100% risk weight to all exposures for which a credit assessment by a nominated ECAI is not available; or

(b) assign the risk weights in points (a) or (b) of paragraph 6 to all exposures for which a credit assessment by a nominated ECAI is not available. An institution that assigns, or ceases to assign, risk weights in accordance with this point (b) shall give notice to the *PRA*.

9. For the purposes of paragraph 6 and point (b) of paragraph 8, an institution shall not assess an exposure to a corporate entity as investment grade unless the entity:

(a) has, taking into account the complexity of its business model, performance against industry and peers, and risks posed by its operating environment, adequate capacity to meet its financial commitments in a timely manner and its ability to do so is robust against adverse changes in the economic cycle and business conditions; and

(b) provides the institution with sufficient information to allow the institution to adequately make the assessment in (a).

10. When making the assessment required by paragraph 6 and point (b) of paragraph 8, an institution shall take into account its own internal credit assessment system and grade exposures in accordance with that system.

11. An exposure to an *SME* that is not a *retail exposure* and for which a credit assessment by a nominated ECAI is not available, shall be assigned a risk weight of 85%.

[Note: This rule corresponds to Article 122 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 122A SPECIALISED LENDING EXPOSURES**

1. An institution shall treat a corporate exposure that is not a *real estate exposure* as a specialised lending exposure if it has all of the following characteristics, either in legal form or economic substance:

(a) the exposure is to an entity which was created specifically to finance and/or operate physical assets;

(b) the borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed;

(c) the terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and

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(d) as a result of points (a) to (c), the primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of a broader commercial enterprise.

2. An institution shall classify a specialised lending exposure as either an *object finance exposure*, a *commodities finance exposure* or a *project finance exposure* in accordance with their definitions.

**Article 122B RISK WEIGHTS FOR SPECIALISED LENDING EXPOSURES**

1. Where a relevant issue-specific credit assessment by a nominated ECAI is available for a specialised lending exposure, an institution shall apply the risk weight treatment set out in Article 122(2).

2. If paragraph 1 does not apply, an institution shall assign risk weights as follows:

(a) *object finance exposures* shall be assigned a risk weight of 100%;

(b) *commodities finance exposures* shall be assigned a risk weight of 100%;

(c) *project finance exposures* shall be assigned a risk weight of 130% during the pre-operational phase, and (subject to paragraph 4) 100% during the operational phase.

3. For the purpose of point (c) of paragraph 2 and paragraph 4, operational phase means the phase in which the entity that was created to finance the project has:

(a) a positive net cash-flow that is sufficient to cover any remaining contractual obligations relating to the completion of the project; and

(b) declining long-term debt.

4. Where a *project finance exposure* is in the operational phase and is considered high quality in accordance with the criteria in paragraph 5, an institution shall assign a risk weight of 80%.

5. A *project finance exposure* shall be considered high quality if:

(a) it is an exposure to an entity that is able to meet its financial commitments in a timely manner and its ability to do so is robust against adverse changes in the economic cycle and business conditions; and

(b) the following conditions are met:

(i) the entity is restricted from acting to the detriment of the creditors (including by not being able to issue additional debt without the consent of existing creditors);

(ii) the entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project;

(iii) the revenues are subject to a rate-of-return regulation or take-or-pay contract or are availability-based;

(iv) the entity's revenue depends on one main counterparty and this main counterparty is one of the following:

(1) a central bank, a central government, a regional government, a local authority, a public sector entity or a corporate entity which would be assigned a risk weight of 80% or lower under this Part and Chapter 2 of Title II of Part Three of *CRR*;

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(2) a *multilateral development bank* which would be assigned a risk weight of 0% under Article 117(2); or

(3) an international organisation which would be assigned a risk weight of 0% under Article 118(1);

(v) the contractual provisions governing the exposure to the entity provide for a high degree of protection for creditors in case of a default of the entity;

(vi) the main counterparty or other counterparties which are included in the scope of point (iv) will protect the creditors from the losses resulting from a termination of the project;

(vii) all assets and contracts necessary to operate the project have been pledged to the creditors to the extent permitted by applicable law; and

(viii) creditors may assume control of the entity in case of its default.

6. For the purposes of point (b)(iii) of paragraph 5, revenues are availability-based if:

(a) the entity is entitled to payments from its contractual counterparties once construction is completed, as long as contract conditions are fulfilled;

(b) the revenues are sized to cover operating and maintenance costs, debt service costs and equity returns as the entity operates the project; and

(c) the revenues are not subject to swings in demand, and are adjusted only for lack of performance or lack of availability of the asset to the public.

**Article 123 RETAIL EXPOSURES**

1. Subject to paragraph 2, an exposure shall be categorised as a *retail exposure* if it is either:

(a) an exposure to one or more natural persons and not an exposure to an *SME*; or

(b) an exposure to an *SME*, and the exposure meets all of the following conditions:

(i) the exposure takes the form of any of the following types of exposure, excluding derivatives, bonds, equities and other types of securities:

(1) *revolving facilities* (including but not limited to credit cards, charge cards and overdrafts);

(2) term loans and leases (including but not limited to instalment loans and *vehicle financing arrangements*); or

(3) *commitments* (excluding *commitments* to issue off-balance sheet items);

(ii) the total amount (including *defaulted exposures*) owed to the institution, its parent undertakings, its subsidiaries and subsidiaries of its parent undertakings by the obligor or group of connected clients, excluding all *residential real estate exposures*, does not exceed GBP 880,000; and

(iii) the exposure is one of a significant number of exposures with similar characteristics, such that the risks associated with such exposures are substantially reduced.

2. *Retail exposures* shall exclude *real estate exposures*.

3. Subject to paragraph 4, *retail exposures* shall be assigned the following risk weights:

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(a) *regulatory retail exposures* that are *transactor exposures* shall be assigned a risk weight of 45%;

(b) *regulatory retail exposures* that are not *transactor exposures* shall be assigned a risk weight of 75%; and

(c) all other *retail exposures* that do not qualify as *regulatory retail exposures* shall be assigned a risk weight of 100%.

4. *Retail exposures* arising due to loans granted by a credit institution to pensioners or employees with a permanent contract against the unconditional transfer of part of the borrower's pension or salary to that credit institution shall be assigned a risk weight of 35%, provided that all the following conditions are met:

(a) in order to repay the loan, the borrower unconditionally authorises the pension fund or employer to make direct payments to the credit institution by deducting the *monthly* payments on the loan from the borrower's *monthly* pension or salary;

(b) the risks of death, inability to work, unemployment or reduction of the net *monthly* pension or salary of the borrower are properly covered through an insurance policy underwritten by the borrower to the benefit of the credit institution;

(c) the *monthly* payments to be made by the borrower on all loans that meet the conditions set out in points (a) and (b) of this paragraph do not in aggregate exceed 20% of the borrower's net *monthly* pension or salary; and

(d) the maximum original maturity of the loan is equal to or less than 10 years.

[Note: This rule and Article 123A correspond to Article 123 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 123A REGULATORY RETAIL EXPOSURES**

1. A *retail exposure* qualifies as a *regulatory retail exposure* if it is either:

(a) a *retail exposure* to an *SME*; or

(b) a *retail exposure* to one or more natural persons that meets all of the following conditions:

(i) the exposure is not a derivative, bond, equity or other type of security and takes the form of a *revolving facility* (including but not limited to credit cards, charge cards and overdrafts), or a term loan or lease (including but not limited to instalment loans, *vehicle financing arrangements* and student and educational loans);

(ii) the total amount (including *defaulted exposures*) owed to the institution, its parent undertakings, its subsidiaries and subsidiaries of its parent undertakings by the obligor or group of connected clients, excluding all *residential real estate exposures*, does not exceed GBP 880,000;

(iii) the exposure is one of a significant number of exposures with similar characteristics such that the risks associated with such exposures are substantially reduced.

[Note: This rule and Article 123 correspond to Article 123 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 123B RETAIL EXPOSURES AND RESIDENTIAL REAL ESTATE EXPOSURES WITH A CURRENCY MISMATCH**

1. Subject to paragraph 3, an institution shall apply a 1.5 times multiplier to the applicable risk weight, calculated according to Articles 123 and 124F to 124L, as applicable, subject to a maximum risk weight of 150%, to any unhedged *retail exposures* or unhedged *residential real estate exposures* that are assigned to the exposure classes referred to in points (h) and (i) of Article 112(1) where:

   (a) the obligor is a natural person and the lending currency differs from the currency of the obligor's source of income; or

   (b) the obligor is an entity created specifically to finance and/or operate immovable property where:

      (i) one or more natural persons is a guarantor to the exposure and receives an economic benefit from the *residential real estate*; and

      (ii) the lending currency differs from the currency of the guarantor's source of income.

2.

   (a) For the purposes of paragraph 1, an exposure is hedged if:

      (i) the obligor (or, where the obligor is an entity described in point (b) of paragraph 1, the obligor, guarantor or both) has a *natural hedge* or a *financial hedge* against the foreign exchange risk resulting from the currency mismatch between the lending currency and:

         (1) the currency of the obligor's income; or

         (2) for the purpose of point (b) of paragraph 1, the currency of the guarantor's income; and

      (ii) all such *natural hedges* or *financial hedges* together cover at least 90% of any instalment for the exposure.

   (b) For the purpose of point (a)(ii) of paragraph 2, the value of a *natural hedge* comprising assets held by the obligor (or, where the obligor is an entity described in point (b) of paragraph 1, by the obligor or guarantor) shall be determined by applying volatility adjustments to the market value of the assets, assuming they were posted as collateral against an exposure without a currency mismatch and applying a 5-day liquidation period, in accordance with paragraph 2 of Credit Risk Mitigation (CRR) Part Article 223 and Credit Risk Mitigation (CRR) Part Articles 224 to 227.

2A. For the purpose of point (a)(ii) of paragraph 2, where the exposure is a *revolving facility*, the instalment amount shall be:

   (a) the minimum amount required under the contractual arrangements between the institution and the obligor;

   (b) calculated assuming the *revolving facility* has been fully drawn in accordance with the contractual arrangements between the institution and the obligor; and

   (c) where the *revolving facility* can be drawn in multiple currencies, calculated ignoring any current drawings and instead assuming the facility is fully drawn in a currency:

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(i) that is different to the obligor's source of income (or, where the obligor is an entity described in point (b) of paragraph 1, a currency that is different to the guarantor's source of income); and

(ii) for which the obligor does not (or if the obligor is an entity described in point (b) of paragraph 1, the obligor and guarantor do not) have *natural hedges* or *financial hedges* that together cover more than 90% of the instalment amount in that currency calculated in accordance with points (a) and (b), unless the facility cannot be drawn in any currency that falls within this point (ii).

3. Where:

(a) an institution is unable to identify those exposures with a currency mismatch which are subject to paragraph 1; and

(b) the exposure was incurred prior to 1 January 2027,

the institution shall apply the risk weight multiplier of 1.5 to all unhedged *retail exposures*, and unhedged *residential real estate exposures* that are assigned to the exposure classes referred to in points (h) and (i) of Article 112(1), except where the lending currency is the same as the domestic currency of the country of residence of the obligor or the country of employment of the obligor, subject to a maximum risk weight of 150%.

4. For the purposes of this Article:

(a) source of income refers to any source that generates cash-flows to the obligor (or, if the obligor is an entity described in point (b) of paragraph 1, to the guarantor), including from remittances, rental incomes or salaries, whilst excluding proceeds from selling assets or similar recourse actions by the institution; and

(b) if the obligor is an entity described in point (b) of paragraph 1:

(i) in the expression *natural hedge*, obligor shall be construed as obligor or guarantor; and

(ii) in the expression *financial hedge*, where obligor first appears it shall be construed as obligor or guarantor and where obligor subsequently appears it shall be construed as guarantor;

(c) where the exposure is a *revolving facility* that can be drawn in multiple currencies, the lending currency shall be the currency of the repayment obligation assuming the facility is fully drawn in accordance with point (c) of paragraph 2A.

**Article 124 REAL ESTATE EXPOSURES**

1. An institution shall apply the risk weights set out in Articles 124F to 124I to *regulatory real estate exposures*.

2. An institution shall apply the risk weights set out in Article 124J to *other real estate exposures*.

3. An institution shall apply the risk weights set out in Article 124K to *ADC exposures*.

4. An institution shall split a *mixed real estate exposure* into a *residential real estate exposure* and a *commercial real estate exposure* according to the ratio of the values of the *residential real estate* and the *commercial real estate* that the exposure is secured by. An institution shall assign the relevant risk weights set out in Article 124J to each part of the exposure, unless both the *residential real estate exposure* and the *commercial real estate exposure* parts of the

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exposure are *regulatory real estate exposures*, in which case an institution shall assign the relevant risk weights in Articles 124F to 124I to each part of the exposure.

[Note: This Article corresponds to Articles 124(1), 125 and 126 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 124A REGULATORY REAL ESTATE EXPOSURES**

1. A *real estate exposure* is a *regulatory real estate exposure* if it is not an *ADC exposure* and all the following requirements are met:

   (a) the exposure meets any of the following conditions:

      (i) it is secured by immovable property that has not been acquired or is not held for development and construction purposes;

      (ii) it is secured by immovable property that has been acquired or is held for development and construction purposes, and the development and construction is complete; or

      (iii) it is a *self-build exposure*.

   (b) the following requirements on legal certainty are met:

      (i) the *charge* is enforceable in all relevant jurisdictions; and

      (ii) the applicable legal framework means the institution is likely to be able to realise the value of its collateral within a reasonable period following a default;

   (c) any of the conditions relating to *charges* set out in points (a) to (c) of paragraph 2 are met;

   (d) the value of the property is determined in accordance with Article 124D;

   (e) the value of the property that the exposure is secured by does not materially depend on the performance of the borrower; and

   (f) the institution has in place procedures to monitor that the property is adequately insured against the risk of damage.

2. An exposure satisfies the criteria in point (c) of paragraph 1 if any of the following conditions are met:

   (a) the exposure is secured by a *first charge* over the property;

   (b) the institution holds all other *charges* over the same property ranking in priority ahead of the *charge* that the exposure is secured by; or

   (c) all of the following conditions are met:

      (i) the *charge* that the exposure is secured by provides the holder with a claim for collateral that is legally enforceable and constitutes an effective credit risk mitigant;

      (ii) each entity holding a *charge* on a property can initiate the sale of the property independently from other entities holding a *charge* on the property; and

      (iii) entities holding a *charge* on a property are required to take reasonable steps to obtain a fair market value or the best price that may be obtained in the circumstances when exercising any power of sale.

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**Article 124B UNDERWRITING STANDARDS FOR REAL ESTATE EXPOSURES**

1. An institution shall have an underwriting policy for originating *real estate exposures* which shall, at a minimum, require the institution to assess the ability of the borrower to repay.

**Article 124C DETERMINING THE LOAN-TO-VALUE FOR REGULATORY REAL ESTATE EXPOSURES**

1. The loan-to-value (LTV) for *regulatory real estate exposures* for the purposes of Articles 124G and 124I is the amount of the loan divided by the value of the property.

2. The amount of the loan shall include the outstanding loan amount and any undrawn committed amount of the mortgage loan, without taking into account credit risk adjustments and other own funds reductions related to the exposure, or any form of funded or unfunded credit protection, except for pledged deposits accounts with the lending institution that meet all requirements for *on-balance sheet netting* set out in the Credit Risk Mitigation (CRR) Part and that have been unconditionally and irrevocably pledged for the sole purposes of payment of the loan.

3. The amount of the loan which is used for the calculation of the LTV shall include all other loans secured with *charges* ranking in priority ahead of or pari passu with the *charge* that the exposure is secured by. If there is insufficient information to determine the ranking of other *charges* the institution shall rank the other *charges* pari passu with the *charge* that the exposure is secured by.

4. The value of the property shall be determined in accordance with Article 124D.

**Article 124D VALUATION REQUIREMENTS FOR IMMOVABLE PROPERTY FOR THE PURPOSES OF THE STANDARDISED APPROACH**

1. This Article applies for the purpose of applying the *Standardised Approach* to *regulatory real estate exposures* only.

2. An institution shall monitor the market value of the property on a frequent basis. It shall carry out more frequent monitoring where the market is subject to significant changes in conditions.

3. Subject to paragraph 9, the value of the property is equal to the most recent valuation that has been obtained in accordance with paragraphs 4 to 7 and 11 (a qualifying valuation).

4. An institution shall obtain a valuation when it issues a new loan for the purchase of the property or when the institution otherwise issues a new loan secured on the property (including for the purpose of replacing an existing loan of an existing or new obligor).

5. An institution shall obtain an updated valuation of the property within a reasonable amount of time in any of the following circumstances:

   (a) if an event occurs that results in a likely permanent reduction in the property's value, the institution shall obtain an updated valuation which confirms the decrease in value;

   (b) if the institution estimates that the value of the property has decreased by more than 10% relative to the last qualifying valuation as a result of a broader decrease in market prices, the institution shall obtain an updated valuation which confirms the decrease in value;

   (c) where the amount of the loan is more than GBP 2.6 million or 5% of the own funds of the institution, and three years have passed since the last qualifying valuation took place; or

   (d) five years have passed since the last qualifying valuation.

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6. If modifications are made to the property that unequivocally increase its value, the institution may obtain an updated valuation to confirm the increase in value.

7. If an institution has revalued the property in accordance with point (b) of paragraph 5, it may use the date of that valuation, or the date of the previous qualifying valuation that was not obtained in accordance with point (b) of paragraph 5, to calculate whether it has to obtain an updated valuation in accordance with points (c) or (d) of paragraph 5.

8. For the purpose of determining the value of the property or the underlying land value under paragraphs 3 to 7 and 9 to 11, an institution shall only use a valuation that:

   (a) is provided by a suitably robust statistical method or by an independent valuer who possesses the necessary qualifications, ability and experience to execute a valuation;

   (b) excludes expectations on price increases;

   (c) where a market value can be determined, is not higher than the market value; and

   (d) where the mortgage loan is financing the purchase of the property, is not higher than the effective purchase price.

9. Where an exposure is a *self-build exposure*, the value of the property shall, subject to paragraph 10, be the higher of:

   (a) the underlying land value obtained by the institution when the institution issued a new mortgage loan for the purchase of the property before construction began; and

   (b) the most recent qualifying valuation of the property multiplied by 0.8.

10. Where an institution is required to obtain an updated valuation for a *self-build exposure* in accordance with points (a) or (b) of paragraph 5, the value of the property shall be:

   (a) where an updated estimate of the underlying land value is not available, the updated property valuation multiplied by 0.8; or

   (b) where an updated estimate of the underlying land value is available, the higher of:

      (i) the updated property valuation multiplied by 0.8; and

      (ii) the updated estimate of the underlying land value.

11. For the purposes of paragraph 3 in relation to exposures incurred before 1 January 2027:

   (a) paragraph 4 shall be read as if it was in force from the time the exposure was incurred;

   (b) where one or more of the following circumstances applies:

      (i) it is not reasonably practicable for the institution to identify a valuation obtained in accordance with paragraph 4;

      (ii) the amount of the loan is more than GBP 2.6 million or 5% of the own funds of the institution, and three years have passed since a valuation was obtained in accordance with paragraph 4; or

      (iii) five years have passed since a valuation was obtained in accordance with paragraph 4,

   the most recent valuation obtained by the institution before 1 January 2027 shall be a qualifying valuation.

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**Article 124E DETERMINING WHETHER A REAL ESTATE EXPOSURE IS MATERIALLY DEPENDENT ON THE CASH-FLOWS GENERATED BY THE PROPERTY**

1. An institution shall assess whether a *residential real estate exposure* is materially dependent on the cash-flows generated by the property. A *residential real estate exposure* is materially dependent on the cash-flows generated by the property unless it is:

   (a) to one or more natural persons and the exposure is secured by a single property that is the obligor's primary residence;

   (b) to one or more natural persons that individually meet the three property limit in accordance with paragraph 2;

   (c) to an entity which was created specifically to finance and/or operate immovable property, where one or more natural persons act as a guarantor to the exposure and receive the sole economic benefit from the *residential real estate* and the entity meets the three property limit in accordance with paragraph 3;

   (d) to a public housing company or not-for-profit association regulated in the *UK* that exists to serve social purposes and to offer tenants long-term housing (a social housing exposure); or

   (e) to an association or a cooperative of natural persons that exists with the sole purpose of granting its members the use of a primary residence in the property securing the loans.

2. A natural person meets the three property limit referred to in point (b) of paragraph 1 if they have no more than three qualifying properties. A qualifying property is a property that is *residential real estate*, is not the primary residence of the natural person and that is either:

   (a) security for a *residential real estate exposure* to the natural person, regardless of which lender has the *residential real estate exposure*; or

   (b) security for a *residential real estate exposure* to an entity which is created specifically to finance and/or operate immovable property, where the natural person acts as a guarantor to the exposure and receives the economic benefit from the *residential real estate*, regardless of which lender has the *residential real estate exposure*.

3. An entity meets the three property limit referred to in point (c) of paragraph 1 if all of the following conditions are met:

   (a) the entity does not have more than three qualifying properties. A qualifying property is a property that is *residential real estate*, is not the primary residence of the guarantor, and is security for a *residential real estate exposure* to the entity, regardless of which lender has the *real estate exposure*;

   (b) the guarantor or guarantors, if any, are the same for all *residential real estate exposures* to the entity, regardless of which lender has the *real estate exposure*; and

   (c) the guarantor or guarantors each themselves meet the three property limit in accordance with paragraph 2.

4. For the purposes of paragraphs 1 to 3, each separate housing unit shall count as an individual property, including for *real estate exposures* secured by a single *charge*.

5. An institution shall reassess whether a *residential real estate exposure* meets any of the conditions of paragraph 1 when it issues a new loan secured by *residential real estate* to the obligor (including for the purpose of replacing an existing loan to the obligor). An institution may

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update its assessment of whether *a residential real estate exposure* meets any of the conditions of paragraph 1 at other times, provided new information is gathered and used in a consistent way across its portfolio and updates are not applied selectively in order to reduce own funds requirements.

6. An institution shall assess whether a *commercial real estate exposure* is materially dependent on the cash-flows generated by the property. A *commercial real estate exposure* is materially dependent on the cash-flows generated by the property except where each property that the exposure is secured by is predominantly used by the borrower for its own business purpose, and the business purpose does not include generating income from the property on the basis of a rental agreement.

7. An institution shall reassess at least annually whether the *commercial real estate exposure* is materially dependent on the cash-flows generated by the property.

**Article 124F RISK WEIGHTS FOR REGULATORY RESIDENTIAL REAL ESTATE EXPOSURES THAT ARE NOT MATERIALLY DEPENDENT ON THE CASH-FLOWS GENERATED BY THE PROPERTY**

1. An institution shall assign a risk weight to a *regulatory residential real estate exposure* that is not materially dependent on the cash-flows generated by the property as follows:

   (a) the part of the exposure up to 55% of the value of the property shall be assigned a risk weight of 20%; and

   (b) the risk weight of the counterparty shall be applied to the residual part of the exposure, if any, in accordance with Article 124L.

2. For the purposes of point (a) of paragraph 1, where there are *charges* on the property that are not held by the institution and rank in priority either ahead of, or pari passu with, the *charge* that the exposure is secured by, the part of the institution's exposure that is eligible for the 20% risk weight shall be determined as follows:

   (a) if the exposure is secured by a *junior charge*, the amount of 55% of the value of the property shall be reduced by the amount of any *charges* not held by the institution that rank in priority ahead of the *charge* that the exposure is secured by;

   (b) where *charges* not held by the institution rank pari passu with the *charge* that the exposure is secured by, the amount of 55% of the value of the property, reduced by the amount of any *charges* not held by the institution that rank in priority ahead of the *charge* that the exposure is secured by, if any, shall be reduced by the product of:

      (i) 55% of the value of the property, reduced by the amount of any *charges* that rank in priority ahead of the *charge* that the exposure is secured by, if any, including *charges* held by and not held by the institution; and

      (ii) the amount of *charges* not held by the institution that rank pari passu with the *charge* that the exposure is secured by, divided by the sum of all pari passu *charges*, including *charges* held and not held by the institution.

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**Article 124G RISK WEIGHTS FOR REGULATORY RESIDENTIAL REAL ESTATE EXPOSURES THAT ARE MATERIALLY DEPENDENT ON THE CASH-FLOWS GENERATED BY THE PROPERTY**

1. Subject to paragraph 2, an institution shall assign a risk weight to the entirety of a *regulatory residential real estate exposure* that is materially dependent on the cash-flows generated by the property in accordance with Table 6B:

   Table 6B

| **Loan-to-value** | LTV ≤ 50% | 50% < LTV ≤ 60% | 60% < LTV ≤ 70% | 70% < LTV ≤ 80% | 80% < LTV ≤ 90% | 90% < LTV ≤ 100% | LTV > 100% |
|---|---|---|---|---|---|---|---|
| **Risk weight** | 30% | 35% | 40% | 50% | 60% | 75% | 105% |

2. Where a *regulatory residential real estate exposure* is materially dependent on the cash-flows from the property and there are *charges* not held by the institution ranking in priority ahead of the *charge* that the exposure is secured by, the institution shall multiply the risk weight that would otherwise be assigned in accordance with Table 6B by 1.25 if the LTV is more than 50%.

**Article 124H RISK WEIGHTS FOR REGULATORY COMMERCIAL REAL ESTATE EXPOSURES THAT ARE NOT MATERIALLY DEPENDENT ON THE CASH-FLOWS GENERATED BY THE PROPERTY**

1. An institution shall assign a risk weight to a *regulatory commercial real estate exposure* to a natural person or *SME* that is not materially dependent on the cash-flows generated by the property as follows:

   (a) the part of the exposure up to 55% of the value of the property shall be assigned a risk weight of 60%; and

   (b) the risk weight of the counterparty shall be assigned to the residual part of the exposure, if any, in accordance with Article 124L.

2. For the purposes of paragraph 1, where there are *charges* on the property that are not held by the institution that rank in priority either ahead of, or pari passu with, the *charge* that the exposure is secured by, the part of the institution's exposure that is eligible for the 60% risk weight shall be determined as follows:

   (a) if the exposure is secured by a *junior charge*, the amount of 55% of the value of the property shall be reduced by the amount of any *charges* not held by the institution that rank in priority ahead of the *charge* that the exposure is secured by;

   (b) where *charges* not held by the institution rank pari passu with the *charge* that the exposure is secured by, the amount of 55% of the value of the property, reduced by the amount of *charges* not held by the institution that rank in priority ahead of the *charge* that the exposure is secured by, if any, shall be reduced by the product of:

      (i) 55% of the value of the property, reduced by the amount of any *charges* that rank in priority ahead of the *charge* that the exposure is secured by, if any, including *charges* held by and not held by the institution; and

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(ii) the amount of *charges* not held by the institution that rank pari passu with the *charge* that the exposure is secured by divided by the sum of all pari passu *charges*, including *charges* held and not held by the institution.

3. An institution shall, to the entirety of a *regulatory commercial real estate exposure* that is not to a natural person or an *SME* and that is not materially dependent on the cash-flows generated by the property, assign a risk weight that is the higher of:

(a) 60%; and

(b) the lower of:

(i) the risk weight of the counterparty in accordance with point (e) of Article 124L(1); and

(ii) the risk weight that would be assigned to the exposure under Article 124I if the exposure was materially dependent on the cash-flows generated by the property.

**ARTICLE 124I RISK WEIGHTS FOR REGULATORY COMMERCIAL REAL ESTATE EXPOSURES THAT ARE MATERIALLY DEPENDENT ON THE CASH-FLOWS GENERATED BY THE PROPERTY**

1. Subject to paragraph 3, an institution shall assign a risk weight of 100% to the entirety of a *regulatory commercial real estate exposure* that is materially dependent on the cash-flows generated by the property where the LTV is less than or equal to 80%.

2. Subject to paragraph 3, an institution shall assign a risk weight of 110% to the entirety of a *regulatory commercial real estate exposure* that is materially dependent on the cash-flows generated by the property where the LTV is greater than 80%.

3. Where a *commercial real estate exposure* is materially dependent on cash-flows generated by the property and there are *charges* not held by the institution that rank in priority ahead of the *charge* that the exposure is secured by, an institution shall assign a risk weight of:

(a) 100% to the whole of the exposure if the LTV is less than or equal to 60%;

(b) 125% to the whole of the exposure if the LTV is greater than 60% and less than or equal to 80%; or

(c) 137.5% to the whole of the exposure if the LTV is greater than 80%.

**Article 124J RISK WEIGHTS FOR OTHER REAL ESTATE EXPOSURES**

1. An institution shall assign a risk weight of 150% to any *other real estate exposure* that is materially dependent on the cash-flows generated by the property.

2. An institution shall assign a risk weight equal to the risk weight of the counterparty in accordance with Article 124L to any *other real estate exposure* that is a *residential real estate exposure* and that is not materially dependent on the cash-flows generated by the property.

3. An institution shall assign to any *other real estate exposure* that is a *commercial real estate exposure* and that is not materially dependent on the cash-flows generated by the property a risk weight that is the higher of:

(a) 60%; and

(b) the risk weight of the counterparty in accordance with Article 124L.

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**Article 124K RISK WEIGHTS FOR ACQUISITION, DEVELOPMENT AND CONSTRUCTION (ADC) EXPOSURES**

1. Subject to paragraph 2, an institution shall assign a risk weight of 150% to an *ADC exposure*.

2. An institution may assign a risk weight of 100% to an *ADC exposure* financing any land acquisition for the development and construction of *residential real estate*, or financing the development and construction of *residential real estate* if:

   (a) the exposure is subject to prudent underwriting standards, including for the valuation of any real estate used as security for the exposure; and

   (b) at least one of the following conditions is met:

      (i) legally binding pre-sale or pre-lease contracts for the sale or lease of the relevant land or *residential real estate*, for which the purchaser or tenant has made a substantial cash deposit which is subject to forfeiture if the contract is terminated, amount to a significant portion of total contracts; or

      (ii) the borrower has substantial equity at risk.

**Article 124L COUNTERPARTY RISK WEIGHTS FOR REAL ESTATE EXPOSURES**

1. For the purposes of point (b) of Article 124F(1), Article 124H(1) and (3) and Article 124J(2) and (3), the relevant counterparty risk weights are:

   (a) for an exposure to a natural person or persons that is not an exposure to an *SME*, 75%;

   (b) for an exposure to an *SME* that would meet the qualifying conditions for a *retail exposure* if Article 123(2) was disapplied, 75%;

   (c) for an exposure to an *SME* that does not satisfy the criteria in point (b) of this paragraph, 85%;

   (d) for *residential real estate exposures* that are social housing exposures under point (d) of Article 124E(1), or *residential real estate exposures* to an association or cooperative of natural persons under point (e) of Article 124E(1), the higher of:

      (i) 75%; and

      (ii) the risk weight that would be assigned to an unsecured exposure to that counterparty under this Part and Chapter 2 of Title II of Part Three of *CRR*; or

   (e) for exposures to other counterparties, the risk weight that would be assigned to an unsecured exposure to that counterparty under this Part and Chapter 2 of Title II of Part Three of *CRR*.

**Article 125 EXPOSURES FULLY AND COMPLETELY SECURED BY MORTGAGES ON RESIDENTIAL PROPERTY**

[Note: Provision left blank]

**Article 126 EXPOSURES FULLY AND COMPLETELY SECURED BY MORTGAGES ON COMMERCIAL IMMOVABLE PROPERTY**

[Note: Provision left blank]

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**Article 127 EXPOSURES IN DEFAULT**

1. Subject to paragraph 3, the part of any item or facility which is not secured by recognised collateral or covered by recognised unfunded credit protection and is a *defaulted exposure* shall be assigned a risk weight of:

   (a) 150%, where the amount of specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014) is less than 20% of the outstanding amount of the item or facility; or

   (b) 100%, where the amount of specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014) is equal to or greater than 20% of the outstanding amount of the item or facility.

2. For the purpose of paragraph 1, the part of the *defaulted exposure* not secured by recognised collateral or covered by recognised unfunded credit protection shall be determined based on the collateral or unfunded credit protection that the institution has recognised under the Credit Risk Mitigation (CRR) Part in accordance with the method the institution has applied to recognise that collateral or unfunded credit protection under paragraph 2 of Credit Risk Mitigation (CRR) Part Article 191A.

3. A *residential real estate exposure* which is a *defaulted exposure* and is not materially dependent on the cash-flows of the property shall be assigned a risk weight of 100%.

[Note: This rule corresponds to Article 127 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 128 EXPOSURES ASSOCIATED WITH PARTICULARLY HIGH RISK**

1. An institution shall assign a 150% risk weight to exposures that are associated with particularly high risk.

2. [Note: Provision left blank]

3. When assessing whether an exposure is associated with particularly high risk, an institution shall take into account the following risk characteristics:

   (a) there is a high risk of loss as a result of a default of the obligor;

   (b) it is impossible to assess adequately whether the exposure falls under point (a).

[Note: Paragraphs 1 and 3 of this rule correspond to Articles 128(1) and (3) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 129 EXPOSURES IN THE FORM OF ELIGIBLE COVERED BONDS**

1. Subject to paragraph 6, *eligible covered bonds* are CRR covered bonds which meet the requirements in paragraphs 3 and 7 and are collateralised by any of the following eligible assets:

   (a) exposures to or guaranteed by:

      (i) the central government of the *UK*;

      (ii) the *Bank of England*;

      (iii) a regional government of the *UK*; or

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(iv) a public sector entity or local authority in the *UK*;

(b) exposures to or guaranteed by:

(i) *third country* central governments;

(ii) *third country* central banks;

(iii) *multilateral development banks*;

(iv) international organisations referred to in Article 118(1);

(v) *third country* public sector entities that are risk-weighted in accordance with Article 116(1) or (2) and that qualify for the credit quality step 1 as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016;

(vi) *third country* regional governments or *third country* local authorities that are risk-weighted in accordance with Article 115(1) or which are risk-weighted as exposures to institutions or central governments or central banks in accordance with Article 115(4) of *CRR* and that qualify for the credit quality step 1 as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016; or

(vii) exposures within the meaning of this point (b) that qualify as a minimum for the credit quality step 2 as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of the issuing institutions;

(c) exposures to institutions that have a credit assessment which corresponds with a credit quality step of 1 or 2 as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016, provided that the total exposures of this kind shall not exceed 15% of the nominal amount of outstanding covered bonds of the issuing institution;

(d) loans secured by *residential real estate* up to the lesser of the principal amount of the *charges* that are combined with any prior *charges* and 80% of the value of the pledged properties;

(e) [Note: Provision left blank]

(f) eligible loans secured by commercial immovable property up to the lesser of the principal amount of the *charges* that are combined with any prior *charges* and 60% of the value of the pledged properties. Loans secured by commercial immovable property are eligible for the purpose of this point (f) where:

(i) the loan to value ratio of 60% is exceeded up to a maximum level of 70% if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10%;

(ii) the bondholders' claim meets the legal certainty requirements set out in the Credit Risk Mitigation (CRR) Part; and

(iii) the bondholders' claim shall take priority over all other claims on the collateral;

(g) loans secured by maritime liens on ships up to the difference between 60% of the value of the pledged ship and the value of any prior maritime liens.

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1A. For the purposes of point (c) of paragraph 1, exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the limits referred to in those points.

2. The situations referred to in points (a) to (f) of paragraph 1 shall also include collateral that is exclusively restricted by legislation to the protection of the bondholders against losses.

3. Immovable property collateralising *eligible covered bonds* shall meet:

(a) the requirements set out in Credit Risk Mitigation (CRR) Part Article 208 excluding the requirement to review valuations in the event of default set out in point (b)(i) of paragraph 3 of that Article; and

(b) the valuation rules set out in paragraph 1 of Credit Risk Mitigation (CRR) Part Article 229, excluding the adjustments to reflect prior *charges* set out in points (b) and (c) of that Article.

4. *Eligible covered bonds* for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 7 which corresponds to the credit assessment of the ECAI as mapped in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016.

Table 7

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 10% | 20% | 20% | 50% | 50% | 100% |

4A. An institution shall conduct due diligence to ensure that the external credit assessments appropriately and prudently reflect the creditworthiness of the *eligible covered bonds* to which the institution is exposed. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the institution shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

5. *Eligible covered bonds* for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight on the basis of the risk weight assigned to senior unsecured exposures to the institution which issues them. The following correspondence between risk weights shall apply:

(a) if the exposures to the institution are assigned a risk weight of 20%, the *eligible covered bonds* shall be assigned a risk weight of 10%;

(aa) if the exposures to the institution are assigned a risk weight of 30%, the *eligible covered bonds* shall be assigned a risk weight of 15%;

(ab) if the exposures to the institution are assigned a risk weight of 40%, the *eligible covered bonds* shall be assigned a risk weight of 20%;

(b) if the exposures to the institution are assigned a risk weight of 50%, the *eligible covered bonds* shall be assigned a risk weight of 25%;

(ba) if the exposures to the institution are assigned a risk weight of 75%, the *eligible covered bonds* shall be assigned a risk weight of 35%;

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(c) if the exposures to the institution are assigned a risk weight of 100%, the *eligible covered bonds* shall be assigned a risk weight of 50%; or

(d) if the exposures to the institution are assigned a risk weight of 150%, the *eligible covered bonds* shall be assigned a risk weight of 100%.

6. CRR covered bonds issued before 31 December 2007 which meet the requirements of paragraph 7 shall be *eligible covered bonds* until their maturity and shall not be subject to the requirements of paragraphs 1 and 3.

7. CRR covered bonds are only *eligible covered bonds* where the institution investing in the CRR covered bonds:

(a) receives portfolio information at least on:

(i) the value of the cover pool and outstanding CRR covered bonds;

(ii) the geographical distribution and type of cover assets, loan size, interest rate and currency risks;

(iii) the maturity structure of cover assets and CRR covered bonds; and

(iv) the percentage of loans more than 90 days past due; and

(b) the issuer makes the information referred to in point (a) available to the institution at least semi-annually.

[Note: This rule corresponds to Article 129 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 130 ITEMS REPRESENTING SECURITISATION POSITIONS**

[Note: Provision not in *PRA* Rulebook]

**Article 131 EXPOSURES TO INSTITUTIONS AND CORPORATES WITH A SHORT-TERM CREDIT ASSESSMENT**

[Note: Provision left blank]

**Article 132 OWN FUNDS REQUIREMENTS FOR EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS**

1. An institution shall calculate the risk-weighted exposure amount for their exposures in the form of units or shares in a CIU by multiplying the risk-weighted exposure amount of the CIU's exposures, calculated in accordance with the approaches referred to in the first sub-paragraph of paragraph 2, with the percentage of units or shares held by those institutions.

2. Where the conditions set out in paragraph 3 are met, an institution may apply the look-through approach in accordance with Article 132A(1) or the mandate-based approach in accordance with Article 132A(2).

Subject to Article 132B(2), an institution that does not apply the look-through approach or the mandate-based approach shall assign a risk weight of 1,250% ('fall-back approach') to their exposures in the form of units or shares in a CIU.

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An institution may calculate the risk-weighted exposure amount for their exposures in the form of units or shares in a CIU by using a combination of the approaches referred to in this paragraph, provided that the conditions for using those approaches are met.

3. An institution may determine the risk-weighted exposure amount of a CIU's exposures in accordance with the approaches set out in Article 132A where all the following conditions are met:

(a) [Note: Provision left blank]

(b) the CIU's prospectus or equivalent document includes the following:

(i) the categories of assets in which the CIU is authorised to invest;

(ii) where investment limits apply, the relative limits and the methodologies to calculate them; and

(c) reporting by the CIU or the CIU management company to the institution complies with the following requirements:

(i) the exposures of the CIU are reported at least quarterly;

(ii) the granularity of the financial information is sufficient to allow the institution to calculate the CIU's risk-weighted exposure amount in accordance with the approach chosen by the institution; and

(iii) where the institution applies the look-through approach, information about the underlying exposures is verified by an independent third party.

By way of derogation from point (c)(i) of the first sub-paragraph, where the institution determines the risk-weighted exposure amount of a CIU's exposures in accordance with the mandate-based approach, the reporting by the CIU or the CIU management company to the institution may be limited to the investment mandate of the CIU and any changes thereof and may be done only when the institution incurs the exposure to the CIU for the first time and when there is a change in the investment mandate of the CIU.

4. An institution that does not have adequate data or information to calculate the risk-weighted exposure amount of a CIU's exposures in accordance with the approaches set out in Article 132A may rely on the calculations of a third party, provided that all the following conditions are met:

(a) the third party is one of the following:

(i) the depository institution or the depository financial institution of the CIU, provided that the CIU exclusively invests in securities and deposits all securities at that depository institution or depository financial institution;

(ii) for CIUs not covered by point (a)(i), the CIU management company;

(b) the third party carries out the calculation in accordance with the approaches set out in Article 132A(1), (2) or (3), as applicable; and

(c) an external auditor has confirmed the correctness of the third party's calculation.

An institution that relies on third-party calculations shall multiply the risk-weighted exposure amount of a CIU's exposures resulting from those calculations by a factor of 1.2.

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By way of derogation from the second sub-paragraph, where the institution has unrestricted access to the detailed calculations carried out by the third party, the factor of 1.2 shall not apply. The institution shall be able to, upon request by the *PRA*, provide those calculations.

5. Where an institution applies the approaches referred to in Article 132A for the purpose of calculating the risk-weighted exposure amount of a CIU's exposures ('level 1 CIU'), and any of the underlying exposures of the level 1 CIU is an exposure in the form of units or shares in another CIU ('level 2 CIU'), the risk-weighted exposure amount of the level 2 CIU's exposures may be calculated by using any of the three approaches described in paragraph 2. The institution may use the look-through approach to calculate the risk-weighted exposure amounts of CIUs' exposures in level 3 and any subsequent level only where it used that approach for the calculation in the preceding level. In any other scenario it shall use the fall-back approach.

6. The risk-weighted exposure amount of a CIU's exposures calculated in accordance with the look-through approach and the mandate-based approach set out in Article 132A(1) and (2) shall be capped at the risk-weighted amount of that CIU's exposures calculated in accordance with the fall-back approach.

7. By way of derogation from paragraph 1, an institution that applies the look-through approach in accordance with Article 132A(1) may calculate the risk-weighted exposure amount for their exposures in the form of units or shares in a CIU by multiplying the exposure values of those exposures, calculated in accordance with Article 111, with the risk weight ($RW^*_i$) calculated in accordance with the formula set out in Article 132C, provided that the following conditions are met:

   (a) the institution measures the value of its holdings of units or shares in a CIU at historical cost but measures the value of the underlying assets of the CIU at fair value if it applies the look-through approach; and

   (b) a change in the market value of the units or shares for which the institution measures the value at historical cost changes neither the amount of own funds of the institution nor the exposure value associated with those holdings.

8.

   (a) An institution shall notify the *PRA* if either:

      (i) the total risk-weighted exposure amounts for all of its exposures in the form of units or shares in *relevant CIUs* exceed 0.5% of the institution's total risk-weighted exposures for credit risk and dilution risk calculated in accordance with Title II of Part Three of *CRR* and the Credit Risk: General Provisions (CRR) Part, the Credit Risk: Standardised Approach (CRR) Part, the Credit Risk: Internal Ratings Based Approach (CRR) Part, the Credit Risk Mitigation (CRR) Part and the Counterparty Credit Risk (CRR) Part; or

      (ii) the total exposure values for all of its exposures in the form of units or shares in *relevant CIUs* exceed GBP 500 million;

   in each case calculated on an individual or consolidated basis.

   (b) An institution shall make the notification in point (a) of this paragraph promptly if:

      (i) at any time either of the thresholds in point (a)(i) or (ii) of this paragraph is reached; and

      (ii) until such time as it makes a notification under point (c) of this paragraph, on an annual basis thereafter.

(c) An institution which has made or is required to have made a notification under point (a) of this paragraph shall also notify the *PRA* promptly when both the total risk-weighted exposure amounts and total exposure values are below the relevant thresholds set out in point (a)(i) and (ii) of this paragraph.

(d) An institution shall include in the notification made under point (a) of this paragraph:

(i) a list of the countries in which fund managers of all *relevant CIUs* to which it is exposed are located; and

(ii) the total exposure values and total risk-weighted exposure amounts in respect of its exposures in the form of units or shares in *relevant CIUs* for each of those countries.

[Note: This rule corresponds to Article 132 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 132A APPROACHES FOR CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS OF CIUS**

1. Where the conditions set out in Article 132(3) are met, an institution that has sufficient information about the individual underlying exposures of a CIU shall look through to those exposures to calculate the risk-weighted exposure amount of the CIU, risk weighting all underlying exposures of the CIU as if they were directly held by the institution.

2. Where the conditions set out in Article 132(3) are met, an institution that does not have sufficient information about the individual underlying exposures of a CIU to use the look-through approach may calculate the risk-weighted exposure amount of those exposures in accordance with the limits set in the CIU's mandate and relevant law.

   An institution shall carry out the calculations referred to in the first sub-paragraph under the assumption that the CIU first incurs exposures to the maximum extent allowed under its mandate or relevant law in the exposures attracting the highest own funds requirement and then continues incurring exposures in descending order until the maximum total exposure limit is reached, and that the CIU applies leverage to the maximum extent allowed under its mandate or relevant law, where applicable.

   An institution shall carry out the calculations referred to in the first sub-paragraph in accordance with the methods set out in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*, Chapter 5 of Title II of Part Three of *CRR*, and in Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part, as applicable.

3. By way of derogation from point (d) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92, an institution that calculates the risk-weighted exposure amount of a CIU's exposures in accordance with paragraph 1 or 2 may calculate the own funds requirement for the credit valuation adjustment risk of derivative exposures of that CIU as an amount equal to 50% of the own funds requirement for those derivative exposures calculated in accordance with Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part, as applicable.

   By way of derogation from the first sub-paragraph, an institution may exclude from the calculation of the own funds requirement for credit valuation adjustment risk derivative exposures which would not be subject to that requirement if they were incurred directly by the institution.

4. [Note: Provision left blank]

5. Where an institution calculates the risk-weighted exposure amount of a CIU's exposures in accordance with paragraph 2, and where one or more of the inputs required for the calculation

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in Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part is not available, the institution shall carry out the calculation as follows:

(a) Where the replacement cost is unknown, the institution shall set the replacement cost as referred to in paragraph 2 of Counterparty Credit Risk (CRR) Part Article 274 and paragraph 2 of Counterparty Credit Risk (CRR) Part Article 282 equal to the sum of the notional amounts of the derivatives in the netting set, and where relevant the multiplier referred to in paragraph 1 of Counterparty Credit Risk (CRR) Part Article 278 shall be set equal to 1.

(b) Where the potential future exposure is unknown, the institution shall set the potential future exposure as referred to in paragraph 2 of Counterparty Credit Risk (CRR) Part Article 274 and paragraph 2 of Counterparty Credit Risk (CRR) Part Article 282 equal to 15% of the sum of the notional amounts of the derivatives in the netting set.

**Article 132B EXCLUSIONS FROM THE APPROACHES FOR CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS OF CIUS**

1. An institution may exclude from the calculations referred to in Article 132 Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, and eligible liabilities instruments held by a CIU which the institution shall deduct in accordance with Articles 36(1), 56 and 66 of Own Funds (CRR) Part respectively.

2. An institution may exclude from the calculations referred to in Article 132 the following exposures that are in the form of units or shares in CIUs:

(a) *equity exposures* to entities whose credit obligations are assigned a 0% risk weight under this Part, including those publicly sponsored entities where a 0% risk weight can be applied; and

(b) *equity exposures* incurred under legislative programmes to promote specified sectors of the economy that provide significant subsidies for the investment to the institution and involve some form of government oversight and restrictions on the equity investments,

and, in each case, apply the treatment set out in Article 133 to those exposures instead.

**Article 132C TREATMENT OF OFF-BALANCE-SHEET EXPOSURES TO CIUS**

1. An institution shall calculate the risk-weighted exposure amount for their off-balance sheet items with the potential to be converted into exposures in the form of units or shares in a CIU by multiplying the exposure values of those exposures calculated in accordance with Article 111 with the following risk weight:

(a) for all exposures for which an institution uses one of the approaches set out in Article 132A:

$$RW_i^* = \frac{RWEA_i}{E_i^*} \cdot \frac{A_i}{EQ_i}$$

where:

$RW_i^*$ = the risk weight;

$i$ = the index denoting the CIU;

$RWEA_i$ = the risk-weighted exposure amount calculated in accordance with Article 132A for a $CIU_i$;

$E_i^*$ = the exposure value of the exposures of $CIU_i$;

$A_i$ = the accounting value of assets of $CIU_i$; and

$EQ_i$ = the accounting value of the equity of $CIU_i$.

(b) for all other exposures, $RW_i^*$ = 1,250%.

**Article 133 SUBORDINATED DEBT, EQUITY AND OTHER OWN FUNDS INSTRUMENTS**

1. An exposure that is a subordinated debt instrument, an own funds instrument or an equity instrument (including any relevant investments referred to in paragraph 1A) shall be categorised as an *equity exposure* if:

(a) the return of invested funds can be achieved only by the sale of the investment or sale of the rights to the investment or by the liquidation of the issuer;

(b) it does not put an obligation on the issuer; and

(c) it conveys a residual claim on the assets or income of the issuer.

1A. For the purposes of paragraph 1, relevant investments include:

(a) a holding of derivative instruments tied to equity interests, and holdings in corporations, partnerships, limited liability companies or other types of enterprises that issue ownership interests and are engaged principally in the business of investing in equity instruments;

(b) a debt obligation or other security, partnership, derivative or other vehicle structured with the intent of conveying the economic substance of equity ownership, including liabilities from which the return is linked to that of equities; and

(c) equities that are recorded as a loan but arise from a debt/equity swap made as part of the orderly realisation or restructuring of the debt.

2. In addition to instruments falling within scope of paragraph 1, exposures that are any of the following instruments shall be categorised as *equity exposures*:

(a) an instrument with the same structure as those permitted as *Tier 1 capital* for institutions; or

(b) an instrument that puts an obligation on the issuer and meets any of the following conditions:

(i) the issuer may defer indefinitely the settlement of the obligation;

(ii) the obligation requires (or permits at the issuer's discretion) settlement by issuance of a fixed number of the issuer's equity shares;

(iii) the obligation requires (or permits at the issuer's discretion) settlement by issuance of a variable number of the issuer's equity shares and (all else being equal) any change in the value of the obligation is attributable to, comparable to, and in the same direction as, the change in the value of a fixed number of the issuer's equity shares; or

(iv) the holder has the option to require that the obligation be settled in equity shares, unless:

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(1) in the case of a traded instrument, the institution is able to demonstrate that the instrument trades more like the debt of the issuer than like its equity;

(2) in the case of a non-traded instrument, the institution is able to demonstrate that the instrument should be treated as a debt position.

3. An *equity exposure* shall be assigned a risk weight of 250%, unless the exposure is a *higher risk equity exposure,* in which case the treatment in paragraph 4 applies, or is within scope of paragraph 6, in which case the treatment referred to in paragraph 6 applies.

4. A *higher risk equity exposure* shall be assigned a risk weight of 400%, unless the exposure is within the scope of paragraph 6, in which case the treatment referred to in paragraph 6 applies.

5. An institution shall assign a risk weight of 150% to an exposure that is a subordinated debt instrument, an own funds instrument or an equity instrument and is not classified as an *equity exposure*, unless the exposure is within scope of paragraph 6, in which case the treatment referred to in paragraph 6 applies.

6. The exposures within scope of this paragraph are:

(a) exposures required to be deducted from own funds in accordance with Chapter 3 (Own Funds (Part Two CRR)) of Own Funds (CRR) Part;

(b) exposures assigned a risk weight of 1,250% in accordance with paragraph 3 of Own Funds (CRR) Part Article 89; and

(c) exposures assigned a risk weight of 250% in accordance with paragraph 4 of Own Funds (CRR) Part Article 48.

[Note: This rule corresponds to Article 133 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 134 OTHER ITEMS**

1. Tangible assets within the meaning of item 10 under the heading 'Assets' in Article 4 of Directive 86/635/EEC UK law shall be assigned a risk weight of 100%.

2. Prepayments and accrued income for which an institution is unable to determine the counterparty in accordance with Directive 86/635/EEC UK law shall be assigned a risk weight of 100%.

3. Cash items in the process of collection shall be assigned a 20% risk weight. Cash in hand and equivalent cash items shall be assigned a 0% risk weight.

4. Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0% risk weight.

5. In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight shall be that assigned to the assets in question and not to the counterparties to the transactions.

6. Where an institution provides credit protection for a number of exposures subject to the condition that the nth default among the exposures shall trigger payment and that this credit event shall terminate the contract, the risk weights of the exposures included in the basket shall be aggregated, excluding n-1 exposures, up to a maximum of 1,250% and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk-weighted exposure amount. The n-1 exposures to be excluded from the aggregation shall be determined on the basis that they shall include those exposures each of which produces a lower risk-

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weighted exposure amount than the risk-weighted exposure amount of any of the exposures included in the aggregation.

7. The exposure value for leases shall be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option the exercise of which is reasonably certain. Where a party other than the lessee is required to make a payment related to the residual value of a leased property and that payment obligation fulfils the set of conditions in Credit Risk Mitigation (CRR) Part Article 201 regarding the eligibility of protection providers as well as the requirements for recognising other types of guarantees provided in Credit Risk Mitigation (CRR) Part Articles 213 to 215, that payment obligation may be taken into account as unfunded credit protection under the Credit Risk Mitigation (CRR) Part. These exposures shall be assigned to the relevant exposure class in accordance with Article 112. When the exposure is a residual value of leased assets, the risk-weighted exposure amounts shall be calculated as follows: 1/t * 100% * residual value, where t is the greater of 1 and the nearest number of whole years of the lease remaining.

[Note: This rule corresponds to Article 134 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 3 RECOGNITION AND MAPPING OF CREDIT RISK ASSESSMENT

### SUB-SECTION 1 RECOGNITION OF ECAIS

#### Article 135 USE OF CREDIT ASSESSMENTS BY ECAIS

1. An external credit assessment may be used to determine the risk weight of an exposure under this Part only if it has been issued by an ECAI or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009.

[Note: This rule corresponds to Article 135(1) of *CRR* as it applied immediately before revocation by the *Treasury*]

2. [Note: Provision left blank]

#### Article 136 MAPPING OF ECAI'S CREDIT ASSESSMENTS

[Note: Provision not in *PRA* Rulebook]

…

### SUB-SECTION 3 USE OF CREDIT ASSESSMENTS BY EXPORT CREDIT AGENCIES

#### Article 137 USE OF CREDIT ASSESSMENTS BY EXPORT CREDIT AGENCIES

1. For the purpose of Article 114, institutions may use credit assessments of an Export Credit Agency that the institution has nominated, if either of the following conditions is met:

   (a) it is a consensus risk score from Export Credit Agencies participating in the Organisation for Economic Co-operation and Development (OECD) 'Arrangement on Guidelines for Officially Supported Export Credits'; or

   (b) the Export Credit Agency publishes its credit assessments, and the Export Credit Agency subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIPs) that the OECD agreed methodology establishes. An institution may revoke its nomination of an Export Credit

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Agency. An institution shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce capital requirements.

2. Exposures for which an institution uses a credit assessment by an Export Credit Agency that is recognised for risk weighting purposes shall be assigned a risk weight in accordance with Table 9 instead of Table 1 of Article 114(2).

Table 9

| **MEIP** | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| **Risk weight** | 0% | 0% | 20% | 50% | 100% | 100% | 100% | 150% |

[Note: This rule corresponds to Article 137 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 3 USE OF THE ECAI CREDIT ASSESSMENTS FOR THE DETERMINATION OF RISK WEIGHTS

### Article 138 GENERAL REQUIREMENTS

1. An institution may nominate one or more ECAIs to be used for the determination of risk weights to be assigned to assets and off-balance sheet items. An institution may revoke its nomination of an ECAI. An institution shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce capital requirements. An institution shall nominate ECAIs for risk weighting in a way that is consistent with its use of ECAIs in its risk management processes. In using a credit assessment, institutions shall comply with all of the following requirements:

(a) an institution that has nominated one or more ECAIs shall use the credit assessments produced by the nominated ECAI (or ECAIs) for risk-weighting all types of exposures for which the nominated ECAI (or ECAIs) produce credit assessments;

(b) an institution which decides to use the credit assessments produced by an ECAI shall use them in a continuous and consistent way over time;

(c) an institution shall only use credit assessments that take into account all amounts both in principal and in interest owed to it;

(d) where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item;

(e) where two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;

(f) where more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight of the two shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned; and

(g) an institution shall not use a credit assessment that incorporates assumptions of implicit government support for the purposes of assigning a risk weight to an exposure to an

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institution, unless the respective credit assessment applies to an institution owned by or set up and sponsored by central governments, regional governments or local authorities.

2. An institution may only use unsolicited credit assessments if:

(a) the unsolicited credit assessments of an ECAI do not differ in quality from solicited assessments of that ECAI; and

(b) the ECAI has not used an unsolicited credit assessment to put pressure on a rated entity to place an order for a credit assessment or other services,

otherwise, an institution shall only use solicited credit assessments.

[Note: This rule corresponds to Article 138 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 139 ISSUER AND ISSUE CREDIT ASSESSMENTS**

1. Where an institution invests in a particular issue that has an issue-specific credit assessment available from a nominated ECAI, that credit assessment shall be used to determine the risk weight to be assigned to exposures to that issue.

2. Where no directly applicable issue-specific credit assessment from a nominated ECAI exists for a particular issue, but a general credit assessment exists for the issuer, or the issuer has an issue-specific credit assessment for a different issue, then that credit assessment shall be used in either of the following cases:

(a) where the credit assessment produces a higher risk weight than if the issue were treated as unrated and the exposure in question ranks pari passu or junior in all respects to either the senior unsecured exposures of that issuer (if a general credit assessment exists for the issuer) or to the rated issue, as relevant;

(b) subject to paragraph 2A, where the credit assessment produces a lower risk weight than if the issue were treated as unrated and the exposure in question ranks pari passu or senior in all respects to either the senior unsecured exposures of that issuer (if a general credit assessment exists for the issuer) or to the rated issue, as relevant,

and in all other cases, the exposure shall be treated as unrated.

2A. Where a general credit assessment is available for an issuer which:

(a) produces a lower risk weight than if the item were unrated; and

(b) only applies to a limited class of liabilities,

the credit assessment may be used only in respect of exposures that fall within that class.

2B. Paragraphs 2 and 2A do not apply for the purposes of Article 122B(1).

2C. A credit assessment used by an institution shall take into account and reflect the entire amount of credit risk exposure the institution has, in the case of a general credit assessment for an institution, to the obligor or, in the case of an issue specific credit assessment, in respect of its exposure to the issue.

3. This Article does not prevent the application of Article 129, Article 141, and, subject to paragraph 6, Article 138.

4. A general credit assessment for an issuer within a corporate group cannot be used as a credit assessment of another issuer within the same corporate group.

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5. An institution shall not take into account credit risk mitigation where the institution has relied on an issue-specific credit assessment that reflects the use of that credit risk mitigation.

6. An institution, when determining the risk weight of an exposure to an issue where:

   (a) the obligor is an institution; and

   (b) there is no issue-specific credit assessment available from a nominated ECAI that does not incorporate assumptions of implicit government support in accordance with the requirements of point (g) of Article 138(1),

   shall use the higher of the following risk weights:

   (i) the risk weight that would be assigned to the exposure in accordance with paragraphs 2 to 2B and 4, and Article 138;

   (ii) if an issue-specific credit assessment is available from a nominated ECAI, the risk weight that would be assigned to the exposure if the institution used an issue-specific credit assessment, disregarding point (g) of Article 138(1).

[Note: This rule corresponds to Article 139 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 140 LONG-TERM AND SHORT-TERM CREDIT ASSESSMENTS**

1. An institution shall only use short-term credit assessments for short-term asset and off-balance sheet items constituting exposures to institutions and corporates in accordance with Articles 120 and 122 respectively.

2. An institution shall only use a short-term credit assessment for the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item, except in the following cases:

   (a) if a short-term rated facility is assigned a 150% risk weight, then all unrated unsecured exposures to that obligor whether short-term or long-term shall also be assigned a 150% risk weight;

   (b) if a short-term rated facility is assigned a 50% risk weight, no unrated short-term exposure to that obligor shall be assigned a risk weight lower than 100%.

[Note: This rule corresponds to Article 140 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 141 DOMESTIC AND FOREIGN CURRENCY ITEMS**

1. A credit assessment for an item denominated in a currency other than the obligor's domestic currency may only be used to derive a risk weight for exposures to the same obligor that are denominated in a currency other than the domestic currency of the obligor.

2. A credit assessment for an item denominated in the obligor's domestic currency may only be used to derive a risk weight for exposures to the same obligor that are denominated in the domestic currency of the obligor.

3. Notwithstanding paragraphs 1 and 2, when an exposure denominated in a currency other than the domestic currency of the obligor arises through an institution's participation in a loan that has been extended, or has been guaranteed against convertibility and transfer risk, by a *multilateral development bank* whose preferred creditor status is recognised in the market and which is listed in Article 117(2), a credit assessment that refers to an item denominated in the

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obligor's domestic currency may be used to derive a risk weight for the exposure in accordance with Articles 138 and 139.

[Note: This rule corresponds to Article 141 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Annex E**

**Credit Risk: Internal Ratings Based Approach (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# CREDIT RISK: INTERNAL RATINGS BASED APPROACH (CRR) PART

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APPENDIX 1 – SLOTTING APPROACH CRITERIA
APPENDIX 2 – CHANGES TO THE RANGE OF APPLICATION OF RATING SYSTEMS

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation* entity,

which for the purposes of calculating its risk-weighted exposure amounts has a permission from the *PRA* (an '*IRB permission*') to:

(a) disapply the provisions of the Credit Risk: Standardised Approach (CRR) Part, except as otherwise provided in this Part; and instead

(b) apply the provisions of this Part (hereinafter referred to as the '*IRB Approach*') to the extent and subject to any modifications set out in the permission.

[Note: Rules 1.1 and 1.2 together with Article 143(1) and (2A) are a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

1.2 This Part also applies to a *CRR firm* and to a *CRR consolidation entity* to the extent and for the purpose of applying for an *IRB permission*.

[Note: Rules 1.1 and 1.2 together with Article 143(1) and (2A) are a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

1.3 In this Part, the following definitions shall apply:

*BEEL*

means an institution's best estimate of expected loss for a *defaulted exposure*.

*BIPRU*

means the prudential sourcebook for banks, building societies and investment firms, as it existed on or before 31 December 2013.

*business unit*

means any separate organisational or legal entities, business lines, geographical locations.

[Note: This definition corresponds to Article 142(1)(3) of *CRR* as it applied immediately before revocation by the *Treasury*]

*defaulted exposure*

means an exposure where the obligor or facility, as applicable, has defaulted in the circumstances set out in Article 178.

*EAD*

means the expected amount outstanding at default of a facility.

*exposure class*

has the meaning given in Article 147(2).

*exposure subclass*

has the meaning given in Article 147(2).

*facility grade*

means a risk category within a *rating system's* facility scale, to which exposures are assigned on the basis of a specified and distinct set of rating criteria, from which own estimates of *LGD* are derived.

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[Note: This definition corresponds to Article 142(1)(7) of *CRR* as it applied immediately before revocation by the *Treasury*]

*group credit risk risk-weighted exposure amount*

means the sum of points (a) and (f) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92 on a consolidated basis where the institution is a member of a *consolidation group* and measured on an individual basis otherwise.

*high-volatility commercial real estate exposure* or *HVCRE exposure*

means funding to real estate of at least one of the following types (and where a project is in the planning or construction phase, the use on completion of the property determines whether the real estate is commercial or residential):

(1) commercial real estate exposures secured by properties of types that share higher volatilities in portfolio default rates;

(2) exposures financing any of the land acquisition, development and construction ('ADC') phases for commercial real estate that share higher volatilities in portfolio defaults; or

(3) exposures financing the land, acquisition, development and construction ('ADC') of commercial real estate where the source of repayment at origination of the exposure is either:

(a) the uncertain future sale of the real estate; or

(b) cash-flows whose source of repayment is substantially uncertain, unless the borrower has substantial equity at risk.

*income-producing real estate exposure* or *IPRE exposure*

means funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash-flows generated by the asset.

*large financial sector entity*

means any financial sector entity whose total assets, taken at the highest level of consolidation at which audited financial statements are available, are equal to or greater than GBP 79 billion, using the most recent audited financial statements.

[Note: This definition corresponds to Article 142(1)(4) of *CRR* as it applied immediately before revocation by the *Treasury*]

*non-defaulted exposure*

means an exposure that is not a *defaulted exposure*.

*non-Retail AIRB Modelling roll-out category*

has the meaning given in Article 147B(2).

*obligor grade*

means a risk category within the obligor rating scale of a *rating system*, to which obligors are assigned on the basis of a specified and distinct set of rating criteria, from which estimates of *PD* are derived.

[Note: This definition corresponds to Article 142(1)(6) of *CRR* as it applied immediately before revocation by the *Treasury*]

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*Overseas Model Approach*

means the use of non-*UK rating systems* developed to meet non-*UK* IRB requirements, in the calculation of *UK* consolidated capital requirements in accordance with a permission granted under Article 143(6).

*post model adjustments*

means the adjustments relating to the non-compliance referred to in Article 146(3).

*rating system*

means all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of exposures to rating grades or pools, and the quantification of default and loss estimates that have been developed for a certain *type of exposures*.

[Note: This definition corresponds to Article 142(1)(1) of *CRR* as it applied immediately before revocation by the *Treasury*]

*retail exposure*

means an exposure assigned to the retail exposures *exposure class* in accordance with Article 147(5).

*revolving loan commitment*

means a *commitment* arising from a revolving loan facility, including but not limited to credit cards, charge cards and overdrafts, that lets a borrower obtain a loan where the borrower has the flexibility to decide how often to draw from the facility and at what time intervals. Facilities that allow prepayments and subsequent redraws of those prepayments are considered to be revolving.

*roll-out class*

has the meaning given in Article 147B(1).

*type of exposures*

means a group of homogeneously managed exposures which are formed by a certain type of facility and which may be limited to a single entity or a single sub-set of entities within a group provided that the same type of exposures is managed differently in other entities of the group.

[Note: This definition corresponds to Article 142(1)(2) of *CRR* as it applied immediately before revocation by the *Treasury*]

*unrecognised exposure adjustment*

means the adjustments relating to unrecognised exposures referred to in Article 166D(6).

*unregulated financial sector entity*

means a financial sector entity that is not prudentially regulated as a credit institution, investment firm or an insurance undertaking.

[Note: This definition corresponds to Article 142(1)(5) of *CRR* as it applied immediately before revocation by the *Treasury*]

1.4 In this Part the definition of financial sector entity in point (27) of Article 4(1) of *CRR* shall have effect as if it excludes any financial institution that satisfies each of the following conditions:

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(1) the financial institution provides investment services and other services exclusively for its parent undertaking, for its subsidiaries or for other subsidiaries of its parent undertaking ('its group');

(2) the business of its group, considered as a whole, does not satisfy any criteria that would qualify it as a financial sector entity as defined without reference to this rule; and

(3) the financial institution's main function, and associated revenues and profits, derive from providing internal services to manage the treasury, funding and risk management positions of its group.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution to which this Part applies shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and '*UK* parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

2.5 The expression 'consolidated situation' applies for the same purposes as it does for the purposes of Part Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution to which this Part applies that is required to comply with Part Two and Part Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: Rule 2.6 sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]

**Organisational Structure and Control Mechanisms**

2.7 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

2.8 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 2.8 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

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# 3 CREDIT RISK: INTERNAL RATINGS BASED APPROACH (CRR) PART

## SECTION 1 PERMISSION BY THE PRA TO USE THE IRB APPROACH

### Article 142 DEFINITIONS

1. [Note: Provision left blank]

2. [Note: Provision left blank]

### Article 143 PERMISSION TO USE THE IRB APPROACH

1.

(a) An institution may, with the prior permission of the *PRA*, use the *IRB Approach* if, when it applies for *IRB permission*, it can demonstrate to the satisfaction of the *PRA* that its arrangements for using the *IRB Approach* materially comply with this Part.

(b) For the purpose of point (a), an institution shall be considered to materially comply with this Part if:

(i) the effect of any non-compliance is immaterial for each of its *rating systems*; and

(ii) the overall effect of any non-compliance is immaterial.

[Note: Rules 1.1 and 1.2 together with Article 143(1) and (2A) are a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. [Note: Provision left blank]

2A. An institution shall, when making an application under paragraph 1 to the *PRA*, make clear in relation to each *exposure class*, *exposure subclass* or *type of exposures*, as the case may be, its proposal to adopt one or more of the following *IRB Approaches* instead of the *Standardised Approach*:

(a) the *Slotting Approach*;

(b) the *Foundation IRB Approach*; or

(c) the *Advanced IRB Approach*.

[Note: Rules 1.1 and 1.2 together with Article 143(1) and (2A) are a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2B. An institution with an *IRB permission* may, with the further prior permission of the *PRA*, in relation to an *exposure class*, *exposure subclass* or *type of exposures*, adopt:

(a) instead of the *Standardised Approach*, any of the *IRB Approaches* in points (a) to (c) in paragraph 2A, and

(b) where it already uses an *IRB Approach*, any of the following more sophisticated *IRB Approaches*:

(i) the *Foundation IRB Approach* instead of the *Slotting Approach*,

(ii) the *Advanced IRB Approach* instead of the *Slotting Approach*, or

(iii) the *Advanced IRB Approach* instead of the *Foundation IRB Approach*,

in each case only if the institution can demonstrate to the satisfaction of the *PRA* that the change proposed in the application materially complies with this Part.

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[Note: Article 143(2B) together with (2C) is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2C. For the purpose of paragraph 2B, the change proposed in an application shall be considered to materially comply with this Part if it fully complies with this Part or if both of the following conditions are met:

(a) the effect of any non-compliance for each of the institution's relevant *rating systems* would be immaterial if the institution made the proposed change; and

(b) the overall effect of the non-compliance would be immaterial if the institution made the proposed change.

[Note: Article 143(2C) together with (2B) is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

3.

(a) An institution may, with the prior permission of the *PRA*:

(i) make material changes to the range of application of a *rating system* that the institution has received permission to use, or

(ii) make material changes to a *rating system* that the institution has received permission to use,

if it is able to demonstrate to the satisfaction of the *PRA* that it meets at least one of the conditions in point (b).

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

(b) The conditions referred to in point (a) are that:

(i) the changes proposed in the application under point (a) materially comply with this Part; or

(ii) the institution is remediating non-compliance in its *rating systems* and the proposed changes under point (a) reduce the extent or degree of such non-compliance, and no exposures would become subject to a more sophisticated approach;

Point (b)(ii) shall not be considered to be met where an exposure becomes subject to a more sophisticated approach from a less sophisticated approach (that is, from the *Standardised Approach* to the *IRB Approach*, from the *Foundation IRB Approach* to the *Advanced IRB Approach*, or from the *Slotting Approach* to either the *Foundation IRB Approach* or the *Advanced IRB Approach*).

(c) For the purpose of point (b)(i), the changes proposed in the application shall be considered to materially comply with this Part if they fully comply with this Part or if both of the following conditions are met:

(i) the effect of any non-compliance for each relevant *rating system* would be immaterial if the institution made the proposed changes; and

(ii) the overall effect of non-compliance would be immaterial if the institution made the proposed changes.

3A. The range of application of a *rating system* shall comprise all exposures of the relevant *type of exposures* for which that *rating system* was developed.

4. An institution shall:

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(a) at least annually, submit details to the *PRA* of all *rating systems* that are included within the scope of its *IRB permission*; and

(b) notify the *PRA* in accordance with Article 143D(1) of all changes to *rating systems* for which *PRA permissio*n is not required in accordance with this Article.

5. [Note: Provision left blank]

6. An institution may, with the prior permission of the *PRA*, use the *Overseas Model Approach*, if it can demonstrate to the satisfaction of the *PRA* that its use of the *Overseas Model Approach* complies with the following conditions:

(a) the aggregate amount of risk-weighted exposure amounts calculated using the *Overseas Model Approach* is no more than 7.5% of the *group credit risk risk-weighted exposure amounts* and the aggregate exposure value using the *Overseas Model Approach* is no more than 7.5% of the group's total exposure value, as calculated by the institution on a consolidated basis and prior to the application of the *output floor*;

(b) the scope of the *rating system* only includes exposures of a type specified in point (c) that are located within a subsidiary in an equivalent jurisdiction, as determined under Article 114(7) of *CRR*, the model used in the *Overseas Model Approach* has been reviewed and approved for the purpose of the institution calculating its local capital requirements by the relevant overseas regulator, and the institution uses that model to calculate local capital requirements in that jurisdiction;

(c) the scope of the *rating system* only includes one or both of the following:

(i) *retail exposures*;

(ii) exposures to *SMEs* that are in the corporate *exposure class*, as set out in point (a)(ii) of Article 147(5);

(d) the outputs of the *rating system* (such as estimates of *PD*, *LGD*, and *conversion factors* or *EAD*) are derived using both historical experience and empirical evidence (and not based purely on judgemental considerations), and the estimates are plausible, intuitive and based on the material drivers of the respective risk parameters;

(e) the population of exposures represented in the data used for estimation, the lending standards used when the data were generated, and other relevant characteristics, are comparable with those of the institution's exposures and standards;

(f) the number of exposures in the sample and the data period used for quantification are sufficient to provide confidence in the accuracy and robustness of estimates;

(g) the *rating system* provides a meaningful differentiation of risk and is able to produce accurate and consistent quantitative estimates of risk;

(h) material weaknesses in the *rating system* are adequately compensated by an adjustment to parameter estimates;

(i) the *rating system* is subject to appropriate internal governance processes, with senior management in the overseas subsidiary possessing a general understanding of the *rating system* of the institution and detailed comprehension of its associated management reports;

(j) the *rating system* is subject to an appropriate validation of internal estimates process, with the process being objective, consistent, and accurate; and

(k) the *rating system* is used to inform credit risk decisions.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

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7. Where, on 31 December 2026, an institution had *PRA* permission to use the *Overseas Model Approach* as part of its *IRB permission* under Article 143 of *CRR*, as that provision existed on 31 December 2026, the institution shall, after 31 December 2026, be treated as having permission under paragraph 6.

8. An institution with *PRA* permission to use the *Overseas Model Approach* shall ensure that its use of the *Overseas Model Approach* complies with each of the conditions in paragraph 6 on an ongoing basis.

[Note: This rule corresponds to Article 143(1) to (4) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 143A RATING SYSTEMS: CATEGORIES OF CHANGES**

1. An institution shall classify the materiality of changes to the range of application of a *rating system* or of changes to a *rating system* into one of the following categories:

   (a) material changes which, as specified in Article 143(3), require permission from the *PRA*; or

   (b) other changes, which, as specified in point (b) of Article 143(4) require notification to the *PRA*.

2. The changes referred to in point (b) of paragraph 1 shall further be classified into:

   (a) changes that require notification before their implementation as specified in Article 143D; or

   (b) changes that require notification after their implementation.

**Article 143B RATING SYSTEMS: PRINCIPLES OF CLASSIFICATION OF CHANGES**

1. An institution shall, where it is required to calculate the quantitative impact of any change on risk-weighted exposure amounts under Article 143C and Article 143D, apply the following methodology:

   (a) for the purpose of the assessment of the quantitative impact the institution shall use the most recent data available;

   (b) where a precise assessment of the quantitative impact is not feasible, the institution shall instead perform an assessment of the impact based on a representative sample or other reliable inference methodologies; and

   (c) for changes having no direct quantitative impact, no quantitative impact as laid down in point (c) of Article 143C(1), needs to be calculated.

2. An institution shall not split one material change into several changes of lower materiality.

3. In case of doubt, an institution shall assign changes to the category of the highest potential materiality.

4. An institution shall, where the *PRA* has granted permission in relation to a material change, calculate risk-weighted exposure amounts and expected loss amounts based on the approved material change from the date specified in the new permission, and shall not use the version of the *rating system* specified in the previous permission.

4A. If an institution:

   (a) decides not to implement an approved material change, it shall apply to the *PRA* for permission to not implement the change; or

   (b) wishes to vary the implementation date specified in a permission, it shall apply to the *PRA* for permission to do so.

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[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

5. An institution shall, in case of delay of the implementation of a change for which permission from the *PRA* has been granted, notify the *PRA* and present to the *PRA* a plan for a timely implementation of the approved change, which it shall realise within a reasonable time.

6. An institution shall, where a change is classified as one requiring prior notification to the *PRA*, and where, subsequent to the notification, the institution decides not to implement the change, notify the *PRA* of this decision without undue delay.

**Article 143C RATING SYSTEMS: MATERIAL CHANGES TO THE IRB APPROACH**

1. For the purposes of Article 143(3), changes to the *IRB Approach* shall be considered material if they fulfil any of the following conditions:

   (a) they fall under any of the changes to the range of application of a *rating system* described in Appendix 2, Part 1, Section 1;

   (b) they fall under any changes to the *rating systems* described in Appendix 2, Part 2, Section 1;

   (c) the change results in the institution's risk-weighted exposure amounts:

      (i) decreasing by 1.5% or more for either of the following:

         (1) on a consolidated basis, the overall *UK* parent institution's risk-weighted exposure amounts for credit and dilution risk;

         (2) the overall risk-weighted exposure amounts for credit and dilution risk in the case of an institution which is neither a parent institution, nor a subsidiary;

      (ii) decreasing by 15% or more of the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the *rating system*.

2. For the purposes of point (c)(i) of paragraph 1, and in accordance with Article 143B(1), the impact of the change shall be assessed as a ratio calculated as follows:

   (a) in the numerator, the difference in the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the *rating system* before and after the change at the *UK* parent institution's consolidated level or at the institution level which is neither a parent institution, nor a subsidiary;

   (b) in the denominator, the overall risk-weighted exposure amounts for credit and dilution risk before the change at the *UK* parent institution's consolidated level or at the institution level which is neither a parent institution, nor a subsidiary.

   The calculation shall refer to the same point in time, and the set of exposures shall be assumed to remain constant.

3. For the purposes of point (c)(ii) of paragraph 1, and in accordance with Article 143B(1), the impact of the change shall be assessed as a ratio calculated as follows:

   (a) in the numerator, the difference in the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the *rating system* before and after the change;

   (b) in the denominator, the risk-weighted exposure amounts for credit and dilution risk before the change associated with the range of application of the *rating system*.

   The calculation shall refer to the same point in time, and the set of exposures shall be assumed to remain constant.

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**Article 143D RATING SYSTEMS: CHANGES TO THE IRB APPROACH NOT CONSIDERED MATERIAL**

1. An institution shall, for changes to the *IRB Approach* as specified in its *IRB permission* which are not material (in accordance with Article 143C) but which are to be notified to the *PRA* in accordance with point (b) of Article 143(4), notify the *PRA* as follows:

   (a) changes which fulfil any of the following conditions shall be notified to the *PRA* at least two *months* before their implementation:

      (i) changes described in Appendix 2, Part 1, Section 2;

      (ii) changes described in Appendix 2, Part 2, Section 2;

      (iii) changes which result in a decrease of 5% or more of the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the *rating system*;

   (b) all other changes shall be notified to the *PRA* after their implementation at least on an annual basis.

2. For the purposes of point (a)(iii) of paragraph 1, and in accordance with Article 143B(1), the impact of the change shall be assessed as a ratio calculated as follows:

   (a) in the numerator, the difference in the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the *rating system* before and after the change;

   (b) in the denominator, the risk-weighted exposure amounts for credit and dilution risk before the change associated with the range of application of the *rating system*.

   The calculation shall refer to the same point in time, and the set of exposures shall be assumed to remain constant.

**Article 143E RATING SYSTEMS: DOCUMENTATION OF CHANGES**

1. An institution shall, for changes to the *IRB Approach* classified as requiring the permission of the *PRA*, submit, together with the application, the following documentation:

   (a) description of the change, its rationale and objective;

   (b) proposed implementation date;

   (c) scope of application affected by the model change;

   (d) technical and process document(s);

   (e) reports of the institution's independent review or validation;

   (f) confirmation that the change has been approved through the institution's approval processes by its management body or a designated committee under Article 189(1), and the date of approval;

   (g) where applicable, the quantitative impact of the change on the risk-weighted exposure amounts or expected loss amounts.

2. An institution shall, for changes classified as requiring notification either before or after implementation, submit, together with the notification, the documentation referred to in points (a) to (g) of paragraph 1.

**Article 144 HIGH-LEVEL REQUIREMENTS FOR USING THE IRB APPROACH**

1. An institution shall meet the following requirements when using the *IRB Approach*:

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(a) each of the institution's *rating systems* shall provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk;

(b) internal ratings and default and loss estimates used in the calculation of own funds requirements and associated systems and processes shall play an essential role in the risk management and decision-making process, and in the credit approval, internal capital allocation and corporate governance functions of the institution;

(c) the institution has a credit risk control unit responsible for each *rating system* that is appropriately independent and free from undue influence;

(d) the institution collects and stores all relevant data to provide effective support to its credit risk measurement and management process;

(e) the institution documents each *rating system* and the rationale for their design, and validates each *rating system*;

(f) the institution has validated each *rating system* during an appropriate time period prior to the permission to use each *rating system*, has assessed during this time period whether each *rating system* is suited to the range of application of each *rating system*, and has made necessary changes to each *rating system* following its assessment;

(g) the institution has calculated under the *IRB Approach* the own funds requirements resulting from its risk parameters estimates and is able to submit the reporting as required by Chapter 4 of Reporting (CRR) Part Article 430; and

(h) the institution has assigned and continues to assign each exposure in the range of application of a *rating system* to a rating grade or pool of each *rating system*.

1A. Where the institution has implemented a *rating system*, or model used within a *rating system*, that it has purchased from a third-party vendor, the institution shall ensure that the *rating system* or model, as the case may be, and their use by the institution, complies with this Part.

2. [Note: Provision left blank]

[Note: This rule corresponds to Article 144(1) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 145 PRIOR EXPERIENCE OF USING IRB APPROACHES**

1. An institution applying for permission to use the *IRB Approach* shall demonstrate to the satisfaction of the *PRA* that it has been using for the IRB *exposure classes* in question *rating systems* that were broadly in line with the requirements set out in Section 6 for internal risk measurement and management purposes for at least three years prior to its qualification to use the *IRB Approach*.

2. An institution applying for permission to use the *Advanced IRB Approach* for non-*retail exposures* shall demonstrate to the satisfaction of the *PRA* that it has been estimating and employing own estimates of *LGDs*, and *conversion factors* or *EADs*, in a manner that is broadly consistent with the requirements for use of own estimates of those parameters set out in Section 6 for at least three years prior to qualification to use the *Advanced IRB Approach* for non-*retail exposures*.

3. Where an institution applies for a permission to extend the use of the *IRB Approach* as provided for in its *IRB permission*, the institution shall demonstrate to the satisfaction of the *PRA* that its experience as previously evidenced is sufficient to satisfy the requirements of paragraphs 1 and 2 in respect of the additional exposures covered. If the use of a *rating system* is extended to exposures that are significantly different from the scope of the existing coverage, such that the existing experience is not reasonably considered sufficient to meet the

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requirements of these provisions in respect of the additional exposures, then the institution shall confirm to the *PRA* in writing and submit documentary evidence that demonstrates that it meets the requirements of paragraphs 1 and 2 in relation to the additional exposures.

[Note: This rule corresponds to Article 145 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 146 MEASURES TO BE TAKEN WHERE THE REQUIREMENTS CEASE TO BE MET**

1. Where an institution which has been granted a permission by the *PRA* to use the *IRB Approach* does not comply with the requirements laid down in this Part, it shall notify the *PRA* promptly and do one of the following:

   (a) demonstrate that the effect of non-compliance is immaterial; or

   (b) present a plan for addressing non-compliance in a timely way such that the effect of non-compliance would become immaterial under point (a) or the institution would become compliant, and realise this plan within a reasonable time period.

2. For the purposes of point (a) of paragraph 1, the institution shall confirm to the *PRA* in writing and submit documentary evidence that demonstrates that:

   (a) it has taken into account all instances of non-compliance with the requirements;

   (b) the effect of non-compliance is immaterial for each *rating system*; and

   (c) the overall effect of non-compliance is immaterial.

3. An institution shall, where the non-compliance referred to in paragraph 1 results in a material reduction in risk-weighted exposure amounts or expected loss amounts for a particular *rating system*, quantify the following *post model adjustments* to offset the impact of non-compliance in relation to risk-weighted exposure amounts and expected loss amounts:

   (a) an adjustment in respect of risk-weighted exposure amounts relating to exposures to institutions and corporates;

   (b) an adjustment in respect of risk-weighted exposure amounts relating to *retail exposures*; and

   (c) an adjustment in respect of expected loss amounts.

[Note: This rule corresponds to Article 146 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 147 METHODOLOGY TO ASSIGN EXPOSURES TO EXPOSURE CLASSES AND EXPOSURE SUBCLASSES**

1. An institution shall ensure that the methodology it uses for assigning exposures to different *exposure classes* is appropriate and consistent over time.

2. An institution shall assign each exposure to one of the following *exposure classes* and *exposure subclasses*, as the case may be:

   (a) exposures to central governments, central banks or quasi-sovereigns;

   (b) exposures to institutions;

   (c) exposures to corporates, which shall be divided into the following *exposure subclasses*:

      (i) specialised lending exposures;

      (ii) financial corporates and large corporates; and

      (iii) other general corporates;

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(d) retail exposures, which shall be divided into the following *exposure subclasses*:

(i) qualifying revolving retail exposures;

(ii) retail exposures secured by residential immovable property; and

(iii) other retail;

(e) equity exposures;

(ea) exposures in the form of units or shares in a CIU;

(f) items representing securitisation positions;

(g) other non-credit obligation assets.

3. Exposures to any of the following entities shall be assigned to the *exposure class* referred to in point (a) of paragraph 2:

(a) central governments;

(b) central banks;

(c) regional governments;

(d) local authorities;

(e) public sector entities;

(f) *multilateral development banks*;

(g) international organisations which are assigned a risk weight of 0% under paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 118;

(h) deferred tax assets which are assigned a risk weight of 250% under paragraph 4 of Own Funds (CRR) Part Article 48.

4. The following exposures shall be assigned to the *exposure class* referred to in point (b) of paragraph 2 (exposures to institutions):

(a) exposures to institutions, with the exception of any exposures that are assigned to the *exposure class* referred to in point (e) of paragraph 2 (equity exposures) in accordance with paragraph 6;

(b) exposures to financial institutions treated as exposures to institutions in accordance with Article 119(5) of *CRR*, with the exception of any exposures that are assigned to the *exposure class* referred to in point (e) of paragraph 2 (equity exposures) in accordance with paragraph 6.

4A. Any credit obligation not assigned to an *exposure class* referred to in points (a), (b), (d), (e), (ea) and (f) of paragraph 2 shall be assigned to the corporate *exposure class* referred to in point (c) of that paragraph (exposures to corporates).

4B. Exposures to corporates shall be assigned to the specialised lending *exposure subclass* referred to in point (c)(i) of paragraph 2, if they possess all of the following characteristics, in legal form or economic substance:

(a) the exposure is to an entity which was created specifically to finance and/or operate physical assets;

(b) the borrowing entity has few or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed;

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(c) the terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and

(d) as a result of points (a) to (c), the primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of a broader commercial enterprise.

Specialised lending exposures shall be assigned to one of the following categories (in accordance with their definitions): *object finance exposures*, *project finance exposures*, *commodities finance exposures*, *IPRE exposures* or *HVCRE exposures*. Specialised lending exposures that can meet both the definition of *IPRE exposures* and *HVCRE exposures* shall be assigned to *HVCRE exposures*.

4C. Exposures to corporates shall be assigned to the financial corporates and large corporates *exposure subclass* referred to in point (c)(ii) of paragraph 2 if:

(a) they do not fall within the specialised lending *exposure subclass* referred to in point (c)(i) of paragraph 2; and

(b) the exposures are to:

(i) financial sector entities; or

(ii) 'large' corporates with annual revenue of more than GBP 440 million, taken at the highest level of consolidation which is performed and at which audited financial statements are available, if applicable. For this purpose, annual revenue shall be calculated as the average annual amount over the last three years.

4D. Any other exposures to corporates not assigned to the *exposure subclasses* referred to in points (c)(i) or (c)(ii) of paragraph 2 shall be assigned to the *exposure subclass* referred to in point (c)(iii) of paragraph 2 (other general corporates).

5. An institution shall ensure that exposures assigned to the retail exposures *exposure class* referred to in point (d) of paragraph 2, meet the following criteria:

(a) they are one of the following:

(i) exposures to one or more natural persons; or

(ii) exposures to an *SME*, provided that the total amount owed (including past due exposures) to the institution, its parent undertakings, its subsidiaries and subsidiaries of its parent undertakings by the obligor or group of connected clients, excluding exposures secured by residential immovable property collateral, shall not exceed GBP 880,000;

(b) they are treated by the institution in its risk management consistently over time and in a similar manner;

(c) they are not managed just as individually as exposures in the corporate *exposure class*; and

(d) they each represent one of a significant number of similarly managed exposures.

In addition to the exposures listed in the first sub-paragraph, the present value of retail minimum lease payments shall be included in the retail exposures *exposure class*.

5A. *Retail exposures* shall be assigned to the qualifying revolving retail exposures *exposure subclass* referred to in point (d)(i) of paragraph 2, if they meet the following conditions:

(a) the exposures are to individuals;

(b) the exposures are revolving, unsecured, and to the extent they are not drawn, immediately and unconditionally cancellable by the institution. For the purpose of this point:

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(i) revolving exposures are defined as those where customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to a limit established by the institution; and

(ii) undrawn *commitments* may be considered as unconditionally cancellable if the terms permit the institution to cancel them to the full extent allowable under consumer protection and related legislation;

(c) the largest aggregate nominal exposure to a single individual, out of all aggregate nominal exposures to individuals in the sub-portfolio, is GBP 90,000 or less;

(d) the use of the coefficient of correlation referred to in Article 154(4) is limited to portfolios that have exhibited low volatility of loss rates, relative to their average level of loss rates, especially within the low *PD* bands; and

(e) the treatment as a qualifying revolving retail exposure shall be consistent with the underlying risk characteristics of the sub-portfolio.

By way of derogation from point (b), the requirement to be unsecured does not apply in respect of collateralised credit facilities linked to a wage account. In this case, amounts recovered from the collateral connected to those credit facilities shall not be taken into account in the *LGD* estimate.

An institution shall identify qualifying revolving retail exposures as either *transactor exposures* or non-*transactor exposures*. In particular, qualifying revolving retail exposures with less than 12 *months* of repayment history shall be identified as exposures that are non-*transactor exposures*.

5B. The following exposures shall be assigned to the *exposure subclass* referred to in point (d)(ii) of paragraph 2: *retail exposures* secured by residential immovable property.

5C. Any other *retail exposures* not assigned to the *exposure subclasses* referred to in points (d)(i) or (d)(ii) of paragraph 2 shall be assigned to the *exposure subclass* referred to in point (d)(iii) of paragraph 2 (other retail).

6. The following exposures shall be assigned to the *exposure class* referred to in point (e) of paragraph 2:

(a) *equity exposures* which are not exposures in the form of units or shares in a CIU;

(b) exposures which are assigned a risk weight of 1,250% in accordance with paragraph 3 of Own Funds (CRR) Part Article 89; and

(c) exposures which are not deferred tax assets and which are assigned a risk weight of 250% in accordance with paragraph 4 of Own Funds (CRR) Part Article 48.

6A. The following exposures shall be assigned to the *exposure class* referred to in point (ea) of paragraph 2: exposures in the form of units or shares in a CIU.

7. [Note: Provision left blank. See paragraph 4A]

8. The following exposures shall be assigned to the *exposure class* referred to in point (g) of paragraph 2: other non-credit obligation assets. This shall include the residual value of leased properties, except to the extent that residual value is already included in the lease exposure referred to in Article 166A(4).

9. The exposure from providing protection under an nth-to-default basket credit derivative shall be assigned to the same single *exposure class* referred to in paragraph 2 to which the underlying exposures in the basket would be assigned, provided that if the individual exposures in the basket would be assigned to more than one *exposure classes*, the exposure shall be assigned to the corporates *exposure class* referred to in point (c) of paragraph 2.

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[Note: This rule corresponds to Article 147 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 147A TREATMENT BY EXPOSURE CLASS AND EXPOSURE SUBCLASS**

1. An institution shall, for the purpose of calculating the own funds requirement for credit risk, for exposures assigned to the *exposure class* or *exposure subclass*, as the case may be, set out in this Article, use the following specified approaches:

   (a) for point (a) of Article 147(2) (central governments, central banks or quasi-sovereigns), the *Standardised Approach*;

   (b) for point (b) of Article 147(2) (institutions):

      (i) the *Standardised Approach* for exposures where permission has been granted under Article 148 or Article 150;

      (ii) the *Foundation IRB Approach* for all other exposures within that *exposure class*;

   (c) for point (c)(i) of Article 147(2) (specialised lending) for *IPRE exposures* and *HVCRE exposures*:

      (i) the *Standardised Approach* for exposures where permission has been granted under Article 148 or Article 150; or

      (ii) the *Slotting Approach* for all other *IPRE exposures* and *HVCRE exposures*;

   (d) for point (c)(i) of Article 147(2) (specialised lending) for *object finance exposures*, *project finance exposures* and *commodities finance exposures*:

      (i) the *Standardised Approach* for exposures where permission has been granted under Article 148 or Article 150;

      (ii) the *Foundation IRB Approach* for exposures where permission has been granted under Article 143(2A) or (2B) or Article 149(2) to use the *Foundation IRB Approach*;

      (iii) the *Advanced IRB Approach* for exposures where permission has been granted under Article 143(2A) or (2B) to use the *Advanced IRB Approach*;

      (iv) the *Slotting Approach* for all other *object finance exposures*, *project finance exposures* and *commodities finance exposures*;

   (e) for point (c)(ii) of Article 147(2) (financial corporates and large corporates):

      (i) the *Standardised Approach* for exposures where permission has been granted under Article 148 or Article 150;

      (ii) the *Foundation IRB Approach* for all other exposures within that *exposure subclass*;

   (f) for point (c)(iii) of Article 147(2) (other general corporates):

      (i) the *Standardised Approach* for exposures where permission has been granted under Article 148 or Article 150;

      (ii) the *Advanced IRB Approach* for exposures where permission has been granted under Article 143(2A) or (2B) to use the *Advanced IRB Approach*;

      (iii) the *Foundation IRB Approach* for all other exposures within that *exposure subclass*;

   (g) for point (d) of Article 147(2) (retail):

      (i) the *Standardised Approach* for exposures where permission has been granted under Article 148 or Article 150;

      (ii) the *Advanced IRB Approach* for all other exposures within that *exposure class*;

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(h) for point (e) of Article 147(2) (equity), the *Standardised Approach*;

(i) for point (ea) of Article 147(2) (units or shares in a CIU), the approach set out in Article 152 and Article 158(4);

(j) for point (f) of Article 147(2) (items representing securitisation positions), the approach set out in Chapter 5 of Title II of Part Three of *CRR*;

(k) for point (g) of Article 147(2) (other non-credit obligation assets), the approach set out in Article 156, Article 158(3) and Article 168.

**Article 147B ROLL-OUT CLASSES AND CATEGORIES**

1. Each of the following is a *roll-out class* applicable for the *IRB Approach*:

(a) exposures to institutions as set out in point (b) of Article 147(2);

(b) specialised lending exposures as set out in point (c)(i) of Article 147(2);

(c) exposures to purchased receivables within the corporate *exposure class* as set out in point (c) of Article 147(2);

(d) exposures to financial corporates and large corporates and to other general corporates as set out in points (c)(ii) and (c)(iii) of Article 147(2);

(e) qualifying revolving retail exposures as set out in point (d)(i) of Article 147(2);

(f) *retail exposures* secured by residential property as set out in point (d)(ii) of Article 147(2);

(g) exposures to purchased receivables within the retail exposures *exposure class* as set out in point (d) of Article 147(2); and

(h) exposures to other retail as set out in point (d)(iii) of Article 147(2).

2. The *non-Retail AIRB Modelling roll-out category* applicable for the *IRB Approach* is:

(a) with the exception of *IPRE exposures* and *HVCRE exposures*, exposures to specialised lending as set out in point (c)(i) of Article 147(2);

(b) exposures to other general corporates, as set out in point (c)(iii) of Article 147(2).

**Article 147C METHODOLOGY FOR ROLL-OUT OF THE IRB APPROACH**

1. An institution which has a permission to apply the *IRB Approach* in accordance with Article 143 shall, subject to any permission granted under Article 148, implement the *IRB Approach* for all exposures referred to in Article 147B(1), except for exposures which fall within the scope of points (e), (k) and (l) of Article 150(1) and for which it has received the prior permission of the *PRA* to permanently use the *Standardised Approach* in accordance with Article 150(1).

2. An institution which has permission to apply the *Advanced IRB Approach* for some *types of exposures* in the *non-Retail AIRB Modelling roll-out category* shall, subject to any permission granted under Article 148, implement one or more of the following approaches for all exposures in that category:

(a) the *Advanced IRB Approach*,

(b) the *Slotting Approach* in relation to the exposures set out in point (a) of Article 147B(2), or

(c) the *Standardised Approach*,

unless it meets the condition in point (b) of Article 150(4) and it has received the prior permission of the *PRA* to permanently use the *Foundation IRB Approach* in accordance with Article 150(4).

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**Article 148 CONDITIONS FOR ROLL-OUT OF THE IRB APPROACH**

1. An institution may, with the prior permission of the *PRA*, carry out the implementation of Article 147C(1) sequentially:

   (a) across different *roll-out classes*,

   (b) across different *types of exposures* within the same *roll-out class*, or

   (c) for a given *roll-out class*, across different *business units* in the same group,

   as set out in the permission, if it is able to demonstrate to the satisfaction of the *PRA* that the conditions in paragraph 3 are met.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

1A. An institution may, with the prior permission of the *PRA*, carry out the implementation of Article 147C(2) sequentially:

   (a) across different *types of exposures* within the *non-Retail AIRB Modelling roll-out category*, or

   (b) for a given *type of exposures* within the *non-Retail AIRB Modelling roll-out category*, across different *business units* in the same group,

   as set out in the permission, if it is able to demonstrate to the satisfaction of the *PRA* that the conditions in paragraph 3 are met.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. An institution shall implement the *IRB Approach* in accordance with a permission granted under paragraphs 1 and 1A within such time period and according to such timing and sequence as is specified in its *IRB permission*.

3. The conditions referred to in paragraphs 1 and 1A are:

   (a) the institution shall submit an implementation plan which specifies the extent to which it intends to implement more sophisticated approaches;

   (b) the time period for realising the implementation plan shall be appropriate on the basis of the nature and scale of the activities of the institution, or of any parent undertaking and its subsidiaries, and the number and nature of the *rating systems* to be implemented; and

   (c) the timing and sequencing of the implementation plan shall be driven by the practicality and feasibility of moving to the more sophisticated approaches, and not motivated by a desire to adopt an approach that minimises the capital requirements for the institution.

4. [Note: Provision left blank]

5. [Note: Provision left blank]

6. [Note: Provision left blank]

[Note: Paragraphs 1 to 3 of this rule correspond to Article 148(1) to (3) of *CRR*]

**Article 149 CONDITIONS TO REVERT TO THE USE OF LESS SOPHISTICATED APPROACHES**

1. An institution that uses the *IRB Approach* for a particular *roll-out class* or *type of exposures* shall continue to use that approach and shall not instead use the *Standardised Approach* for the calculation of risk-weighted exposure amounts, except that the institution may, with the prior permission of the *PRA*, stop using that approach and use instead the *Standardised Approach*

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for the calculation of risk-weighted exposure amounts, if it can demonstrate to the satisfaction of the *PRA* that the use of the *Standardised Approach*:

(a) is not proposed in order to reduce the own funds requirement of the institution;

(b) is necessary on the basis of the nature and complexity of the institution's total exposures of this type;

(c) would not have a material adverse impact on the solvency of the institution or its ability to manage risk effectively; and

(d) either:

(i) would result in the *Standardised Approach* being applied to all exposures of the institution; or

(ii) in accordance with Article 147C(1), would meet the requirements of Article 148(1) (on sequential roll-out) or Article 150(1) (on permanent partial use of the *Standardised Approach*).

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. An institution that uses the *Advanced IRB Approach* for a particular *type of exposures* within the *non-Retail AIRB Modelling roll-out category* shall continue to use that approach and shall not instead use the *Foundation IRB Approach*, except that the institution may, with the prior permission of the *PRA*, instead use the *Foundation IRB Approach* if it can demonstrate to the satisfaction of the *PRA* that the use of the *Foundation IRB Approach* for a *type of exposures* within the *non-Retail AIRB Modelling roll-out category*:

(a) is not proposed in order to reduce the own funds requirement of the institution;

(b) is necessary on the basis of nature and complexity of the institution's total exposures of this type;

(c) would not have a material adverse impact on the solvency of the institution or its ability to manage risk effectively; and

(d) either:

(i) would result in the *Advanced IRB Approach* no longer being applied to any exposures within the *non-Retail AIRB Modelling roll-out category*; or

(ii) in accordance with Article 147C(3), would meet the requirements of Article 148(1A) (on sequential roll-out) or Article 150(4) (on permanent partial use of the *Foundation IRB Approach*).

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2A. An institution that uses the *Advanced IRB Approach* or the *Foundation IRB Approach* in respect of specialised lending exposures as set out in point (c)(i) of Article 147(2) for a particular *roll-out class* or *type of exposures* shall continue to use that approach and shall not instead use the *Slotting Approach* for the calculation of risk-weighted exposure amounts, except that the institution may, with the prior permission of the *PRA*, instead use the *Slotting Approach* for the calculation of risk-weighted exposure amounts, if it can demonstrate to the satisfaction of the *PRA* that the change proposed in the application materially complies with this Part.

For the purpose of the first sub-paragraph, the change proposed in the application shall be considered to materially comply with this Part if it fully complies with this Part or if both of the following conditions are met:

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(a) the effect of any non-compliance for each *rating system* in the institution's application would be immaterial if the institution made the proposed change; and

(b) the overall effect of the non-compliance would be immaterial if the institution made the proposed change.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

[Note: This rule corresponds to Article 149 of *CRR*]

**Article 150 CONDITIONS FOR PERMANENT PARTIAL USE**

1. An institution which has been granted permission by the *PRA* to use the *IRB Approach* in the calculation of risk-weighted exposure amounts and expected loss amounts may, with the prior permission of the *PRA*, apply the *Standardised Approach* to a subset of its exposures if it can demonstrate to the satisfaction of the *PRA* that such exposures fall within the following categories:

   (a) [Note: Provision left blank]

   (b) [Note: Provision left blank]

   (c) [Note: Provision left blank]

   (d) [Note: Provision left blank]

   (e) exposures of an institution to a counterparty which is its parent undertaking, its subsidiary or a subsidiary of its parent undertaking provided that the counterparty is an institution or a financial holding company, mixed financial holding company, financial institution, asset management company or ancillary services undertaking subject to appropriate prudential requirements or an undertaking linked by a common management relationship;

   (f) [Note: Provision left blank]

   (g) [Note: Provision left blank]

   (h) [Note: Provision left blank]

   (i) [Note: Provision left blank]

   (j) [Note: Provision left blank]

   (k) all exposures in one or more *roll-out classes*, where:

      (i) the application of the *Standardised Approach* to each such *roll-out class* does not result in significantly lower capital requirements than if the *IRB Approach* were applied;

      (ii) the institution cannot reasonably model the exposures in each such *roll-out class*; or

      (iii) the exposures in each such *roll-out class* are immaterial;

   (l) all exposures in one or more *types of exposures*, where the application of the *Standardised Approach* to each such *type of exposures* would not result in the *Standardised Approach* applying to a majority of exposures in a *roll-out class*, and where either:

      (i) the institution cannot reasonably model the exposures in each such *type of exposures*; or

      (ii) the exposures are immaterial in aggregate.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

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1A. For the purpose of:

(a) point (k)(i) of paragraph 1, 'significantly lower capital requirements' means the institution reasonably estimates that *group credit risk risk-weighted exposure amounts* for that *roll-out class* under the *Standardised Approach* are less than 95% of the *group credit risk risk-weighted exposure amounts* for that *roll-out class* on the basis of the institution applying the *IRB Approach*;

(b) point (k)(ii) of paragraph 1, the institution cannot reasonably model the exposures only if either:

(i) the institution does not have sufficient data to model exposures in the *roll-out class* and cannot reasonably be expected to obtain sufficient data in a timely manner, and the deficiency in data does not arise due to historic non-compliance with the data collection and storage requirement provisions in the *CRR*, *BIPRU* or this Part as applicable;

(ii) the institution cannot reasonably develop a compliant modelling approach due to the nature and complexity of the exposures in the *roll-out class*; or

(iii) the use of the *IRB Approach* for the *roll-out class* would not result in significant improvements in risk differentiation or risk quantification than if the *Standardised Approach* were applied to the exposures in the *roll-out class*;

(c) point (k)(iii) of paragraph 1, exposures are immaterial if the institution's total *group credit risk risk-weighted exposure amounts*, as calculated under the *Standardised Approach*, for that *roll-out class* do not exceed 5% of total *group credit risk risk-weighted exposure amounts*;

(d) point (l)(i) of paragraph 1, the institution cannot reasonably model the exposures only if either:

(i) the institution does not have sufficient data to model the exposures in the *type of exposures* and cannot reasonably be expected to obtain sufficient data in a timely manner, and the deficiency in data does not arise due to historic non-compliance with the data collection and storage requirement provisions in the *CRR*, *BIPRU* or this Part as applicable;

(ii) the institution cannot reasonably develop a compliant modelling approach due to the nature and complexity of the exposures in the *type of exposures*; or

(iii) the use of the *IRB Approach* for the exposures would not result in significant improvements in risk differentiation or risk quantification than if the *Standardised Approach* were applied to the exposures in the *type of exposures*;

(e) point (l)(ii) of paragraph 1, the exposures are immaterial in aggregate if the institution's total *group credit risk risk-weighted exposure amounts* of all exposures across all *roll-out classes* for which the *Standardised Approach* is permanently applied on the basis of the firm having received permission to do so under point (l)(ii), do not exceed 5% of the total *group credit risk risk-weighted exposure amounts* for all *roll-out classes* for which the institution has permission to use the *IRB Approach* for some or all exposures;

(f) point (l) of paragraph 1, the *Standardised Approach* shall be considered to be applied to a majority of exposures within the *roll-out class* if the total *group credit risk risk-weighted exposure amounts* for all exposures to which the *Standardised Approach* is permanently applied exceeds 50% of the total *group credit risk risk-weighted exposure amounts* for that *roll-out class*. When calculating the total *group credit risk risk-weighted exposure amounts*, an institution shall exclude from the numerator and the denominator the exposures set out in points (e) of paragraph 1.

2. [Note: Provision left blank]

3. [Note: Provision left blank]

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4.

(a) An institution which has been granted permission by the *PRA* to use the *Advanced IRB Approach* in the calculation of risk-weighted exposure amounts and expected loss amounts for one or more *type of exposures* within the *non-Retail AIRB Modelling roll-out category* may, with the prior permission of the *PRA*, apply the *Foundation IRB Approach* for a given *type of exposures* in that category if it can demonstrate to the satisfaction of the *PRA* that the requirement in point (b) is met;

(b) An institution shall not permanently use the *Foundation IRB Approach* for a given *type of exposures* within the *non-Retail AIRB Modelling roll-out category* in order to achieve lower capital requirements, compared to using the *Advanced IRB Approach*.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

[Note: This rule corresponds to Article 150(1) of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 2 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS

### SUB-SECTION 1 TREATMENT BY TYPE OF EXPOSURE CLASS OR EXPOSURE SUBCLASS

### Article 151 METHODOLOGY FOR EACH IRB APPROACH

1. An institution shall calculate the risk-weighted exposure amount for credit risk for exposures that use the *Slotting Approach*, the *Foundation IRB Approach* or the *Advanced IRB Approach* in accordance with Sub-section 2, unless:

   (a) it deducts the exposure amount from own funds; or

   (b) it deducts the exposure from Common Equity Tier 1 items, Additional Tier 1 items or Tier 2 items.

2. An institution shall calculate the risk-weighted exposure amounts for dilution risk for purchased receivables in accordance with Article 157. Where an institution has full recourse to the seller of purchased receivables for default risk and for dilution risk, the provisions of this Article and Article 152 and Article 158(1) to (4) in relation to purchased receivables shall not apply and the institution shall treat the exposure as a collateralised exposure.

3. An institution shall calculate risk-weighted exposure amounts for credit risk and dilution risk based on the relevant parameters associated with the exposure in question. These shall include *PD*, *LGD*, maturity (hereinafter referred to as 'M') and exposure value of the exposure. *PD* and *LGD* may be considered separately or jointly, in accordance with Section 4.

4. [Note: Provision left blank]

5. An institution that is permitted to use the *Slotting Approach* shall, for exposures within the scope of the permission, calculate risk weights in accordance with Article 153(5) and exposure values in accordance with Articles 166A and 166C.

6. An institution that is permitted to use the *Foundation IRB Approach* or the *Advanced IRB Approach* shall, for exposures within the scope of the permission, provide its own estimates of *PDs* in accordance with Section 6, except where the institution provides its own estimates of ELs in accordance with Articles 160(2), 160(6) or 163(3).

7. (a) An institution permitted to use the *Foundation IRB Approach* shall, for exposures within the scope of the permission, use *LGD* values in accordance with Article 161(1) and exposure values in accordance with Articles 166A, 166B and 166C; and

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(b) An institution permitted to use the *Advanced IRB Approach* shall, for exposures within the scope of the permission, provide its own estimates of *LGDs* in accordance with Section 6, except where the institution uses *LGD* values in accordance with Article 161(2) or points (b) or (c) of Article 164(1), and calculate exposure values in accordance with Articles 166A, 166B and 166D.

8. [Note: Provision left blank]

9. [Note: Provision left blank]

9A. An institution that is permitted to use either the *Foundation IRB Approach* or the *Advanced IRB Approach*, shall, for exposures that are not within point (d) of Article 147(2) and are within the scope of the permission, calculate M in accordance with Article 162.

10. [Note: Provision left blank]

[Note: This rule corresponds to Article 151 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 152 TREATMENT OF EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS**

1. An institution shall calculate the risk-weighted exposure amounts for its exposures in the form of units or shares in a CIU by multiplying the risk-weighted exposure amount of the CIU, calculated in accordance with the approaches set out in paragraphs 2 and 5, with the percentage of units or shares held by the institution.

2. An institution shall, where the conditions set out in paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 132 are met and the institution has sufficient information about the individual underlying exposures of a CIU, look through to those underlying exposures to calculate the risk-weighted exposure amount of the CIU, risk weighting all underlying exposures of the CIU as if they were directly held by the institution.

3. An institution may, by way of derogation from point (d) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92 if the institution calculates the risk-weighted exposure amount of the CIU in accordance with paragraph 1 or 2, calculate the own funds requirement for *CVA risk* of derivative exposures of that CIU as an amount equal to 50% of the own funds requirement for those derivative exposures calculated in accordance with Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part, as applicable.

3A. An institution may, by way of derogation from paragraph 3, exclude from the calculation of the own funds requirement for *CVA risk* derivative exposures which would not be subject to that requirement if they were incurred directly by the institution.

4. An institution that applies the look-through approach in accordance with paragraphs 2 and 3 and is either using the *Standardised Approach* or does not meet the conditions for using the methods set out in this Part or one or more of the methods set out in Chapter 5 of Title II of Part Three of *CRR* for all or parts of the underlying exposures of the CIU, shall calculate risk-weighted exposure amounts and expected loss amounts in accordance with the following principles:

(a) [Note: Provision left blank]

(b) for exposures assigned to the items representing securitisation positions *exposure class* referred to in point (f) of Article 147(2), the institution shall apply the treatment set out in Article 254 of *CRR* as if those exposures were directly held by the institution;

(c) for all other underlying exposures, the institution shall apply the *Standardised Approach* laid down in the Credit Risk: Standardised Approach (CRR) Part.

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5. An institution may, where the conditions set out in paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 132 are met and the institution does not have sufficient information about the individual underlying exposures of a CIU, calculate the risk-weighted exposure amount for those exposures in accordance with the mandate-based approach set out in paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 132A. However, for the exposures listed in points (b) and (c) of paragraph 4, the institution shall apply the approaches set out therein.

6. An institution shall, subject to paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 132B, if the institution does not apply the look-through approach in accordance with paragraphs 2 and 3 or the mandate-based approach in accordance with paragraph 5, apply the fall-back approach referred to in paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 132.

7. An institution may calculate the risk-weighted exposure amount for its exposures in the form of units or shares in a CIU by using a combination of the approaches referred to in this Article, provided that the conditions for using those approaches are met.

8. An institution that does not have adequate data or information to calculate the risk-weighted exposure amount of a CIU in accordance with the approaches set out in paragraphs 2 to 5 may rely on the calculations of a third party, provided that all the following conditions are met:

   (a) the third party is one of either:

      (i) the depository institution or the depository financial institution of the CIU, provided that the CIU exclusively invests in securities and deposits all securities at that depository institution or depository financial institution;

      (ii) for CIUs not covered by point (a)(i), the CIU management company;

   (b) for exposures other than those listed in points (b) and (c) of paragraph 4, the third party carries out the calculation in accordance with the look-through approach set out in paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 132A;

   (c) for exposures listed in points (b) and (c) of paragraph 4, the third party carries out the calculation in accordance with the approaches set out therein; and

   (d) an external auditor has confirmed the correctness of the third party's calculation.

   An institution that relies on third party calculations shall multiply the risk-weighted exposure amounts of a CIU's exposures resulting from those calculations by a factor of 1.2, unless the institution has unrestricted access to the detailed calculations carried out by the third party. The institution shall be able to, upon request by the *PRA*, provide those calculations.

9. For the purposes of this Article, paragraphs 5 and 6 of Credit Risk: Standardised Approach (CRR) Part Article 132 and Credit Risk: Standardised Approach (CRR) Part Article 132B shall apply. For the purposes of this Article, Credit Risk: Standardised Approach (CRR) Part Article 132C shall also apply, using the risk weights calculated in accordance with this Part.

[Note: This rule corresponds to Article 152 of *CRR* as it applied immediately before revocation by the *Treasury*]

[Note: This rule is subject to the transitional provisions in Credit Risk: General Provisions (CRR) Part 4.4 to 4.10]

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## SUB-SECTION 2 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT RISK

### Article 153 RISK-WEIGHTED EXPOSURE AMOUNTS FOR EXPOSURES TO CORPORATES AND INSTITUTIONS

1. An institution shall, subject to the application of the specific treatments laid down in paragraphs 2, 4, 5 and 5A, calculate the risk-weighted exposure amounts for exposures to corporates and institutions according to the following formulae:

$$\text{Risk-weighted exposure amount} = \text{RW} \cdot \text{exposure value}$$

where the risk weight (RW) is defined as:

(a) [Note: Provision left blank]

(b) if *PD* = 1, i.e., for *defaulted exposures*:

— where an institution uses the *Foundation IRB Approach*, RW shall be 0;

— where an institution uses the *Advanced IRB Approach*, RW shall be:

$$\text{RW} = \max\left(0, 12.5 \cdot (\text{LGD} - \text{BEEL})\right)$$

where $\text{BEEL}$ is the best estimate of expected loss (*BEEL*);

(c) if *PD* < 1:

$$\text{RW} = \left(\text{LGD} \cdot \text{N}\left(\frac{1}{\sqrt{1-\text{R}}} \cdot \text{G}(\text{PD}) + \sqrt{\frac{\text{R}}{1-\text{R}}} \cdot \text{G}(0.999)\right) - \text{LGD} \cdot \text{PD}\right) \cdot \frac{1+(\text{M}-2.5)\cdot \text{b}}{1-1.5\cdot \text{b}} \cdot 12.5$$

where:

$\text{N}(\text{x})$= the cumulative distribution function for a standard normal random variable (i.e. the probability that a normal random variable with mean zero and variance of one is less than or equal to $\text{x}$);

$\text{G}(\text{z})$ = the inverse cumulative distribution function for a standard normal random variable (i.e. the value $\text{x}$ such that $\text{N}(\text{x}) = \text{z}$);

$\text{R}$ = the coefficient of correlation, which is defined as (subject to paragraphs 2 and 4):

$$\text{R} = 0.12 \cdot \frac{1 - \text{e}^{-50\cdot \text{PD}}}{1 - \text{e}^{-50}} + 0.24 \cdot \left(1 - \frac{1 - \text{e}^{-50\cdot \text{PD}}}{1 - \text{e}^{-50}}\right)$$

$\text{M}$ = the maturity shall be expressed in years and calculated in accordance with Article 162;

$\text{b}$ = the maturity adjustment factor, which is defined as:

$$\text{b} = (0.11852 - 0.05478 \cdot \ln(\text{PD}))^2$$

$\text{PD}$ = the *PD* value determined in accordance with this Part;

$\text{LGD}$ = the *LGD* value determined in accordance with this Part.

2. For all exposures to *large financial sector entities* and *unregulated financial sector entities*, the institution shall multiply the coefficient of correlation $(\text{R})$ of point (c) of paragraph 1 and paragraph 4 by 1.25.

3. [Note: Provision left blank]

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4. An institution may, for exposures to corporates where the total annual revenue for the consolidated group of which the entity is a part is less than GBP 44 million, use the following coefficient of correlation formula in point (c) of paragraph 1 for the calculation of risk weights for exposures to corporates. In this formula $S$ is expressed as total annual revenue in millions with GBP 4.4 million ≤ $S$ ≤ GBP 44 million. Reported revenue of less than GBP 4.4 million shall be treated as if it was equivalent to GBP 4.4 million. For purchased receivables the total annual revenue of the obligor shall be the weighted average by individual exposures of the pool.

$$R = 0.12 \cdot \frac{1-e^{-50 \cdot PD}}{1-e^{-50}} + 0.24 \cdot \left(1 - \frac{1-e^{-50 \cdot PD}}{1-e^{-50}}\right) - 0.04 \cdot \left(1 - \frac{\min\{\max\{4.4,S\},44\}-4.4}{39.6}\right)$$

An institution shall substitute total assets of the consolidated group for total annual revenue when total annual revenue is not a meaningful indicator of entity size and total assets are a more meaningful indicator than total annual revenue.

5. The *Slotting Approach* applies as follows for specialised lending exposures:

   (a) an institution shall:

      (i) for *non-defaulted exposures* to *IPRE exposures* or *HVCRE exposures*, assign rating grades in accordance with the factors set out in List 1 of Appendix 1;

      (ii) for *non-defaulted exposures* which are *project finance exposures*, assign rating grades in accordance with the factors set out in List 2 of Appendix 1;

      (iii) for *non-defaulted exposures* which are *object finance exposures*, assign rating grades in accordance with the factors set out in List 3 of Appendix 1; and

      (iv) for *non-defaulted exposures* which are *commodities finance exposures*, assign rating grades in accordance with the factors set out in List 4 of Appendix 1;

   (b) for the purpose of point (a) of this paragraph, where a specialised lending exposure benefits from:

      (i) a guarantee that is recognised through the *Risk-Weight Substitution Method*,

      (ii) collateral that is recognised through the *Financial Collateral Comprehensive Method*, or

      (iii) *on-balance sheet netting* recognised in accordance with the Credit Risk Mitigation (CRR) Part,

      the guarantee or the collateral or the *on-balance sheet netting*, as the case may be, shall not be taken into account when considering the factors set out in Lists 1 to 4 of Appendix 1;

   (c) subject to points (d) to (f) of this paragraph an institution shall:

      (i) assign the relevant risk weight in column B of Table A to exposures assigned to the 'Strong' rating grade;

      (ii) assign the relevant risk weight in column D of Table A to exposures assigned to the 'Good' rating grade;

      (iii) assign the relevant risk weight in the 'Satisfactory' column of Table A to exposures assigned to the 'Satisfactory' rating grade; and

      (iv) assign the relevant risk weight in the 'Weak' column of Table A to exposures assigned to the 'Weak' rating grade.

   (d) an institution may, for all categories of specialised lending exposures, if less than 2.5 years remain until maturity of an exposure:

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(i) for exposures assigned to the 'Strong' rating grade: assign the relevant risk weight in column A of Table A to the exposure instead of the risk weight in column B of Table A; and

(ii) for exposures assigned to the 'Good' rating grade: assign the relevant risk weight in column C of Table A to the exposure instead of the risk weight in column D of Table A;

(e) an institution may, for *IPRE exposures* assigned to the 'Strong' rating grade, assign the relevant risk weight in column A of Table A to the exposure instead of the risk weight in column B of Table A if:

(i) the institution's underwriting of the exposure and the exposure's other characteristics are substantially stronger than required by the 'Strong' rating grade;

(ii) the loan to value ratio is very low for the property type;

(iii) the income stream on which the repayment of the obligation depends is consistent with that which the institution would reasonably expect for an investment grade exposure, including that the tenant income from the property is at least 100% of the obligor's debt service obligations; and

(iv) the exposure does not finance the land acquisition, development and construction ('ADC') of commercial real estate;

(f) an institution may, for *project finance exposures* assigned to the 'Strong' rating grade, assign the relevant risk weight in column A of Table A to the exposure instead of the risk weight in column B of Table A if the institution's underwriting of the exposure and the exposure's other characteristics are substantially stronger than required by the 'Strong' rating grade;

(g) an institution shall, for *defaulted exposures*, assign the relevant risk weight in the 'Default' column of Table A.

Table A

| Rating grades: | Strong | | Good | | Satisfactory | Weak | Default |
|---|---|---|---|---|---|---|---|
| | A | B | C | D | | | |
| ***Object finance exposures*** | 50% | 70% | 70% | 90% | 115% | 250% | 0% |
| ***Project finance exposures*** | 50% | 70% | 70% | 90% | 115% | 250% | 0% |
| ***Commodities finance exposures*** | 50% | 70% | 70% | 90% | 115% | 250% | 0% |
| ***IPRE exposures*** | 50% | 70% | 70% | 90% | 115% | 250% | 0% |
| ***HVCRE exposures*** | 70% | 95% | 95% | 120% | 140% | 250% | 0% |

5A. The institution shall increase total risk-weighted exposure amounts calculated under paragraphs 1, 2, 4 and 5 for exposures to institutions and corporates to reflect:

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(a) any *post model adjustments* in respect of risk-weighted exposure amounts calculated under point (a) of Article 146(3);

(b) any *unrecognised exposure adjustment* calculated under Article 166D(6).

6. An institution shall, for its purchased corporate receivables, comply with the requirements set out in Article 184. For purchased corporate receivables that comply in addition with the conditions set out in Article 154(5), and where it would be unduly burdensome for an institution to use the risk quantification standards for exposures to corporates as set out in Section 6 for these receivables, the risk quantification standards for *retail exposures* as set out in Section 6 may be used.

7.

(a) For purchased corporate receivables, refundable purchase price discounts, collaterals or partial guarantees that provide first loss protection for default losses, dilution losses, or both, may be treated as a first loss protection by an institution that is the purchaser of the receivables or by the beneficiary of the collateral or of the partial guarantee in accordance with Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*.

(b) An institution that is the seller providing the refundable purchase price discount or the provider of a collateral or a partial guarantee shall treat those as an exposure to a first loss position in accordance with Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*.

8.

(a) An institution shall, where it provides credit protection for a number of exposures subject to the condition that the nth default among the exposures shall trigger payment and that this credit event shall terminate the contract, aggregate the risk weights of the exposures included in the basket, excluding n-1 exposures, where the sum of the expected loss amount multiplied by 12.5 and the risk-weighted exposure amount shall not exceed the nominal amount of the protection provided by the credit derivative multiplied by 12.5.

(b) The n-1 exposures to be excluded from the aggregation shall be determined on the basis that they shall include those exposures each of which produces a lower risk-weighted exposure amount than the risk-weighted exposure amount of any of the exposures included in the aggregation.

(c) A 1,250% risk weight shall apply to positions in a basket for which an institution cannot determine the risk weight under the *IRB Approach*.

9. [Note: Provision left blank]

[Note: Paragraphs 1, 2 and 4, 5, 6, 7 and 8 of this rule correspond to Article 153(1), (2) and (4) to (8) of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 154 RISK-WEIGHTED EXPOSURE AMOUNTS FOR RETAIL EXPOSURES**

1. An institution shall, subject to the requirements laid down in paragraphs 3, 4 and 4A, calculate the risk-weighted exposure amounts for *retail exposures* in accordance with the following formulae:

$$\text{Risk-weighted exposure amount} = \text{RW} \cdot \text{exposure value}$$

where the risk weight (RW) is defined as follows:

(a) if *PD* = 1, i.e., for *defaulted exposures*:

$$\text{RW} = \max\{0\,, 12.5 \cdot (\text{LGD} - \text{BEEL})\};$$

(b) if *PD* < 1, i.e., for any possible value for *PD* other than under (a):

$$RW = \left( LGD \cdot N\left( \frac{1}{\sqrt{1-R}} \cdot G(PD) + \sqrt{\frac{R}{1-R}} \cdot G(0.999) \right) - LGD \cdot PD \right) \cdot 12.5$$

where:

$BEEL$ = the best estimate of expected loss (*BEEL*);

$N(x)$ = the cumulative distribution function for a standard normal random variable (i.e. the probability that a normal random variable with mean zero and variance of one is less than or equal to $x$);

$G(z)$ = the inverse cumulative distribution function for a standard normal random variable (i.e. the value $x$ such that $N(x) = z$);

$R$ = the coefficient of correlation defined as:

$$R = 0.03 \cdot \frac{1 - e^{-35 \cdot PD}}{1 - e^{-35}} + 0.16 \cdot \left( 1 - \frac{1 - e^{-35 \cdot PD}}{1 - e^{-35}} \right)$$

$PD$ = the *PD* value determined in accordance with this Part;

$LGD$ = the *LGD* value determined in accordance with this Part.

2. [Note: Provision left blank]

3. For *retail exposures* secured by immovable property collateral a coefficient of correlation ($R$) of 0.15 shall replace the figure produced by the coefficient of correlation formula in paragraph 1.

4. For qualifying revolving retail exposures, as set out in Article 147(5A), a coefficient of correlation ($R$) of 0.04 shall replace the figure produced by the coefficient of correlation formula in paragraph 1.

4A. An institution shall increase the total risk-weighted exposure amounts calculated under paragraphs 1, 3 and 4 for *retail exposures* to reflect:

(a) any *post model adjustments* in respect of risk-weighted exposure amounts calculated under point (b) of Article 146(3);

(b) any amount needed to ensure that risk-weighted exposure amounts for *non-defaulted exposures* which are *retail exposures* secured by *UK* residential immovable property are greater than or equal to 10% of the exposure value for such exposures (following application of any *post model adjustments* calculated under point (b) of Article 146(3));

(c) any *unrecognised exposure adjustment* calculated under Article 166D(6).

5. For purchased retail receivables, $R$ shall be calculated in accordance with the coefficient of correlation formula in paragraph 1.

To be eligible for the retail treatment, purchased retail receivables shall comply with the requirements set out in Article 184 and meet the following conditions:

(a) the institution has purchased the receivables from unrelated third party sellers, and its exposure to the obligor of the receivable does not include any exposures that are directly or indirectly originated by the institution itself;

(b) the purchased receivables shall be generated on an arm's-length basis between the seller and the obligor. As such, inter-company accounts receivables and receivables subject to contra-accounts between entities that buy and sell to each other are ineligible;

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(c) the purchasing institution has a claim on all proceeds from the purchased receivables or a pro-rata interest in the proceeds; and

(d) the portfolio of purchased receivables is sufficiently diversified.

6. An institution may, for purchased retail receivables, if the institution is the purchaser of the receivables or the beneficiary of collateral or of a partial guarantee, treat refundable purchase price discounts, collaterals or partial guarantees that provide first loss protection for default losses, dilution losses, or both, as a first loss protection in accordance with Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*. An institution that is the seller providing the refundable purchase price discount or the provider of a collateral or a partial guarantee shall treat those as an exposure to a first loss position in accordance with Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*.

7. For hybrid pools of purchased retail receivables where a purchasing institution cannot separate exposures secured by immovable property collateral and qualifying revolving retail exposures from other *retail exposures*, the institution shall apply the retail risk weight function producing the highest capital requirements for those exposures.

[Note: This rule corresponds to Article 154 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 155 RISK-WEIGHTED EXPOSURE AMOUNTS FOR EQUITY EXPOSURES**

1. [Note: Provision left blank]

2. [Note: Provision left blank]

3. [Note: Provision left blank]

4. [Note: Provision left blank]

**Article 156 RISK-WEIGHTED EXPOSURE AMOUNTS FOR OTHER NON-CREDIT OBLIGATION ASSETS**

1. An institution shall calculate the risk-weighted exposure amounts for other non-credit obligation assets in accordance with the following formula:

$$\text{Risk-weighted exposure amount} = 100\% \cdot \text{exposure value}$$

except for:

(a) cash in hand and equivalent cash items as well as gold bullion held in own vault or on an allocated basis to the extent backed by bullion liabilities, to which an institution shall assign a 0% risk weight instead of a 100% risk weight;

(b) when the exposure is a residual value of leased assets in which case the institution shall calculate the risk-weighted exposure amount as follows:

$$\frac{1}{\mathrm{t}} \cdot 100\% \cdot \text{exposure value}$$

where t is the greater of 1 and the nearest number of whole years of the lease remaining.

[Note: This rule corresponds to Article 156 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## SUB-SECTION 3 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS FOR DILUTION RISK OF PURCHASED RECEIVABLES

### Article 157 RISK-WEIGHTED EXPOSURE AMOUNTS FOR DILUTION RISK OF PURCHASED RECEIVABLES

1. An institution shall calculate the risk-weighted exposure amounts for dilution risk of purchased corporate and retail receivables in accordance with the formula set out in Article 153(1).
2. An institution shall determine the input parameters *PD* and *LGD* in accordance with Section 4.
3. An institution shall determine the exposure value in accordance with Section 5.
4. For the purposes of this Article, the value of M is:
   (a) one year if an institution can demonstrate that the dilution risk is appropriately monitored and can be resolved within one year; and otherwise
   (b) the period over which dilution risk can be resolved, subject to a maximum period of 5 years.
5. An institution is not required to calculate and recognise risk-weighted exposure amounts for dilution risk of a *type of exposures* caused by purchased corporate or retail receivables where the dilution risk for the institution is immaterial for this *type of exposures*.

[Note: This rule corresponds to Article 157 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 3 EXPECTED LOSS AMOUNTS

### Article 158 TREATMENT BY EXPOSURE TYPE

1. An institution using the *Foundation IRB Approach* or *Advanced IRB Approach* shall, unless otherwise stated in this Article, calculate expected loss amounts based on the same input figures of *PD*, *LGD* and the exposure value for each exposure as are used for the calculation of risk-weighted exposure amounts in accordance with Article 151.
2. An institution shall calculate the expected loss amounts for securitised exposures in accordance with Chapter 5 of Title II of Part Three of *CRR*.
3. An institution shall apply an expected loss amount of zero for exposures belonging to the 'other non-credit obligations assets' *exposure class* referred to in point (g) of Article 147(2).
4. An institution shall calculate the expected loss amounts for exposures in the form of shares or units of a CIU referred to in Article 152 in accordance with the methods set out in this Article.
5. An institution using the *Foundation IRB Approach* or *Advanced IRB Approach* shall, subject to the specific treatment laid down in paragraphs 6 and 6A, calculate the expected loss (EL) and expected loss amounts for exposures to corporates and institutions and for *retail exposures* in accordance with the following formulae:

$$\text{Expected loss (EL)} = \text{PD} \cdot \text{LGD}$$

$$\text{Expected loss amount} = \text{EL} \cdot \text{exposure value}$$

   except for *defaulted exposures* (*PD* = 1) where the institution uses the *Advanced IRB Approach*, EL shall be *BEEL*.
6. Subject to paragraph 6A, where an institution has assigned a risk weight to a specialised lending exposure under the *Slotting Approach*, the institution shall calculate an expected loss amount in accordance with the formula in paragraph 5. For this purpose the institution shall use the same exposure value as is used for the calculation of risk-weighted exposure amounts in accordance with Article 151, and use the EL value in the cell of Table B that is in the corresponding row and

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column to the risk weight value in Table A that the institution has assigned to the exposure in accordance with Article 153(5).

Table B:

| Rating grades: | Strong | | Good | | Satisfactory | Weak | Default |
|---|---|---|---|---|---|---|---|
| | A | B | C | D | | | |
| ***Object finance exposures*** | 0% | 0.4% | 0.4% | 0.8% | 2.8% | 8% | 50% |
| ***Project finance exposures*** | 0% | 0.4% | 0.4% | 0.8% | 2.8% | 8% | 50% |
| ***Commodities finance exposures*** | 0% | 0.4% | 0.4% | 0.8% | 2.8% | 8% | 50% |
| ***IPRE exposures*** | 0% | 0.4% | 0.4% | 0.8% | 2.8% | 8% | 50% |
| ***HVCRE exposures*** | 0.4% | 0.4% | 0.4% | 0.4% | 2.8% | 8% | 50% |

6A. An institution shall increase the total expected loss amounts calculated under paragraphs 5 and 6 to reflect any *post model adjustments* in respect of expected loss amounts calculated under point (c) of Article 146(3).

7. [Note: Provision left blank]

8. [Note: Provision left blank]

9. [Note: Provision left blank]

10. An institution shall calculate expected loss amounts for dilution risk of purchased receivables in accordance with the following formulae:

$$\text{Expected loss (EL)} = \text{PD} \cdot \text{LGD}$$

$$\text{Expected loss amount} = \text{EL} \cdot \text{exposure value}$$

[Note: This rule corresponds to Article 158 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 159 TREATMENT OF EXPECTED LOSS AMOUNTS**

1. The following definitions apply for the purpose of this Article:

'A' = the sum of expected loss amounts calculated in accordance with Article 158(5), (6), (6A) and (10) for *non-defaulted exposures*;

'B' = the sum of all of the following:

(i) general credit risk adjustments in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014;

(ii) specific credit risk adjustments for *non-defaulted exposures* in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014;

(iii) additional value adjustments in accordance with Own Funds (CRR) Part Article 34 and Trading Book (CRR) Part Article 105;

(iv) other own funds reductions related to those exposures;

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'C' = the sum of expected loss amounts calculated in accordance with paragraphs 5, 6, 6A and 10 of Article 158 for *defaulted exposures*;

'D' = specific credit risk adjustments for *defaulted exposures* in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014.

2. For the purposes of paragraph 1:

   (a) an institution shall treat discounts on balance sheet items purchased when in default in accordance with Article 166A(2) in the same manner as specific credit risk adjustments;

   (b) an institution shall not include expected loss amounts for securitised exposures and general and specific credit risk adjustments related to those exposures; and

   (c) an institution taking credit risk mitigation into account using the *Risk-Weight Substitution Method* shall not include any credit risk adjustments in respect of the covered part of an exposure, calculated in accordance with Credit Risk Mitigation (CRR) Part Article 235.

3. Where 'A' > 'B' and 'D' > 'C', an institution shall, in order to compare expected loss amounts with credit risk adjustments, additional value adjustments and other own fund reductions, such that specific credit risk adjustments on exposures in default are not used to cover expected loss amounts on other exposures:

   (a) calculate the following negative amount: 'B' – 'A'; and

   (b) calculate the following positive amount: 'D' – 'C'.

   In all other cases, an institution shall, in order to compare expected loss amounts with credit risk adjustments, additional value adjustments and other own fund reductions:

   (c) if ('A' + 'C') > ('B' + 'D'), calculate the following negative amount: ('B' + 'D') – ('A' + 'C');

   (d) if ('B' + 'D') > ('A' + 'C'), calculate the following positive amount: ('B' + 'D') – ('A' + 'C').

[Note: This rule corresponds to Article 159 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 4 PD, LGD AND MATURITY

## SUB-SECTION 1 EXPOSURES TO CORPORATES AND INSTITUTIONS

### Article 160 PROBABILITY OF DEFAULT (PD): CORPORATES AND INSTITUTIONS

1. An institution shall, for exposures to corporates and institutions, when calculating risk-weighted exposure amounts, expected loss amounts, risk weights and expected loss for those exposures (including but not limited to under Article 153, Article 157, Article 158(1), Article 158(5) and Article 158(10)) not use *PD* values as inputs to the risk-weight and expected loss formulae that are less than 0.05%.

2. An institution shall, for purchased corporate receivables in respect of which an institution is not able to estimate *PDs* or an institution's *PD* estimates do not meet the requirements set out in Section 6, determine the *PDs* for these exposures in accordance with the following methods:

   (a) for senior claims on purchased corporate receivables *PD* shall be the institution's estimate of EL divided by *LGD* for these receivables;

   (b) for subordinated claims on purchased corporate receivables *PD* shall be the institution's estimate of EL;

   (c) where an institution is using the *Advanced IRB Approach* in accordance with Article 147A and can decompose its EL estimates for purchased corporate receivables into *PDs* and *LGDs* in a

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manner that is reliable, the institution may, as an alternative to applying the methods in points (a) and (b), use the *PD* estimate that results from this decomposition.

3. An institution shall use a *PD* of 100% for obligors in default.

4.

(a) Subject to point (b), an institution may take into account unfunded credit protection in accordance with Credit Risk Mitigation (CRR) Part Article 191A;

(b) An institution reflecting guarantees or other support arrangements through an unfunded credit protection technique in accordance with Credit Risk Mitigation (CRR) Part Article 191A, or through an adjusted grade assignment in accordance with point (e) of Article 172(1), shall:

(i) not assign final *PDs* or *LGDs* post application of those techniques such that the risk weight would be lower than that of a comparable direct exposure to the guarantor or provider of the support arrangements; and

(ii) calculate risk-weighted exposure amounts, expected loss amounts, risk weights and expected loss for exposures to corporates and institutions, after it has applied the input floors that would apply to a comparable direct exposure to the guarantor or provider of support arrangements under Articles 160(1), 161(5), 163(1) and 164(4).

5. [Note: Provision left blank]

6. An institution shall, for dilution risk of purchased corporate receivables, set *PD* equal to the EL estimate of the institution for dilution risk. Alternatively, an institution may, where it uses the *Advanced IRB Approach* in accordance with Article 147A and can decompose its EL estimates for dilution risk of purchased corporate receivables into *PDs* and *LGDs* in a manner that is reliable, use the *PD* estimate that results from this decomposition. An institution may recognise unfunded credit protection in the *PD* in accordance with Credit Risk Mitigation (CRR) Part Article 191A.

7. [Note: Provision left blank]

[Note: Paragraphs 1 to 4 and 6 of this rule correspond to Article 160(1) to (4) and (6) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 161 LOSS GIVEN DEFAULT (LGD): CORPORATES AND INSTITUTIONS**

1. An institution using the *Foundation IRB Approach* shall use the following *LGD* values:

(a) senior exposures without collateral recognised under the *Foundation Collateral Method* to financial sector entities: 45%;

(aa) subject to point (e), senior exposures without collateral recognised under the *Foundation Collateral Method* to corporates which are not financial sector entities: 40%;

(b) subject to point (f), subordinated exposures without collateral recognised under the *Foundation Collateral Method*: 75%;

(c) an institution may recognise funded and unfunded credit protection in the *LGD* in accordance with Credit Risk Mitigation (CRR) Part Article 191A;

(d) *eligible covered bonds* may be assigned an *LGD* value of 11.25%;

(e) for senior purchased corporate receivables exposures where *PD* is determined in accordance with point (a) of Article 160(2): 40%;

(f) for subordinated purchased corporate receivables exposures where *PD* is determined in accordance with point (b) of Article 160(2): 100%;

(g) for dilution risk of purchased corporate receivables where *PD* is determined in accordance with the first sentence of Article 160(6): 100%.

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2.

(a) An institution using the *Advanced IRB Approach* shall apply the *LGD* value in:

(i) point (e) of paragraph 1 where *PD* is determined in accordance with point (a) of Article 160(2);

(ii) point (f) of paragraph 1 where *PD* is determined in accordance with point (b) of Article 160(2);

(iii) point (g) of paragraph 1 where *PD* is determined in accordance with the first sentence of Article 160(6).

(b) An institution using the *Advanced IRB Approach* shall:

(i) where it uses the *PD* estimate that results from the decomposition of its EL estimates for purchased corporate receivables in accordance with point (c) of Article 160(2), use the *LGD* estimate that results from the decomposition;

(ii) for dilution risk of purchased corporate receivables, where it uses the *PD* estimate that results from its decomposition of its EL estimates for dilution risk in accordance with the second sentence of Article 160(6), use the *LGD* estimate that results from the decomposition.

3. An institution may, subject to Article 160(4), reflect unfunded credit protection in *LGDs* in accordance with Credit Risk Mitigation (CRR) Part Article 191A.

4. [Note: Provision left blank]

5. An institution using the *Advanced IRB Approach* shall not, for exposures to corporates and institutions, when calculating risk-weighted exposure amounts, expected loss amounts, risk weights and expected loss of those exposures, including but not limited to under Article 153(1), Article 157, and Article 158(1), (5) and (10), use *LGD* values as inputs to the risk weight and expected loss formulae that are less than the following LGD input floor values:

(a) a flat 25% floor value for unsecured exposures to corporates and for exposures where the institution chooses not to take into account funded credit protection covering that exposure;

(b) for secured and partially secured exposures where the institution chooses to take into account funded credit protection covering the exposure:

(i) in the case of a single type of collateral, a variable LGD input floor value equal to the value of $\mathrm{LGD}^*$ in Credit Risk Mitigation (CRR) Part Article 230; or

(ii) in the case of multiple types of collateral, a variable LGD input floor value equal to the value of $\mathrm{LGD}^*$ in Credit Risk Mitigation (CRR) Part Article 231,

calculated using the *Foundation Collateral Method* in accordance with the Credit Risk Mitigation (CRR) Part, provided that in calculating $\mathrm{LGD}^*$ for the purpose of this point (b) with reference to Credit Risk Mitigation (CRR) Part Articles 230 or 231, as applicable, the institution shall substitute:

(iii) 25% for $\mathrm{LGD}_{\mathrm{U}}$; and

(iv) the following values for $\mathrm{LGD}_{\mathrm{S}}$ or $\mathrm{LGD}_{\mathrm{S_i}}$ as applicable:

(1) 0% for financial collateral;

(2) 10% for receivables;

(3) 10% for immovable property;

(4) 15% for other physical collateral.

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6. An institution shall, for the purpose of point (b) of paragraph 5 where collateral reflected in the calculation of $\mathrm{LGD}^*$ is held against multiple facilities, comply with the requirements set out in paragraph 7 of Credit Risk Mitigation (CRR) Part Article 193.

[Note: This rule corresponds to Article 161 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 162 MATURITY: CORPORATES AND INSTITUTIONS**

1. [Note: Provision left blank]

2. An institution that uses the *Foundation IRB Approach* or the *Advanced IRB Approach* for exposures to corporates and institutions pursuant to Article 147A shall calculate M for each of these exposures in accordance with the calculation methods set out in paragraph 2A, subject to paragraph 3, provided that M shall be no greater than five years except in the cases specified in Credit Valuation Adjustment Risk Part 4.3 where M as specified there shall be used. Where an exposure falls within more than one point in paragraph 2A, the institution shall calculate M as follows:

   (a) where an exposure falls within both points (g) or (h) and any of (b), (c), (d) or (da) of paragraph 2A, it shall calculate M in accordance with point (g) or (h) of paragraph 2A as applicable;

   (b) where an exposure falls within both points (b) and (c) of paragraph 2A, it shall calculate M in accordance with point (c) of paragraph 2A; and

   (c) where an exposure falls within both points (a) and (k) of paragraph 2A, it shall calculate M in accordance with point (k) of paragraph 2A.

2A.

   (a) For an instrument subject to a cash-flow schedule, M shall be calculated in accordance with the following formula:

$$\mathrm{M} = \max\{1\,, \min\left\{\frac{\sum_t t \cdot \mathrm{CF}_t}{\sum_t \mathrm{CF}_t}, 5\right\}\}$$

   where $\mathrm{CF}_t$ denotes the cash-flows (principal, interest payments and fees) contractually payable by the obligor in period t;

   (b) for derivatives subject to a master netting agreement, the maturity of each derivative transaction shall first be calculated in accordance with this Article and M shall be the weighted average remaining maturity of the set of transactions, where M shall be at least one year, and the notional amount of each derivative transaction shall be used for weighting the maturity;

   (c) for exposures arising from fully or nearly-fully collateralised derivative instruments listed in Annex II of *CRR* and fully or nearly-fully collateralised margin lending transactions which are subject to a master netting agreement, where the documentation:

      (i) requires daily re-margining or revaluation, and

      (ii) includes provisions that allow for the prompt liquidation or set-off of the collateral in the event of default or failure to re-margin,

   the maturity of each fully or nearly-fully collateralised derivative transaction or collateralised margin lending transaction shall first be calculated in accordance with this Article and M shall be the weighted average remaining maturity of the set of transactions, where M shall be at least 10 days. The notional amount of each transaction shall be used for weighting the maturity;

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(d) for repurchase transactions or securities or commodities lending or borrowing transactions which are subject to a master netting agreement, where the documentation:

(i) requires daily re-margining or revaluation, and

(ii) includes provisions that allow for the prompt liquidation or set-off of the collateral in the event of default or failure to re-margin,

the maturity of each repurchase transaction or securities or commodities lending or borrowing transaction shall first be calculated in accordance with this Article and M shall be the weighted average remaining maturity of the set of transactions where M shall be at least 5 days. The notional amount of each transaction shall be used for weighting the maturity;

(da) for a master netting agreement including transactions of the types set out in points (c) and (d), the maturity of each transaction shall first be calculated in accordance with this Article and M shall be the weighted average remaining maturity of the set of transactions where M shall be at least 10 days. The notional amount of each transaction shall be used for weighting the maturity;

(e) for an institution that has received an *IRB permission* to use own *PD* estimates for purchased corporate receivables, for drawn amounts, M shall equal the purchased receivables exposure weighted average maturity, where M shall be at least one year. This same value of M shall also be used for undrawn amounts under a committed purchase facility provided that the facility contains effective covenants, early amortisation triggers, or other features that protect the purchasing institution against a significant deterioration in the quality of the future receivables it is required to purchase over the facility's term. Absent such effective protections, M for undrawn amounts shall be calculated as the sum of the longest-dated potential receivable under the purchase agreement and the remaining maturity of the purchase facility, where M shall be at least one year;

(f) for any instrument other than those referred to in this paragraph 2A or when an institution is not in a position to calculate M as set out in point (a), M shall be the maximum remaining time (in years) that the obligor is permitted to take to fully discharge its contractual obligations, where M shall be at least one year;

(g) for an institution using the Internal Model Method set out in Section 6 of Chapter 6 of Title II of Part Three of *CRR* to calculate the exposure values, M shall be calculated for exposures to which it applies this method, and for which the maturity of the longest-dated contract contained in the netting set is greater than one year, in accordance with the following formula:

$$M = \min\left\{\frac{\sum_k \text{EffectiveEE}_{t_k} \cdot \Delta t_k \cdot df_{t_k} \cdot s_{t_k} + \sum_k EE_{t_k} \cdot \Delta t_k \cdot df_{t_k} \cdot (1 - s_{t_k})}{\sum_k \text{EffectiveEE}_{t_k} \cdot \Delta t_k \cdot df_{t_k} \cdot s_{t_k}}, 5\right\}$$

where:

$s_{t_k}$= a dummy variable whose value at future period $t_k$ is equal to 0 if $t_k$ > 1 year and to 1 if $t_k \leq 1$;

$EE_{t_k}$= the expected exposure at the future period $t_k$;

$\text{EffectiveEE}_{t_k}$= effective exposure amount at the future period $t_k$;

$df_{t_k}$= the risk-free discount factor for future time period $t_k$;

$\Delta t_k =$ $t_k - t_{k-1}$;

(h) an institution that uses an internal model to calculate a one-sided *CVA* and that uses the Internal Model Method set out in Section 6 of Chapter 6 of Title II of Part Three of *CRR* to

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calculate the exposure values, may, as an alternative to point (g) and subject to the prior permission of the *PRA*, use the effective credit duration estimated by the internal model as M;

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

(ha) subject to the rest of this paragraph and paragraphs 2 and 3, for netting sets in which all contracts have an original maturity of less than one year, the formula in point (a) shall apply;

(i) for an institution using *BA-CVA* or *SA-CVA* as set out in the Credit Valuation Adjustment Risk Part for calculating own fund requirements for *CVA risk*, M may be capped at 1 for all netting sets contributing to *CVA* capital requirements;

(j) [Note: Provision left blank]

(k) for revolving exposures, M shall be determined using the maximum contractual termination date of the facility. An institution shall not use the repayment date of the current drawing.

3. In application of the calculation methods set out in paragraph 2A, an institution shall, where the documentation requires daily re-margining and daily revaluation and includes provisions that allow for the prompt liquidation or set-off of collateral in the event of default or failure to re-margin, set M as at least one day, instead of the minimum set out in paragraph 2A, for:

(a) fully or nearly-fully collateralised derivative instruments listed in Annex II of *CRR*;

(b) fully or nearly-fully collateralised margin lending transactions;

(c) repurchase transactions, securities or commodities lending or borrowing transactions.

In addition, in applying the calculation methods set out in paragraph 2A for qualifying short-term exposures which are not part of the institution's ongoing financing of the obligor, M shall be at least one day, instead of the minimum set in paragraph 2A. Qualifying short term exposures shall include the following:

(d) exposures to institutions or investment firms arising from settlement of foreign exchange obligations;

(e) self-liquidating trade finance transactions, as set out in point (80) of Article 4(1) of *CRR*, with a residual maturity of less than one year;

(f) exposures arising from settlement of securities purchases and sales within the usual delivery period or two *business days*;

(g) exposures arising from cash settlements by wire transfer and settlements of electronic payment transactions and prepaid cost, including overdrafts arising from failed transactions that do not exceed a short, fixed agreed number of *business days*.

4. [Note: Provision left blank]

5. [Note: Provision left blank]

[Notes: Paragraphs 2 and 2A of this rule correspond to Article 162(2) of *CRR* and paragraph 3 of this rule corresponds to Article 162(3) of *CRR*, in each case as the provision in *CRR* applied immediately before revocation by the *Treasury*]

## SUB-SECTION 2 RETAIL EXPOSURES

### Article 163 PROBABILITY OF DEFAULT (PD): RETAIL

1. An institution shall not, for *retail exposures*, when calculating risk-weighted exposure amounts, expected loss amounts, risk weights and expected loss for those exposures, including but not

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limited to under Article 154, Article 157, Article 158(1), Article 158(5) and Article 158(10), use *PD* values in the input of the risk weights and expected loss formulae that are less than the following:

(a) 0.1% for qualifying revolving retail exposures, as set out in Article 147(5A), that are non-*transactor exposures*;

(b) 0.1% for *retail exposures* secured by residential immovable property located in the *UK*; and

(c) 0.05% for all other *retail exposures*.

2. An institution shall, for *retail exposures*, use a *PD* of 100% for obligors in default or, where the institution applies the definition of default at the level of an individual credit facility, for exposures in default.

3. (a) An institution shall, subject to point (b), for dilution risk of purchased receivables, set *PD* equal to EL estimates for dilution risk.

(b) An institution may, if it can decompose its EL estimates for dilution risk of purchased receivables into *PDs* and *LGDs* in a manner that is reliable, use the *PD* estimate that results from the decomposition.

4.

(a) An institution may, subject to point (b), reflect unfunded credit protection in accordance with Credit Risk Mitigation (CRR) Part Article 191A.

(b) An institution shall, when reflecting guarantees or other support arrangements through an unfunded credit protection technique in accordance with Credit Risk Mitigation (CRR) Part Article 191A, or through an adjusted grade assignment in accordance with point (e) of Article 172(1):

(i) not assign final *PDs* or *LGDs* post application of those techniques such that the risk weight would be lower than that of a comparable direct exposure to the guarantor or provider of the support arrangements; and

(ii) calculate risk-weighted exposure amounts, expected loss amounts, risk weights and expected loss for *retail exposures*, after it has applied the input floors that would apply to a comparable direct exposure to the guarantor or provider of support arrangements under Articles 160(1), 161(5), 163(1) and 164(4).

[Note: This rule corresponds to Article 163 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 164 LOSS GIVEN DEFAULT (LGD): RETAIL**

1.

(a) An institution shall provide own estimates of *LGDs* subject to the requirements specified in Section 6 and the terms of its *IRB permissio*n.

(b) An institution shall, subject to point (c), for dilution risk of purchased receivables, use an *LGD* value of 100% where *PD* is determined in accordance with point (a) of Article 163(3).

(c) An institution shall, for dilution risk of purchased receivables where it uses the *PD* estimate that results from the decomposition of its EL estimates for dilution risk in accordance with point (b) of Article 163(3), use the *LGD* estimate that results from the decomposition.

2. An institution may, subject to Article 163(4), reflect unfunded credit protection in *LGDs* in accordance with Credit Risk Mitigation (CRR) Part Article 191A.

3. [Note: Provision left blank]

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4. An institution shall, for *retail exposures*, when calculating risk-weighted exposure amounts, expected loss amounts, risk weights and expected loss of those exposures, including but not limited to under Article 154(1), Article 157, and Article 158(1) and (10), not use *LGD* values as inputs to the risk weight and expected loss formulae that are less than the following LGD input floor values:

   (a) a flat 5% floor value for *retail exposures* secured by residential immovable property, irrespective of the level of collateral provided;

   (b) for unsecured *retail exposures*:

      (i) a flat 50% floor value for qualifying revolving retail exposures as set out in Article 147(5A); and

      (ii) a flat 30% floor value for other unsecured *retail exposures*;

   (c) for secured and partially secured exposures not within the scope of point (a), where the institution chooses to take into account funded credit protection covering the exposure:

      (i) in the case of a single type of collateral, a variable LGD input floor value equal to the value of $\mathrm{LGD}^*$ in Credit Risk Mitigation (CRR) Part Article 230, or

      (ii) in the case of multiple types of collateral, a variable LGD input floor value equal to the value of $\mathrm{LGD}^*$ in Credit Risk Mitigation (CRR) Part Article 231,

      calculated using the *Foundation Collateral Method* (notwithstanding that this method would not normally apply to *retail exposures*) in accordance with Credit Risk Mitigation (CRR) Part, provided that in calculating $\mathrm{LGD}^*$ for the purpose of this point (c) with reference to Credit Risk Mitigation (CRR) Part Articles 230 or 231, as applicable, the institution shall substitute:

      (iii) 30% for $\mathrm{LGD}_{\mathrm{U}}$; and

      (iv) the following values for $\mathrm{LGD}_{\mathrm{S}}$ and $\mathrm{LGD}_{\mathrm{S_i}}$ as applicable:

         (1) 0% for financial collateral;

         (2) 10% for receivables;

         (3) 10% for immovable property;

         (4) 15% for other physical collateral.

4A. An institution shall, for the purpose of point (c) of paragraph 4, where collateral is held against multiple facilities, comply with the requirements set out in paragraph 7 of Credit Risk Mitigation (CRR) Part Article 193.

5. [Note: Provision left blank]

6. [Note: Provision left blank]

7. [Note: Provision left blank]

8. [Note: Provision left blank]

[Note: This rule corresponds to Article 164(1) to (4) of *CRR* as it applied immediately before revocation by the *Treasury*]

## SUB-SECTION 3 EQUITY EXPOSURES SUBJECT TO PD/LGD METHOD

### Article 165 EQUITY EXPOSURES SUBJECT TO THE PD/LGD METHOD

1. [Note: Provision left blank]

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2. [Note: Provision left blank]

3. [Note: Provision left blank]

## SECTION 5 EXPOSURE VALUE

### Article 166 EXPOSURES TO CORPORATES, INSTITUTIONS AND RETAIL EXPOSURES

1. [Note: Provision left blank]

2. [Note: Provision left blank]

3. [Note: Provision left blank]

4. [Note: Provision left blank]

5. [Note: Provision left blank]

6. [Note: Provision left blank]

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### Article 166A EXPOSURE VALUE FOR CORPORATES, INSTITUTIONS AND RETAIL: GENERAL PROVISIONS

1. An institution shall, subject to Article 166B, calculate the exposure value for off-balance sheet items in accordance with Article 166C where it is using the *Foundation IRB Approach* or the *Slotting Approach*, and in accordance with Article 166D where it is using the *Advanced IRB Approach*.

2. Unless otherwise provided for in this Part, the exposure value of on-balance sheet items shall be the accounting value measured without taking into account any credit risk adjustments made. This requirement also applies to assets purchased at a price different than the amount owed.

   For purchased assets, the difference between the amount owed and the accounting value remaining after specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014) have been applied that has been recorded on the balance-sheet of the institution when purchasing the asset is the denoted discount if the amount owed is larger, and premium if it is smaller.

3. An institution shall, in order to calculate the exposure value where it recognises *on-balance sheet netting* of loans and deposits, apply the methods set out in the Credit Risk Mitigation (CRR) Part.

4. An institution shall set the exposure value for leases as the discounted minimum lease payments. Minimum lease payments shall comprise the payments over the lease term that the lessee is, or can, be required to make and any bargain option (being an option the exercise of which is reasonably certain). If a party other than the lessee may be required to make a payment related to the residual value of a leased asset and this payment obligation fulfils the set of conditions in Credit Risk Mitigation (CRR) Part Article 201 regarding the eligibility of protection providers, as well as the requirements for recognising other types of guarantees provided in Credit Risk Mitigation (CRR) Part Article 213, the institution may take the payment obligation into account as unfunded credit protection in accordance with the Credit Risk Mitigation (CRR) Part.

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5. An institution shall determine the exposure value for the calculation of risk-weighted exposure amounts of purchased receivables as the value determined in accordance with paragraph 1 minus the own funds requirements for dilution risk prior to credit risk mitigation.

   An institution shall, for undrawn purchase commitments for revolving purchased receivables, calculate the exposure value using a conversion factor of 40%, except where such commitments meet the criteria set out in point 7 of Column A of Table A1 of paragraph 1 of Credit Risk Standardised Approach (CRR) Part Article 111, in which case the conversion factor shall be 10%.

6. An institution with permission to apply the *Advanced IRB Approach* shall assess *EADs* arising from facilities or relationships that are not captured in an exposure value in accordance with Article 166D(6).

[Note: Articles 166A to 166D of this Part correspond to Article 166 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 166B EXPOSURE VALUE FOR CORPORATES, INSTITUTIONS AND RETAIL: COUNTERPARTY CREDIT RISK**

1. An institution that takes into account credit risk mitigation techniques in calculating the exposure value of securities financing transactions and long settlement transactions shall calculate such exposure value consistently with Credit Risk Mitigation (CRR) Part Article 191A in accordance with either Chapter 6 of Title II of Part Three of *CRR* and Chapter 3 of Counterparty Credit Risk (CRR) Part, or Chapter 3 of Credit Risk Mitigation (CRR) Part; provided that where the institution takes into account a master netting agreement in relation to a set of securities financing transactions, it shall calculate the exposure value for all transactions covered by that master netting agreement as a single exposure value at netting set level.

2. In the case of any contract listed in Annex II of *CRR*, the exposure value shall be determined by the methods set out in Chapter 6 of Title II of Part Three of *CRR* and Sections 3 to 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part and shall not take into account any credit risk adjustment made.

3. Unless otherwise determined by paragraph 1, where an exposure takes the form of securities or commodities sold, posted or lent under securities financing transactions or long settlement transactions, the institution shall use the exposure value of the securities or commodities determined in accordance with Article 24 of *CRR*. The institution shall, where it uses the *Financial Collateral Comprehensive Method*, increase such exposure value by the volatility adjustment appropriate to such securities or commodities, as prescribed in Credit Risk Mitigation (CRR) Part Articles 223 to 224.

[Note: Articles 166A to 166D of this Part correspond to Article 166 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 166C EXPOSURE VALUE FOR CORPORATES AND INSTITUTIONS: THE FOUNDATION IRB APPROACH AND THE SLOTTING APPROACH**

1. An institution shall determine the exposure value for off-balance sheet items in respect of which it uses the *Foundation IRB Approach* or the *Slotting Approach* in accordance with Article 147A by multiplying the conversion factor that would be applicable to the off-balance sheet item under the *Standardised Approach*, as set out in Credit Risk: Standardised Approach (CRR) Part Article 111, by the item's nominal value.

2. An institution shall, in order to reflect the effect of funded credit protection in respect of exposures for which it uses the *Slotting Approach*, apply the methods set out in the Credit Risk Mitigation (CRR) Part.

[Note: Articles 166A to 166D of this Part correspond to Article 166 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 166D EXPOSURE VALUE FOR CORPORATES, INSTITUTIONS AND RETAIL: THE ADVANCED IRB APPROACH**

1. An institution shall, subject to paragraph 3, determine the exposure value for off-balance sheet items in respect of which it uses the *Advanced IRB Approach* in accordance with Article 147A by multiplying the item's nominal value by:

   (a) for *revolving loan commitments* which would not be subject to a 100% conversion factor under Credit Risk: Standardised Approach (CRR) Part Article 111: an own estimate of conversion factor that the institution shall provide in accordance with Section 6;

   (b) for all other off-balance sheet items: the conversion factor that would be applicable to the off-balance sheet item under the *Standardised Approach*, as set out in Credit Risk: Standardised Approach (CRR) Part Article 111.

2. An institution shall, where an on-balance sheet item and a *revolving loan commitment* relate to the same facility and the institution uses the approach set out in point (a) paragraph 1 for the *revolving loan commitment*, incorporate any expected increase in the value of the on-balance sheet item at the point of default in its own estimate of *conversion factor* for the *revolving loan commitment*.

3. An institution may, in respect of,

   (a) fully undrawn revolving loan facilities (i.e. where a *revolving loan commitment* arises from a facility for which no on-balance sheet item is related), and

   (b) partially drawn revolving loan facilities (i.e. where a *revolving loan commitment* and an on-balance sheet item relate to the same facility),

   assign a single exposure value to each such facility instead of the exposure values that would otherwise be assigned to the *revolving loan commitment* in accordance with paragraph 1 and, where appliable, any related on-balance sheet item in accordance with Article 166A(2). The exposure value assigned to the facility shall be equal to an own estimate of *EAD* that the institution shall provide in accordance with section 6.

4. An institution shall, in respect of fully drawn revolving loan facilities (i.e. where an on-balance sheet item arises from a facility that would have given rise to a *revolving loan commitment* had the facility not been fully drawn), assign an exposure value equal to an own estimate of *EAD* that the institution shall provide in accordance with section 6 instead of the exposure value that would otherwise be assigned to the on-balance sheet item in accordance with Article 166A(2).

5. For exposures to corporates and institutions, and for *retail exposures*, when calculating risk-weighted exposure amounts and expected loss amounts, including but not limited to under Article 153(1), Article 154(1), Article 157, Article 158(1), Article 158(5) and Article 158(10):

   (a) own estimates of *conversion factors* provided under point (a) of paragraph 1 shall not be lower than 50% of the conversion factor that would apply to the *revolving loan commitment* if the *Standardised Approach* was applied;

   (b) own estimates of *EAD* provided under paragraph 3 shall not be lower than the sum of:

      (i) the exposure value of the on-balance sheet item, where relevant, calculated in accordance with Article 166A(2), disregarding Article 166D; and

      (ii) 50% of the exposure value that would be calculated for the off-balance sheet item under the *Foundation IRB Approach* in accordance with Article 166C(1);

   (c) own estimates of *EAD* provided under paragraph 4 shall not be lower than the exposure value of the on-balance sheet item calculated in accordance with Article 166A(2), disregarding Article 166D.

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6.

(a) An institution shall assess *EADs* arising from facilities or relationships that were not captured in exposure values prior to the amount being drawn, in cases where:

(i) they are not captured in exposure values because the facilities or relationships were not intended to result in credit exposures; and

(ii) the institution would have applied the *Advanced IRB Approach* in accordance with Article 147A in respect of the facilities or relationships had they been captured in exposure values.

(b) An institution shall, where the amounts referred to in point (a) are material, quantify an *unrecognised exposure adjustment* that reflects the risk-weighted exposure amounts that would be required to reflect the credit risk arising from such exposures. An institution shall allocate the total value of the unrecognised exposure adjustment to *exposure classes* and *exposure subclasses* on a best-efforts basis.

[Note: Articles 166A to 166D of this Part correspond to Article 166 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 167 EQUITY EXPOSURES**

1. [Note: Provision left blank]

2. [Note: Provision left blank]

**Article 168 OTHER NON CREDIT-OBLIGATION ASSETS**

An institution shall, for the exposure value of other non-credit obligation assets, use the accounting value remaining after specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014) have been applied.

[Note: This rule corresponds to Article 168 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SECTION 6 REQUIREMENTS FOR THE IRB APPROACH**

**SUB-SECTION 1 RATING SYSTEM**

**Article 169 GENERAL PRINCIPLES**

1. An institution shall, where it uses multiple *rating systems*, document the rationale for assigning an obligor or a transaction to a *rating system* and apply it in a manner that appropriately reflects the level of risk.

2. An institution shall periodically review assignment criteria and processes to determine whether they remain appropriate for the current portfolio and external conditions.

3. An institution may use direct estimates of *LGDs*, and *conversion factors* or *EADs* (but not *PDs*), for exposures and treat such estimates as representing an assignment to grades on a continuous rating scale.

[Note: This rule corresponds to Article 169 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 169A LGD MODELLING COLLATERAL METHOD**

1. Subject to paragraph 2, an institution applying the *LGD Modelling Collateral Method* in accordance with Credit Risk Mitigation (CRR) Part Article 191A may recognise the existence of

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collateral in its *LGD* estimates. Collateral recognised by the institution shall be taken into account in its *LGD* estimates as follows:

(a) for an exposure where Article 169B does not apply to any collateral recognised by the institution that secures the exposure, the institution shall:

(i) include the collateral recognised by the institution in its consideration of risk drivers in accordance with point (b) of Article 170(4); and

(ii) take the collateral recognised by the institution into account when quantifying *LGD* estimates;

(b) for an exposure where Article 169B applies to any collateral recognised by the institution that secures the exposure, the institution shall take the collateral into account in accordance with that Article.

2. An institution may only use the *LGD Modelling Collateral Method* referred to in paragraph 1 to the extent which it has:

(a) established internal requirements for collateral management, operational procedures, legal certainty and risk management in respect of the types of collateral that it takes into account in its *LGD* estimates; and

(b) those internal requirements are generally consistent with those required for the *Foundation Collateral Method*.

3. Where an institution has an exposure that is covered by unfunded credit protection that, in turn, is covered by collateral, the institution uses both the *LGD Adjustment Method* and the *LGD Modelling Collateral Method* in accordance with paragraph 2 of Credit Risk Mitigation (CRR) Part Article 191A, and Article 169B does not apply to any collateral recognised by the institution that secures the exposure, the institution may apply the *LGD Modelling Collateral Method* by reflecting the effect of collateral by adjusting *facility grades* or *LGD* estimates in accordance with Article 183(2A) instead of applying the approach set out in point (a) of paragraph 1.

**Article 169B LGD MODELLING COLLATERAL METHOD: LACK OF MODELLING DATA**

1. This article applies where an institution applying the *LGD Modelling Collateral Method* recognises a particular type of collateral located in a particular jurisdiction that is held against an exposure, and it does not have sufficient data to model robustly the effect of that particular type of collateral on recoveries in that particular jurisdiction.

2. Where the condition in paragraph 1 is met, an institution shall calculate own *LGD* estimates for the exposure by:

(a) in the case of an exposure secured by a single type of collateral that is recognised by the institution, applying the formula in Credit Risk Mitigation (CRR) Part Article 230; or

(b) in the case of an exposure secured by multiple types of collateral that is recognised by the institution, applying the formula in Credit Risk Mitigation (CRR) Part Article 231,

and, in applying these formulae:

(c) $\mathrm{LGD}_{\mathrm{U}}$ shall represent the institution's own estimate of unsecured *LGD* for the exposure disregarding recoveries from collateral;

(d) the institution shall meet the requirements of this Section 6 in respect of its own estimates of unsecured *LGD*, although the institution shall not take collateral into account for the purpose of assigning exposures to *facility grades* or pools and recoveries from collateral shall not be taken into account in *LGD* estimates; and

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(e) all other parameters in the formula shall be calculated in accordance with the *Foundation Collateral Method*. Accordingly, only collateral which is eligible under the *Foundation Collateral Method* may be recognised for the purpose of determining the secured part of the exposure.

**Article 170 STRUCTURE OF RATING SYSTEM**

1. An institution shall ensure that the structure of a *rating system* for exposures to corporates and institutions complies with the following requirements:

   (a) a *rating system* shall take into account obligor and transaction risk characteristics;

   (b) a *rating system* shall have an obligor rating scale which reflects exclusively quantification of the risk of obligor default. The obligor rating scale shall have a minimum of 7 grades for non-defaulted obligors and one for defaulted obligors;

   (c) an institution shall document the relationship between *obligor grades* in terms of the level of default risk each grade implies and the criteria used to distinguish that level of default risk;

   (d) an institution with portfolios concentrated in a particular market segment and range of default risk shall have enough *obligor grades* within that range to avoid undue concentrations of obligors in a particular grade. Significant concentrations within a single grade shall be supported by convincing empirical evidence that the *obligor grade* covers a reasonably narrow *PD* band and that the default risk posed by all obligors in the grade falls within that band;

   (e) where an institution uses the *Advanced IRB Approach*, a *rating system* shall incorporate a distinct facility rating scale which exclusively reflects *LGD* related transaction characteristics. The *facility grade* definition shall include both a description of how exposures are assigned to the grade and of the criteria used to distinguish the level of risk across grades;

   (f) significant concentrations within a single *facility grade* shall be supported by convincing empirical evidence that the *facility grade* covers a reasonably narrow *LGD* band, respectively, and that the risk posed by all exposures in the grade falls within that band.

2. An institution using the *Slotting Approach* for assigning risk weights for specialised lending exposures is exempt from the requirement to have an obligor rating scale which reflects exclusively quantification of the risk of obligor default for the specialised lending exposures. The institution shall have for these exposures at least four grades for non-defaulted obligors and at least one grade for defaulted obligors.

3. An institution shall ensure that the structure of a *rating system* for *retail exposures* complies with the following requirements:

   (a) the *rating system* shall reflect both obligor and transaction risk, and shall capture all relevant obligor and transaction characteristics;

   (b) the level of risk differentiation shall ensure that the number of exposures in a given grade or pool is sufficient to allow for meaningful quantification and validation of the loss characteristics at the grade or pool level. The distribution of exposures and obligors across grades or pools shall be such as to avoid excessive concentrations;

   (c) the process of assigning exposures to grades or pools shall provide for a meaningful differentiation of risk, for a grouping of sufficiently homogenous exposures, and shall allow for accurate and consistent estimation of loss characteristics at grade or pool level. For purchased receivables the grouping shall reflect the seller's underwriting practices and the heterogeneity of its customers.

4. An institution shall consider the following risk drivers when assigning exposures to grades or pools:

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(a) obligor risk characteristics;

(b) (i) subject to point (b)(ii), transaction risk characteristics, including product or collateral types or both. The institution shall explicitly address cases where several exposures benefit from the same collateral;

(ii) point (b)(i) only applies in relation to collateral where the collateral is recognised by an institution using the *LGD Modelling Collateral Method* and Article 169B does not apply to any collateral recognised by the institution that secures the exposure;

(c) delinquency, except where an institution demonstrates that delinquency is not a material driver of risk for the exposure.

[Note: This rule corresponds to Article 170 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 171 ASSIGNMENT TO GRADES OR POOLS**

1. An institution shall have specific definitions, processes and criteria for assigning exposures to grades or pools within a *rating system* that comply with the following requirements:

(a) the grade or pool definitions and criteria shall be sufficiently detailed to allow those charged with assigning ratings to consistently assign obligors or facilities posing similar risk to the same grade or pool. This consistency shall exist across lines of business, departments and geographic locations;

(b) the documentation of the rating process shall allow third parties to understand the assignments of exposures to grades or pools, to replicate grade and pool assignments and to evaluate the appropriateness of the assignments to a grade or a pool;

(c) the criteria shall also be consistent with the institution's internal lending standards and its policies for handling troubled obligors and facilities.

2. An institution shall, subject to paragraph 3, take all relevant information into account in assigning obligors and facilities to grades or pools. Such information shall be current and shall enable the institution to forecast the future performance of the exposure. The less information an institution has, the more conservative shall be its assignments of exposures to *obligor grades*, *facility grades* or pools. If an institution uses an external rating as a primary factor determining an internal rating assignment, the institution shall ensure that it considers other relevant information.

3. An institution shall not take the following information into account in assigning obligors and facilities to grades and pools:

(a) the impact of guarantees and credit derivatives which the firm recognises through the *LGD Adjustment Method*;

(b) the existence of collateral and the impact of such collateral on recoveries, except where:

(i) the collateral is recognised by an institution when applying the *LGD Modelling Collateral Method*; and

(ii) Article 169B does not apply to any collateral recognised by the institution that secures the exposure.

[Note: This rule corresponds to Article 171 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 172 ASSIGNMENT OF EXPOSURES**

1. An institution shall assign exposures to corporates and institutions in accordance with the following criteria:

(a) each obligor shall be assigned to an *obligor grade* as part of the credit approval process;

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(b) for those exposures for which an institution has an *IRB permission* to use the *Advanced IRB Approach*, each exposure shall also be assigned to a *facility grade* as part of the credit approval process;

(c) an institution using the *Slotting Approach* for assigning risk weights for specialised lending exposures shall assign each of these exposures to a grade in accordance with Article 170(2);

(d) each separate legal entity to which the institution is exposed shall be separately rated. An institution shall have appropriate policies regarding the treatment of individual obligor clients and groups of connected clients;

(e) separate exposures to the same obligor shall be assigned to the same *obligor grade*, irrespective of any differences in the nature of each specific transaction. However, separate exposures to the same obligor may be assigned to different grades where any of the following apply:

(i) the assignment reflects country transfer risk, this being dependent on whether the exposures are denominated in local or foreign currency;

(ii) the assignment reflects the impact on default risk of guarantees or other support arrangements that are associated to an exposure;

(iii) the assignment is necessary because of consumer protection, bank secrecy or other legislation prohibiting the exchange of client data.

2. An institution shall, for *retail exposures*, assign each exposure to a grade or a pool as part of the credit approval process.

3. An institution shall, subject to the second sub-paragraph, for grade and pool assignments, document the situations in which human judgement may override the inputs or outputs of the assignment process and the personnel responsible for approving these overrides. The institution shall document these overrides and note down the personnel responsible. The institution shall analyse the performance of the exposures whose assignments have been overridden. This analysis shall include an assessment of the performance of exposures whose rating has been overridden by a particular person, accounting for all the responsible personnel.

An institution shall not make overrides to reflect the information in points (a) and (b) of Article 171(3).

[Note: This rule corresponds to Article 172 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 173 INTEGRITY OF ASSIGNMENT PROCESS**

1. An institution shall ensure that its assignment procedures in relation to exposures to corporates and institutions meet the following requirements of integrity:

(a) assignments and periodic reviews of assignments shall be completed or approved by an independent party that does not directly benefit from decisions to extend the credit;

(b) the institution shall review assignments at least annually and adjust the assignment where the result of the review does not justify carrying forward the current assignment. High risk obligors and problem exposures shall be subject to more frequent review. The institution shall undertake a new assignment if material information on the obligor or exposure becomes available;

(c) the institution shall have an effective process to obtain and update relevant information on obligor characteristics that affect *PDs*, and on transaction characteristics that affect *LGDs*, or *conversion factors* or *EADs*.

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2. An institution shall, for *retail exposures*, at least annually review obligor and facility assignments and adjust the assignment where the result of the review does not justify carrying forward the current assignment, or review the loss characteristics and delinquency status of each identified risk pool, whichever applicable. An institution shall also at least annually review in a representative sample the status of individual exposures within each pool as a means of ensuring that exposures continue to be assigned to the correct pool, and adjust the assignment where the result of the review does not justify carrying forward the current assignment.

3. [Note: Provision left blank]

[Note: Paragraphs 1 and 2 of this rule correspond to Article 173(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 174 USE OF MODELS**

An institution shall, where it uses statistical models and other mechanical methods ('models') to assign exposures to obligors or facilities grades or pools, comply with the following requirements:

(a) the model shall have good predictive power and capital requirements shall not be distorted as a result of its use. The input variables shall form a reasonable and effective basis for the resulting predictions. The model shall not have material biases;

(b) the institution shall have in place a process for vetting data inputs into the model, which includes an assessment of the accuracy, completeness and appropriateness of the data;

(c) the data used to build the model shall be representative of the population of the institution's actual obligors or exposures;

(d) the institution shall have a regular cycle of model validation that includes monitoring of model performance and stability, review of model specification, and testing of model outputs against outcomes;

(e) the institution shall complement the statistical model by human judgement and human oversight to review model-based assignments and to ensure that the models are used appropriately. Review procedures shall aim at finding and limiting errors associated with model weaknesses. Human judgements shall take into account all relevant information not considered by the model. The institution shall document how human judgement and model results are to be combined.

[Note: This rule corresponds to Article 174 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 175 DOCUMENTATION OF RATING SYSTEM**

1. An institution shall document the design and operational details of its *rating systems* and shall ensure that the documentation provides evidence of compliance with the requirements in this Section 6, and addresses topics including portfolio differentiation, rating criteria, responsibilities of parties that rate obligors and exposures, frequency of assignment reviews, and management oversight of the rating process.

2. An institution shall:

   (a) document the rationale for and analysis supporting its choice of rating criteria; and

   (b) document all major changes in the risk rating process, and such documentation shall support identification of changes made to the risk rating process subsequent to the last review by the *PRA*. The organisation of rating assignment, including the rating assignment process and the internal control structure, shall also be documented.

3. An institution shall document the specific definitions of default and loss used internally and ensure consistency with the definitions set out in this Part.

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4. An institution shall document its methodologies where it employs statistical models in the rating process, and this documentation shall:

   (a) provide a detailed outline of the theory, assumptions and mathematical and empirical basis of the assignment of estimates to grades, individual obligors, exposures, or pools, and the data source(s) used for model estimation;

   (b) establish a rigorous statistical process including out-of-time and out-of-sample performance tests for validating the model;

   (c) indicate any circumstances under which the model does not work effectively.

5. An institution shall demonstrate that the requirements of this Article are met where the institution has obtained a *rating system*, or model used within a *rating system*, from a third-party vendor and that vendor refuses the institution access to, or restricts the institution from accessing, information pertaining to the methodology of that *rating system* or model, or underlying data used to develop that methodology or model, on the basis that such information is proprietary.

[Note: This rule corresponds to Article 175 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 176 DATA MAINTENANCE**

1. An institution shall collect and store data on aspects of its internal ratings as required under the Disclosure (CRR) Part. The data collected and stored by an institution shall also include data on key borrower and facility characteristics in order to:

   (a) provide effective support to the institution's internal credit risk measurement and management processes;

   (b) enable the institution to meet the other requirements in this Part;

   (c) serve as a basis for supervisory reporting; and

   (d) support retrospective re-allocation of obligors and facilities to grades.

2. An institution shall, for exposures to corporates and institutions, collect and store:

   (a) complete rating histories on obligors and recognised guarantors;

   (b) the dates the ratings were assigned;

   (c) the key data and methodology used to derive the rating;

   (d) the person responsible for the rating assignment;

   (e) the identity of obligors and exposures that defaulted;

   (f) the date and circumstances of the defaults referred to in point (e);

   (g) data on the *PDs* and realised default rates associated with rating grades and ratings migration.

3. An institution with an *IRB permission* to use the *Foundation IRB Approach* shall, for exposures in respect of which it uses the *Foundation IRB Approach*, collect and store data on comparisons of realised *LGDs* with the values as set out in Article 161(1) and realised *conversion factors* with the values as set out in Credit Risk: Standardised Approach (CRR) Part Article 111, as referred to in Article 166C(1).

4. Subject to paragraph 6, an institution with an *IRB permission* to use the *Advanced IRB Approach* shall, for exposures in respect of which it uses the *Advanced IRB Approach*, collect and store:

   (a) complete histories of data on the facility ratings and estimates of *LGD*, and *conversion factor* or *EAD*, associated with each rating scale;

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(b) the dates on which the ratings were assigned and the estimates were made;

(c) the key data and methodology used to derive the facility ratings and estimates of *LGD*, and *conversion factor* or *EAD*;

(d) information on the person who assigned the facility rating and the person who provided the estimates of LGD, and *conversion factor* or *EAD*;

(e) data on the estimated and realised *LGDs*, and *conversion factors* or *EADs*, associated with each *defaulted exposure*;

(f) data on the LGD of the exposure before and after evaluation of the effects of a guarantee or credit derivative, for those institutions that reflect the credit risk mitigating effects of guarantees or credit derivatives through the *Parameter Substitution Method* or the *LGD Adjustment Method*;

(g) data on the components of loss for each *defaulted exposure*, including:

(i) amounts recovered;

(ii) source of recovery;

(iii) time period requirement for recovery;

(iv) administrative costs;

(h) data on limits and balances used to derive *conversion factor* or *EAD* estimates, as well as realised *conversion factors* and realised exposure values at default.

5. Subject to paragraph 6, an institution shall, for *retail exposures*, collect and store:

(a) data used in the process of allocating exposures to grades or pools, including:

(i) data on borrower and transaction risk characteristics;

(ii) data on delinquency;

(iii) data on the estimated *PDs* and *LGDs* associated with grades or pools of exposures;

(iv) for *defaulted exposures*, the pools to which the exposure was assigned over the year prior to default, including the realised outcomes for *LGDs*, and *conversion factors* or *EADs*;

(b) data on the estimated *PDs*, *LGDs*, and *conversion factors* or *EADs*, and realised default rates associated with grades or pools of exposures;

(c) the identity of obligors and exposures that defaulted;

(d) for *defaulted exposures*, data on the grades or pools to which the exposure was assigned over the year prior to default and the realised outcomes for *LGDs*, and *conversion factors* or *EADs*;

(e) data on loss rates for qualifying revolving retail exposures as defined in Article 147(5A).

6. An institution with an *IRB permission* to use the *Advanced IRB Approach* need not meet the requirements relating to *conversion factors* and *EADs* set out in paragraphs 4 and 5 in respect of exposures for which it uses the *Advanced IRB Approach* and does not provide own estimates of *conversion factors* or *EADs* in accordance with Article 166D. The institution shall instead comply with the requirements in paragraph 3 relating to *conversion factors* as if it applied the *Foundation IRB Approach* to those exposures.

[Note: This rule corresponds to Article 176 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 177 STRESS TESTS USED IN ASSESSMENT OF CAPITAL ADEQUACY**

1. An institution shall have in place sound stress testing processes for use in the assessment of its capital adequacy. Stress testing shall involve identifying possible events or future changes in economic conditions that could have unfavourable effects on an institution's credit exposures and assessment of the institution's ability to withstand such changes.

2. An institution shall regularly perform a credit risk stress test to assess the effect of certain specific conditions on its total capital requirements for credit risk. The institution shall be able to submit, upon request, documentary evidence that demonstrates that the test chosen by the institution is meaningful and considers the effects of severe, but plausible, recession scenarios. An institution shall assess migration in its ratings under the stress test scenarios. Stressed portfolios shall contain the vast majority of an institution's total exposure.

3. [Note: Provision left blank]

[Note: This rule corresponds to Article 177 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 RISK QUANTIFICATION**

**Article 178 DEFAULT OF AN OBLIGOR OR FACILITY**

1. A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:

   (a) the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security;

   (b) subject to paragraphs 1A, 1B, 1C, and 1D, the obligor is more than 90 days past due on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

   In the case of *retail exposures*, an institution may apply the definition of default laid down in points (a) and (b) of the first sub-paragraph at the level of an individual credit facility rather than in relation to the total obligations of an obligor.

1A. An institution may, where the repayment of the obligation is the subject of a dispute between the obligor and the institution, suspend the counting of days past due until the dispute is resolved, where at least one of the following conditions is met:

   (a) the dispute between the obligor and the institution over the existence or amount of the credit obligation has been introduced to a court or another formal procedure performed by a dedicated external body that results in a binding ruling in accordance with the applicable legal framework in the relevant jurisdiction;

   (b) in the specific case of leasing, a formal complaint has been directed to the institution about the object of the contract and the merit of the complaint has been confirmed by independent internal audit, internal validation or another comparable independent auditing unit.

1B. An institution may, for exposures to central governments, local authorities or public sector entities, apply the treatment set out in paragraph 1C where all of the following conditions are met:

   (a) the contract is related to the supply of goods or services, where the administrative procedures require certain controls related to the execution of the contract before the payment can be made; this applies in particular to factoring exposures or similar types of arrangements but does not apply to instruments such as bonds;

   (b) apart from the delay in payment, no other indications of unlikeliness to pay as specified in accordance with point (a) of paragraph 1 apply, the financial situation of the obligor is sound

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and there are no reasonable concerns that the obligation might not be paid in full, including any overdue interest where relevant;

(c) the obligation is no more than 180 days past due.

1C. An institution may, in relation to a set of exposures and if the conditions referred to in paragraph 1B are satisfied in relation to those exposures, choose:

(a) not to include past due amounts related to the exposures when calculating the materiality thresholds referred to in points (d) and (da) of paragraph 2; and

(b) not to consider the exposures in question to be in default for the purpose of this Article.

An institution following the approach in points (a) and (b) shall clearly document the exposures as satisfying the conditions in paragraph 1B.

1D. An institution may, where there is a dispute between the obligor and the seller and such event is related to dilution risk, suspend the counting of days past due until the dispute is resolved.

2. An institution shall apply the following for the purposes of determining days past due in point (b) of paragraph 1:

(a) for overdrafts, days past due commence once an obligor has breached an advised limit, has been advised a limit smaller than current outstandings, or has drawn credit without authorisation and the underlying amount is material;

(b) for the purposes of point (a), an advised limit comprises any credit limit determined by the institution and about which the obligor has been informed by the institution;

(c) days past due for credit cards commence on the minimum payment due date;

(d) the institution shall, in relation to *retail exposures*, assess a credit obligation past due as material if:

(i) the sum of all amounts past due owed by an obligor to the institution, the parent undertaking or any of its subsidiaries is greater than GBP 0; and

(ii) the amount of the credit obligation past due in relation to the total amount of all on-balance sheet items to that obligor of the institution, the parent undertaking or any of its subsidiaries, excluding *equity exposures*, is greater than 0%;

(da) the institution shall, in relation to non-*retail exposures*, assess a credit obligation past due as material if:

(i) the sum of all amounts past due owed by an obligor to the institution, the parent undertaking or any of its subsidiaries is greater than GBP 440; and

(ii) the amount of the credit obligation past due in relation to the total amount of all on-balance sheet items to that obligor of the institution, the parent undertaking or any subsidiaries, excluding *equity exposures*, is greater than 1%;

(e) an institution shall have documented policies in respect of the counting of days past due, in particular in respect of the re-ageing of the facilities and the granting of extensions, amendments or deferrals, renewals, and netting of existing accounts. These policies shall be applied consistently over time, and shall be in line with the internal risk management and decision processes of the institution.

3. For the purpose of point (a) of paragraph 1, elements to be taken as indications of unlikeliness to pay shall include the following:

(a) the institution puts the credit obligation on non-accrued status;

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(b) the institution recognises a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure;

(c) the institution sells the credit obligation at a material credit-related economic loss;

(d) the institution consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant, fees;

(e) the institution has filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the institution, the parent undertaking or any of its subsidiaries;

(f) the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the institution, the parent undertaking or any of its subsidiaries.

4. An institution that uses external data that is not itself consistent with the definition of default laid down in paragraph 1 shall make appropriate adjustments to achieve broad equivalence with the definition of default.

5. (a) An institution shall, subject to points (c) and (d), and subject to paragraphs 5A to 5C where a distressed restructuring has occurred, in cases where the institution considers that a previously *defaulted exposure* is such that no trigger of default continues to apply, continue to rate an exposure as being in default until at least 3 *months* have passed since the conditions in points (a) and (b) of paragraph 1 ceased to be met. After this period the institution shall rate the exposure as it would for a *non-defaulted exposure*;

(b) An institution shall, during the period referred to in point (a), have regard to the behaviour and the financial situation of the obligor;

(c) An institution shall, at the expiry of the period referred to in point (a), perform an assessment and, if it finds that the obligor is unlikely to pay its obligations in full without recourse to realising security, the exposures shall continue to be classified as being in default until the institution is satisfied that the improvement of the credit quality is factual and permanent;

(d) An institution may apply a longer period than that referred to in point (a) for a given *type of exposures*;

(e) An institution shall apply points (a) to (c) in respect of new exposures to an obligor, in particular where the previous *defaulted exposures* to the obligor have been sold or written off.

5A. An institution shall, where a distressed restructuring has occurred in accordance with point (d) of paragraph 3, rate the obligor or facility as it would for a *non-defaulted exposure* in paragraph 5 if:

(a) at least one year has passed since the latest occurrence of one of the following events:

(i) the moment of extending the restructuring measures;

(ii) the moment when the exposure was classified as defaulted; or

(iii) the end of the grace period included in restructuring arrangements; and

(b) all of the following conditions are met:

(i) during the one year period referred to in point (a), a material payment has been made by the obligor. A material payment may be considered to be made where the debtor has paid via its regular payments in accordance with the restructuring arrangements a total equal to the amount that was previously past due (if there were past due amounts) or that was written-off (if there were no past due amounts) under the restructuring measures;

(ii) during the one year period referred to in point (a) the payments have been made regularly according to the schedule applicable after the restructuring arrangements;

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(iii) there are no past due credit obligations according to the schedule applicable after the restructuring arrangements;

(iv) no indications of unlikeliness to pay as specified in paragraph 3 or any additional indications of unlikeliness to pay specified by the institution apply;

(v) the institution does not consider it otherwise unlikely that the obligor will pay its credit obligations in full according to the schedule after the restructuring arrangements without recourse to realising security. In this assessment, the institution should examine in particular situations where a large lump-sum payment or significantly larger payments are envisaged at the end of the repayment schedule; and

(vi) the conditions referred to in points (b)(i) to (b)(v) are also met with regard to new exposures to the obligor, in particular where the previously *defaulted exposures* to this obligor that were subject to distressed restructuring were sold or written off.

5B. An institution shall, in relation to paragraph 5A, continue to rate an exposure as being in default until points (a) and (b) of paragraph 5A are met.

5C. (a) An institution shall not apply point (b)(i) of paragraph 5A where the obligor changes due to an event such as a merger or acquisition of the obligor or any other similar transaction;

(b) An institution shall apply point (b)(i) of paragraph 5A where there is a change in the obligor's name and point (a) of this paragraph does not apply.

6. [Note: Provision left blank]

[Note: This rule corresponds to Article 178(1) to (5) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 179 OVERALL REQUIREMENTS FOR ESTIMATES**

1. An institution shall, in quantifying the risk parameters to be associated with rating grades or pools, apply the following requirements:

(a) an institution's own estimates of the risk parameters *PD*, *LGD*, *conversion factor* or *EAD*, and EL shall, subject to points (aa) and (ab), incorporate all relevant data, information and methods. The estimates shall be derived using both historical experience and empirical evidence, and not be based purely on judgemental considerations. The estimates shall be plausible and intuitive and shall be based on the material drivers of the respective risk parameters. The less data an institution has, the more conservative it shall be in its estimation;

(aa) an institution shall not take account of recoveries from guarantees, credit derivatives and other support arrangements when quantifying *LGD* estimates, except where recoveries are recognised under the *LGD Adjustment Method* in accordance with Article 183;

(ab) the existence of collateral shall not be taken into account except where recognised by an institution when applying the *LGD Modelling Collateral Method*;

(b) an institution shall be able to provide a breakdown of its loss experience in terms of default frequency, *LGD*, *conversion factor* or *EAD*, or loss where EL estimates are used, by the factors it sees as the drivers of the respective risk parameters. The institution's estimates shall be representative of long run experience;

(c) any changes in lending practice or the process for pursuing recoveries over the observation periods referred to in point (h) of Article 180(1), point (e) of Article 180(2), point (j) of Article 181(1), Article 181(2), and Article 182(2) and (3) shall be taken into account. An institution's estimates shall reflect the implications of technical advances and new data and other

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information, as it becomes available. An institution shall review its estimates when new information comes to light and at least on an annual basis;

(d) the population of exposures represented in the data used for estimation, the lending standards used when the data was generated and other relevant characteristics shall be comparable with those of the institution's exposures and standards. The economic or market conditions that underlie the data shall be relevant to current and foreseeable conditions. The number of exposures in the sample and the data period used for quantification shall be sufficient to provide the institution with confidence in the accuracy and robustness of its estimates;

(e) for purchased receivables, the estimates shall reflect all relevant information available to the purchasing institution regarding the quality of the underlying receivables, including data for similar pools provided by the seller, by the purchasing institution, or by external sources. The purchasing institution shall evaluate any data relied upon which is provided by the seller;

(f) an institution shall add to its estimates a margin of conservatism that is related to the expected range of estimation errors. Where methods and data are considered to be less satisfactory, or the expected range of errors is larger, the margin of conservatism shall be larger.

An institution shall, where it uses different estimates for the calculation of risk weights and for internal purposes, do so only if reasonable to do so, and the institution shall document its reasons for doing so.

1A. An institution may, with the permission of the *PRA* and if it can demonstrate to the satisfaction of the *PRA* that for data that has been collected prior to 1 January 2007 appropriate adjustments have been made to achieve broad equivalence with the definition of default laid down in Article 178, disapply the requirements in this Part relating to data standards, and comply with the standards for data set out in its *IRB permission*.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. An institution shall, where it uses data that is pooled across institutions, meet the following requirements:

(a) the *rating system* and criteria of other institutions in the pool are similar to its own;

(b) the pool is representative of the portfolio for which the pooled data is used;

(c) the pooled data is used consistently over time by the institution for its estimates;

(d) the institution shall remain responsible for the integrity of its *rating system*;

(e) the institution shall maintain sufficient in-house understanding of its *rating system*, including the ability to effectively monitor and audit the rating process.

[Note: This rule corresponds to Article 179 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 180 REQUIREMENTS SPECIFIC TO PD ESTIMATES**

1. An institution shall, in quantifying the risk parameters to be associated with rating grades, apply the following requirements specific to *PD* estimation to exposures to corporates and institutions:

(a) the institution shall estimate *PDs* by *obligor grade* from long run averages of one-year default rates over a representative mix of good and bad economic periods. *PD* estimates for obligors that are highly leveraged or for obligors whose assets are predominantly traded assets shall reflect the performance of the underlying assets based on periods of stressed volatilities;

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(b) the institution may, for purchased corporate receivables, estimate the EL by *obligor grade* from long run averages of one-year realised default rates;

(c) if the institution derives long run average estimates of *PDs* and *LGDs* for purchased corporate receivables from an estimate of EL, and an appropriate estimate of *PD* or *LGD*, its process for estimating total losses shall meet the overall standards for estimation of *PD* and *LGD* set out in this Part, and the outcome shall be consistent with the concept of *LGD* as set out in point (a) of Article 181(1);

(d) the institution shall use *PD* estimation techniques only with supporting analysis. The institution shall recognise the importance of judgemental considerations in combining results of techniques and in making adjustments for limitations of techniques and information;

(e) to the extent that an institution uses data on internal default experience for the estimation of *PDs*, the estimates shall be reflective of underwriting standards and of any differences in the *rating system* that generated the data and the current *rating system*. Where underwriting standards or *rating systems* have changed, the institution shall add a greater margin of conservatism in its estimate of *PD*;

(f) to the extent that the institution associates or maps its internal grades to the scale used by an ECAI or a similar organisation and then attributes the default rate observed for the external organisation's grades to the institution's grades, mappings shall be based on a comparison of internal rating criteria to the criteria used by the external organisation and on a comparison of the internal and external ratings of any common obligors. Biases or inconsistencies in the mapping approach or underlying data shall be avoided. The criteria of the external organisation underlying the data used for quantification shall be oriented to default risk only and not reflect transaction characteristics. The analysis undertaken by the institution shall include a comparison of the default definitions used, subject to the requirements in Article 178. The institution shall document the basis for the mapping;

(g) the institution may, to the extent that it uses statistical default prediction models, estimate *PDs* as the count weighted average of default-probability estimates for individual obligors in a given grade. The institution's use of default probability models for this purpose shall meet the standards specified in Article 174;

(h) irrespective of whether an institution is using external, internal, or pooled data sources, or a combination of the three, for its *PD* estimation, the length of the underlying historical observation period used shall be at least five years for at least one source. If the available observation period spans a longer period for any source, and this data is relevant, this longer period shall be used. The data shall include a representative mix of good and bad years from the economic cycle relevant for the *type of exposures*.

2. For *retail exposures*, an institution shall comply with the following requirements:

(a) the institution shall estimate *PDs* by *obligor grade*, *facility grade* or pool from long run averages of one-year default rates over a representative mix of good and bad economic periods;

(b) *PD* estimates may also be derived from an estimate of total losses and appropriate estimates of *LGDs*;

(c) the institution shall regard internal data for assigning exposures to grades or pools as the primary source of information for estimating loss characteristics. The institution may use external data (including pooled data) or statistical models for quantification provided that the following strong links both exist:

(i) between the institution's process of assigning exposures to grades or pools and the process used by the external data source; and

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(ii) between the institution's internal risk profile and the composition of the external data;

(d) if the institution derives long run average estimates of *PD* and *LGD* for *retail exposures* from an estimate of total losses and an appropriate estimate of *PD* or *LGD*, the process for estimating total losses shall meet the overall standards for estimation of *PD* and *LGD* set out in this Part, and the outcome shall be consistent with the concept of *LGD* as set out in point (a) of Article 181(1);

(e) irrespective of whether the institution is using external, internal or pooled data sources or a combination of the three, for its estimation of loss characteristics, the length of the underlying historical observation period used shall be at least five years for at least one source. If the available observations span a longer period for any source, and these data are relevant, this longer period shall be used. The data shall include a representative mix of good and bad years from the economic cycle relevant for the *type of exposures*;

(f) the institution shall identify and analyse expected changes of risk parameters over the life of credit exposures (seasoning effects).

An institution may, for purchased retail receivables, use external and internal reference data. The institution shall use all relevant data sources as points of comparison.

3. [Note: Provision left blank]

[Note: Paragraphs 1 and 2 of this rule correspond to Article 180(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 181 REQUIREMENTS SPECIFIC TO LGD ESTIMATES**

1. An institution shall, in quantifying the risk parameters to be associated with rating grades or pools, apply the following requirements specific to *LGD* estimates:

(a) the institution shall estimate *LGDs* by *facility grade* or pool on the basis of the average realised *LGDs* by *facility grade* or pool using all observed defaults within the data sources (default weighted average);

(b) (i) the institution shall, subject to point (b)(ii), use *LGD* estimates that are appropriate for an economic downturn if those are more conservative than the long-run average;

(ii) the institution shall, if a *rating system* uses risk drivers that are sensitive to the economic cycle:

(1) analyse the difference between the distribution of exposures over *facility grades* or pools, or over appropriate intervals in case of continuous facility scales, of the current portfolio before and during the downturn period; and

(2) if a substantial difference in the distribution of exposures is identified as a result of the analysis in point (b)(ii)(1), apply non-negative adjustments to its downturn *LGD* estimates in point (b)(i) to limit the impact of an economic downturn on risk-weighted exposure amounts;

(c) the institution shall consider the extent of any interdependence between the risk of the obligor and that of the collateral or collateral provider. Cases where there is a significant degree of dependence shall be addressed in a conservative manner;

(d) currency mismatches between the underlying obligation and the collateral shall be treated conservatively in the institution's assessment of *LGD*;

(e) where *LGD* estimates take into account the existence of collateral under the *LGD Modelling Collateral Method* (but where the institution is not applying the approach set out in Article 169B), these estimates shall not solely be based on the collateral's estimated market value.

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*LGD* estimates shall take into account the effect of the potential inability of the institution to expeditiously gain control of the collateral and liquidate it;

(f) [Note: Provision left blank]

(g) [Note: Provision left blank]

(h) (i) the institution shall, subject to point (h)(ii), for the specific case of exposures already in default, ensure that the *LGD* in default reflects downturn conditions where the estimates of *LGD* in default that are appropriate for an economic downturn are more conservative than the long-run average *LGD* for *defaulted exposures*;

(ii) for the purpose of point (h)(i), the *LGD* in default should be increased above the level referred to in point (h)(i) where this is necessary to ensure that, for each exposure, the difference between the *LGD* estimate and *BEEL* given current economic circumstances and exposure status covers the institution's estimate of the increase in loss rate caused by possible additional unexpected losses during the recovery period (i.e. between the date of default and the final liquidation of the exposure);

(i) to the extent that unpaid late fees have been capitalised in the institution's income statement, they shall be added to the institution's measure of exposure and loss;

(j) for exposures to corporates, estimates of *LGD* shall be based on data over a minimum of five years, increasing by one year each year after implementation until a minimum of seven years is reached, for at least one data source. If the available observation period spans a longer period for any source, and the data is relevant, this longer period shall be used.

An institution may reflect additional drawings after the time a default event is triggered in its *LGD* estimates.

2. An institution may, in relation to *retail exposures*:

(a) derive *LGD* estimates from realised losses and appropriate estimates of *PDs*;

(b) [Note: Provision left blank]

(c) for purchased retail receivables, use external and internal reference data to estimate *LGDs*.

An institution shall, for *retail exposures*, base its estimates of *LGD* on data over a minimum of five years.

3. [Note: Provision left blank]

[Note: Paragraphs 1 and 2 of this rule correspond to Article 181(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 181A ECONOMIC DOWNTURN: SPECIFICATION OF NATURE, SEVERITY AND DURATION OF AN ECONOMIC DOWNTURN**

1. An institution shall, for the purposes of point (b)(i) of Article 181(1) and point (b) of Article 182(1), identify an economic downturn for each *type of exposures*.

2. An institution shall, in identifying an economic downturn for a given *type of exposures*, apply the following requirements:

(a) the nature of an economic downturn shall be characterised by a set of economic indicators that are classified as relevant for exposures within that *type of exposures* in accordance with Article 181B(1) and (2) ('the relevant indicator set');

(b) in terms of severity, an economic downturn shall be indicated by the most severe value relating to a 12-*month* period ('the most severe 12-*month* value') that is observed, for each economic indicator in the relevant indicator set, over a historical time-span determined for that economic indicator in accordance with Article 181C(1) ('the applicable time-span');

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(c) an economic downturn shall comprise one or more distinct downturn periods covering the peaks and troughs related to the most-severe 12-*month* values for the economic indicators in the relevant indicator set, each such period being of a duration determined in accordance with Article 181C(2) ('the duration of a downturn period').

3. For the purposes of point (b) of paragraph 2, the 12-*month* periods to which values for an economic indicator relate may start at any point in time within the applicable time-span.

4. For the purposes of point (c) of paragraph 2:

(a) a downturn period is a period in which an economic indicator reaches its most severe 12-*month* value;

(b) where, for different economic indicators, the peaks or troughs related to the most severe 12-*month* values are reached simultaneously or shortly after each other, the downturn periods in which those indicators reach their most severe 12-*month* value shall be treated as one single downturn period covering the most severe 12-*month* values for all those indicators.

**Article 181B ECONOMIC DOWNTURN: RELEVANT INDICATOR SET**

1. An institution shall classify the following economic indicators as relevant for exposures within a given *type of exposures* where this would not result in the institution incurring disproportionate costs:

(a) for all *types of exposures*:

(i) gross domestic product;

(ii) unemployment rate;

(iii) externally provided aggregate default rates, where available;

(iv) externally provided aggregate credit losses, where available;

(b) in addition to the economic indicators listed in point (a):

(i) for exposures to corporates: relevant sector-specific indices or relevant industry-specific indices;

(ii) for *retail exposures* to *SMEs*: relevant sector-specific indices or relevant industry-specific indices;

(iii) for exposures to corporates secured by residential immovable property and for *retail exposures* secured by residential immovable property: house prices or house price indices;

(iv) for exposures to corporates secured by commercial immovable property and for *retail exposures* to *SMEs* secured by commercial immovable property: commercial immovable property prices or commercial immovable property price indices, and commercial immovable property rental prices or commercial immovable property rental price indices;

(v) for *retail exposures* other than those falling within point (b)(ii), (b)(iii) or (b)(iv): total household debt and disposable personal income, in each case where available;

(vi) for specialised lending exposures:

(1) in the case of *project finance exposures*: prices for the underlying products supplied;

(2) in the case of *object finance exposures*: indices for the relevant type or types of collateral;

(3) in the case of *commodities finance exposures*: prices or price indices for the relevant type of commodity;

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(vii) for exposures to institutions: financial credit indices;

(c) in addition to the economic indicators listed in points (a) and (b) of paragraph 1 as measured in accordance with paragraph 4, any measures of these or other economic indicators that are explanatory variables for, or indicators of, the economic cycle specific to exposures in the *type of exposures* under consideration.

2. An institution shall ensure that the economic indicators that it identifies for exposures within a *type of exposures* in accordance with paragraph 1 reflect the geographical distribution and, where applicable, the sectoral distribution of the exposures within that *type of exposures*. For this purpose, an economic indicator shall be included in the relevant indicator set:

(a) once for each jurisdiction or, where appropriate, once for each geographical area within a jurisdiction, covered by a material share of that *type of exposures*; and

(b) once for each sector, where applicable, covered by a material share of that *type of exposures*.

3. An institution may, where economic indicators to be included in accordance with point (b) of paragraph 1 show strong co-movement across the different jurisdictions or, as applicable, different sectors, instead select a common economic indicator to reflect those jurisdictions or sectors overall.

4. For the purpose of points (a) and (b) of paragraph 1, the relevant economic indicators shall be measured in the way that gives the best indicator of economic conditions from one of:

(a) the level of the relevant economic indicator;

(b) absolute changes in the level of the relevant economic indicator; or

(c) percentage changes in the level of the relevant economic indicator.

**Article 181C ECONOMIC DOWNTURN: DETERMINING THE APPLICABLE TIME-SPAN AND DURATION OF A DOWNTURN PERIOD**

1. An institution shall, for the purposes of point (b) of Article 181A(2), ensure that the historical time-span applicable to an economic indicator is sufficient to provide values that are representative of the likely range of variability of that indicator in the future, and shall in any event have a duration of at least 20 years.

2. An institution shall, for the purposes of point (c) of Article 181A(2), determine the duration of a downturn period as follows:

(a) in a case falling within point (b) of Article 181A(4), the single downturn period shall be a period that is long enough to cover all the peaks or troughs related to the most severe 12-*month* values observed for the different economic indicators associated with that single downturn period;

(b) in all cases, whether or not falling within point (b) of Article 181A(4), where the various 12-*month* values observed for the economic indicator or indicators in question over the applicable timespan do not significantly deviate from their most severe 12-*month* value over a specific, continuous period of time within the applicable time-span, the downturn period shall be long enough to reflect the prolonged severity observed for the economic indicator or indicators in question;

(c) in all cases, whether or not falling within point (b) of Article 181A(4), where:

(i) the economic indicator or indicators show adjacent peaks or troughs to the peaks or troughs related to the most severe 12-*month* values observed for the economic indicator or indicators in question over the applicable time-span;

(ii) the adjacent peaks and troughs do not significantly deviate from the most severe 12-*month* value observed for that indicator or those indicators over that time-span; and

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(iii) the adjacent peaks and troughs are related to the same overall economic condition,

the downturn period shall be long enough to reflect the whole prolonged period over which the adjacent peaks or troughs are observed;

(d) where none of points (a), (b) or (c) apply, the downturn period shall be the 12-*month* period to which the most severe 12-*month* values of the economic indicator or indicators relate.

**Article 182 REQUIREMENTS SPECIFIC TO CONVERSION FACTOR AND EAD ESTIMATES**

1. An institution shall, in quantifying the risk parameters to be associated with rating grades or pools, apply the following requirements specific to estimates of *conversion factors* or *EAD*:

(a) the institution shall estimate *conversion factors* or *EADs* by *facility grade* or pool on the basis of the average realised *conversion factors* or *EADs* at default by *facility grade* or pool using the default weighted average resulting from all observed defaults within the data sources;

(b)

(i) the institution shall, subject to point (b)(ii), use estimates of *conversion factors* or *EADs* that are appropriate for an economic downturn if those are more conservative than the long-run average;

(ii) if a *rating system* uses risk drivers that are sensitive to the economic cycle the institution shall:

(1) analyse the difference between the distribution of exposures over *facility grades* or pools, or over appropriate intervals in the case of continuous facility scales of the current portfolio before and during the downturn period; and

(2) if a substantial difference in the distribution of exposures is identified as a result of the analysis in point (b)(ii) of paragraph 1, apply non-negative adjustments to its downturn estimates of *conversion factors* or *EADs* in point (b)(i) to limit the impact of an economic downturn on risk-weighted exposure amounts;

(c) the institution's estimates of *conversion factors* or *EADs* shall incorporate a larger margin of conservatism where a stronger positive correlation can reasonably be expected between the default frequency and the magnitude of the *conversion factor* or *EAD*;

(ca) the institution's estimates of *conversion factors* or *EADs* shall reflect the possibility of additional drawings by the obligor:

(i) up to the time a default event is triggered; and

(ii) after the time a default event is triggered where this has not been reflected in *LGD* estimates;

(d) in arriving at estimates of *conversion factors* or *EADs* the institution shall consider its specific policies and strategies adopted in respect of account monitoring and payment processing. The institution shall also consider its ability and willingness to prevent further drawings in circumstances short of payment default, such as covenant violations or other technical default events;

(e) the institution shall have adequate systems and procedures in place to monitor facility amounts, current outstandings against committed lines and changes in outstandings per obligor and per grade. The institution shall be able to monitor outstanding balances on a daily basis;

(f) if the institution uses different estimates of *conversion factors* or *EADs* for the calculation of risk-weighted exposure amounts and internal purposes the institution's approach shall be documented and be reasonable;

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(g) where the institution estimates *conversion factors*, these shall reflect realised *conversion factors* measured 12 *months* prior to the *month* of default. The institution's estimates of *conversion factors* or *EADs* shall be developed using relevant observed obligor and facility characteristics available 12 *months* prior to the *month* of default.

2. An institution shall, for exposures to corporates and institutions, base estimates of *conversion factors* or *EADs* on data over a minimum of five years, increasing by one year each year after implementation until a minimum of seven years is reached, for at least one data source. If the available observation period spans a longer period for any source, and the data is relevant, this longer period shall be used.

3. [Note: First sub-paragraph of provision left blank]

   An institution shall, for *retail exposures*, base estimates of *conversion factors* or *EADs* on data over a minimum of five years.

4. [Note: Provision left blank]

[Note: Paragraphs 1 to 3 of this rule correspond to Article 182(1) to (3) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 183 REQUIREMENTS FOR APPLYING THE LGD ADJUSTMENT METHOD FOR UNFUNDED CREDIT PROTECTION**

1. An institution may, where it uses the *LGD Adjustment Method*, take into account unfunded credit protection only where the unfunded credit protection meets the requirements in paragraph 1A and, where the unfunded credit protection is a guarantee or a single-name credit derivative, the institution meets all the following requirements in relation to eligible protection providers and unfunded credit protection:

   (a) the institution shall have clearly specified criteria for the types of guarantors it recognises for the calculation of risk-weighted exposure amounts;

   (b) the institution shall assign non-retail guarantors to *obligor grades* and the relevant requirements set out in Articles 171, 172 and 173 shall apply; and

   (c) the institution shall assign retail guarantors to grades or pools as part of the credit approval process and the relevant requirements set out in Articles 171, 172 and 173 shall apply.

1A. An institution may use guarantees or credit derivatives (including first-to-default credit derivatives) as eligible unfunded credit protection only where all of the following requirements are met:

   (a) the credit protection is evidenced in writing;

   (b) the credit protection does not contain any clause that would allow the protection provider to unilaterally cancel or change the credit protection in a way that would adversely impact the lender; and

   (c) the credit protection is not a second-to-default or higher nth-to-default credit derivative.

2. An institution which uses the *LGD adjustment method* shall have clearly specified criteria for adjusting *facility grades* or *LGD* estimates. These criteria shall comply with the requirements set out in Articles 171, 172 and 173.

   The criteria shall be plausible and intuitive. They shall address the protection provider's ability and willingness to perform under the guarantee or credit derivative, the likely timing of any payments from the protection provider, the degree to which the protection provider's ability to perform under the guarantee or credit derivative is correlated with the obligor's ability to repay, and the extent to which residual risk to the obligor remains.

2A. Where an institution has an exposure that is covered by unfunded credit protection that, in turn, is covered by collateral, and the institution uses both the *LGD Adjustment Method* and the *LGD*

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*Modelling Collateral Method* in accordance with paragraph 2 of Credit Risk Mitigation (CRR) Part Article 191A, the adjustments to *facility grades* or *LGD* estimates referred to in paragraph 2 may also reflect the effect of the collateral in accordance with Article 169A(3).

3. An institution which uses the *LGD Adjustment Method* shall, in relation to a credit derivative for which there is a mismatch between the underlying obligation and the reference obligation of the credit derivative or the obligation used for determining whether a credit event has occurred, use such a credit derivative as eligible unfunded credit protection only if the requirements set out in paragraph 2 of Credit Risk Mitigation (CRR) Part Article 216 are also met.

   In relation to credit derivatives, the institution shall also ensure that its criteria for adjusting *LGD* estimates address the payout structure of the credit derivative and shall conservatively assess the impact this has on the level and timing of recoveries. The institution shall consider the extent to which other forms of residual risk remain.

4. [Note: Provision left blank]

5. [Note: Provision left blank]

6. [Note: Provision left blank]

[Note: This rule corresponds to Article 183(1) to (5) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 184 REQUIREMENTS FOR PURCHASED RECEIVABLES**

1. An institution shall, in quantifying the risk parameters to be associated with rating grades or pools for purchased receivables, ensure the conditions laid down in paragraphs 2 to 6 are met.

2. The structure of the facility shall ensure that under all foreseeable circumstances the institution has effective ownership and control of all cash remittances from the receivables. When the obligor makes payments directly to a seller or servicer, the institution shall verify regularly that payments are forwarded completely and within the contractually agreed terms. The institution shall have procedures to ensure that ownership over the receivables and cash receipts is protected against bankruptcy stays or legal challenges that could materially delay the lender's ability to liquidate or assign the receivables or retain control over cash receipts.

3. The institution shall monitor both the quality of the purchased receivables and the financial condition of the seller and servicer. The following requirements shall apply:

   (a) the institution shall assess the correlation between the quality of the purchased receivables and the financial condition of both the seller and servicer, and have in place internal policies and procedures that provide adequate safeguards to protect against any contingencies, including the assignment of an internal risk rating for each seller and servicer;

   (b) the institution shall have clear and effective policies and procedures for determining seller and servicer eligibility. The institution or its agent shall conduct periodic reviews of sellers and servicers in order to verify the accuracy of reports from the seller or servicer, detect fraud or operational weaknesses, and verify the quality of the seller's credit policies and servicer's collection policies and procedures. The findings of these reviews shall be documented;

   (c) the institution shall assess the characteristics of the purchased receivables pools, including over-advances, history of the seller's arrears, bad debts and bad debt allowances, payment terms, and potential contra accounts;

   (d) the institution shall have effective policies and procedures for monitoring on an aggregate basis single-obligor concentrations both within and across purchased receivables pools;

   (e) the institution shall ensure that it receives from the servicer timely and sufficiently detailed reports of receivables ageings and dilutions to ensure compliance with the institution's

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eligibility criteria and advancing policies governing purchased receivables, and provide an effective means with which to monitor and confirm the seller's terms of sale and dilution.

4. The institution shall have systems and procedures for detecting deteriorations in the seller's financial condition and purchased receivables quality at an early stage, and for addressing emerging problems proactively. In particular, the institution shall have clear and effective policies, procedures, and information systems to monitor covenant violations, and clear and effective policies and procedures for initiating legal actions and dealing with problem purchased receivables.

5. The institution shall have clear and effective policies and procedures governing the control of purchased receivables, credit, and cash. In particular, written internal policies shall specify all material elements of the receivables purchase programme, including the advancing rates, eligible collateral, necessary documentation, concentration limits, and the way cash receipts are to be handled. These elements shall take appropriate account of all relevant and material factors, including the seller and servicer's financial condition, risk concentrations, and trends in the quality of the purchased receivables and the seller's customer base. Internal systems shall ensure that funds are advanced only against specified supporting collateral and documentation.

6. The institution shall have an effective internal process for assessing compliance with all internal policies and procedures. The process shall include regular audits of all critical phases of the institution's receivables purchase programme, verification of the separation of duties between, firstly, the assessment of the seller and servicer and the assessment of the obligor and, secondly, between the assessment of the seller and servicer and the field audit of the seller and servicer, and evaluations of back office operations, with particular focus on qualifications, experience, staffing levels, and supporting automation systems.

[Note: This rule corresponds to Article 184 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SUB-SECTION 3 VALIDATION OF INTERNAL ESTIMATES

### Article 185 VALIDATION OF INTERNAL ESTIMATES

An institution shall validate its internal estimates subject to the following requirements:

(a) the institution shall have robust systems in place to validate the accuracy and consistency of *rating systems*, processes, and the estimation of all relevant risk parameters. The internal validation process shall enable the institution to assess the performance of internal rating and risk estimation systems consistently and meaningfully;

(b) the institution shall regularly compare realised default rates with estimated *PDs* for each grade and, where realised default rates are outside the expected range for that grade, the institution shall specifically analyse the reasons for the deviation. If the institution uses the *Advanced IRB Approach* it shall also perform analogous analysis for *LGD* estimates and, where applicable, *conversion factor* or *EAD* estimates. Such comparisons shall make use of historical data that cover as long a period as possible. The institution shall document the methods and data used in such comparisons. This analysis and documentation shall be updated at least annually;

(c) the institution shall also use other quantitative validation tools and comparisons with relevant external data sources. The analysis shall be based on data that are appropriate to the portfolio, are updated regularly, and cover a relevant observation period. The institution's internal assessments of the performance of its *rating systems* shall be based on as long a period as possible;

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(d) the methods and data used for quantitative analysis shall be broadly consistent through time and in any event shall not vary systematically with the economic cycle. Changes in estimation and validation methods and data (both data sources and periods covered) shall be documented;

(e) the institution shall have sound internal standards for situations where deviations in realised *PDs*, *LGDs*, *conversion factors* or *EADs*, and total losses where EL is used, from estimated become significant enough to call the validity of the estimates into question. These standards shall take account of business cycles and similar systematic variability in default experience. Where realised values continue to be higher than expected values, the institution shall revise estimates upward to reflect its default and loss experience.

[Note: This rule corresponds to Article 185 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SUB-SECTION 4 REQUIREMENTS FOR EQUITY EXPOSURES UNDER THE INTERNAL MODELS APPROACH

### Article 186 OWN FUNDS REQUIREMENT AND RISK QUANTIFICATION

[Note: Provision left blank]

(a) [Note: Provision left blank]

(b) [Note: Provision left blank]

(c) [Note: Provision left blank]

(d) [Note: Provision left blank]

(e) [Note: Provision left blank]

(f) [Note: Provision left blank]

(g) [Note: Provision left blank]

### Article 187 RISK MANAGEMENT PROCESS AND CONTROLS

[Note: Provision left blank]

(a) [Note: Provision left blank]

(b) [Note: Provision left blank]

(c) [Note: Provision left blank]

(d) [Note: Provision left blank]

(e) [Note: Provision left blank]

### Article 188 VALIDATION AND DOCUMENTATION

[Note: Provision left blank]

[Note: Provision left blank]

(a) [Note: Provision left blank]

(b) [Note: Provision left blank]

(c) [Note: Provision left blank]

(d) [Note: Provision left blank]

(e) [Note: Provision left blank]

(f) [Note: Provision left blank]

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## SUB-SECTION 5 INTERNAL GOVERNANCE AND OVERSIGHT

### Article 189 CORPORATE GOVERNANCE

1. All material aspects of the rating and estimation processes shall be approved by the institution's management body or a designated committee thereof. These parties shall possess a general understanding of the *rating systems* of the institution and detailed comprehension of its associated management reports.

2. Senior management shall be subject to the following requirements:

   (a) they shall provide notice to the management body or a designated committee thereof of material changes or exceptions from established policies that will materially impact the operations of the institution's *rating system*;

   (b) they shall have a good understanding of the *rating system* designs and operations and an appropriate member of senior management shall approve material differences between established procedure and actual practice;

   (c) they shall ensure, on an ongoing basis, that the *rating systems* are operating properly.

   Senior management shall be regularly informed by the credit risk control units about the performance of the rating process, areas needing improvement, and the status of efforts to improve previously identified deficiencies.

3. An institution shall carry out internal ratings-based analysis of its credit risk profile and this shall be an essential part of its management reporting. Reporting shall include at least risk profile by grade, migration across grades, estimation of the relevant parameters per grade, and comparison of realised default rates, and to the extent that own estimates are used, of realised *LGDs*, and realised *conversion factors* or *EADs*, against expectations and stress-test results. Reporting frequencies shall depend on the significance and type of information and the level of the recipient.

[Note: This rule corresponds to Article 189 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 190 CREDIT RISK CONTROL

1. An institution's credit risk control unit shall be independent from the personnel and management functions responsible for originating or renewing exposures and shall report directly to senior management. The unit shall be responsible for the design or selection, implementation, oversight and performance of the *rating system*. It shall regularly produce and analyse reports on the output of the *rating system*.

2. The areas of responsibility for the credit risk control unit or units shall include:

   (a) testing and monitoring grades and pools;

   (b) production and analysis of summary reports of the institution's *rating system*. This shall include:

      (i) historical default data sorted by rating at the time of default and one year prior to default;

      (ii) grade migration analyses; and

      (iii) monitoring of trends in key rating criteria;

   (c) implementing procedures to verify that grade and pool definitions are consistently applied across departments and geographic areas;

   (d) reviewing and documenting any changes to the rating process, including the reasons for the changes;

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(e) reviewing the rating criteria to evaluate if they remain predictive of risk. Changes to the rating process, criteria or individual rating parameters shall be documented and retained;

(f) active participation in the design or selection, implementation and validation of models used in the rating process;

(g) oversight and supervision of models used in the rating process;

(h) ongoing review and alterations to models used in the rating process.

3. An institution using pooled data in accordance with Article 179(2) may outsource the following tasks:

(a) production of information relevant to testing and monitoring grades and pools;

(b) production of summary reports of the institution's *rating system*;

(c) production of information relevant to a review of the rating criteria to evaluate if they remain predictive of risk;

(d) documentation of changes to the rating process, criteria or individual rating parameters;

(e) production of information relevant to ongoing review and alterations to models used in the rating process.

4. An institution making use of paragraph 3 shall ensure that the *PRA* has access to all relevant information from the third party that is necessary for examining compliance with the requirements and that the *PRA* may perform on-site examinations to the same extent as within the institution.

[Note: This rule corresponds to Article 190 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 191 INTERNAL AUDIT**

An institution shall ensure that its internal audit or another comparable independent auditing unit reviews at least annually the institution's *rating system* and its operations, including the operations of the credit function and the estimation of *PDs*, *LGDs*, ELs, and *conversion factors* or *EADs*. Areas of review shall include adherence to all applicable requirements. The institution shall ensure that internal audit documents its findings.

[Note: This rule corresponds to Article 191 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## Appendix 1 – SLOTTING APPROACH CRITERIA

(for Article 153, paragraph 5)

List 1: Supervisory rating grades for *income-producing real estate exposures* and *high-volatility commercial real estate exposures*

| **Rating grades →**<br>**Factors ↓** | Strong | Good | Satisfactory | Weak |
|---|---|---|---|---|
| **Financial strength** | | | | |
| Market conditions. | The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is equal or lower than forecasted demand. | The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is roughly equal to forecasted demand. | Market conditions are roughly in equilibrium. Competitive properties are coming on the market and others are in the planning stages. The project's design and capabilities may not be state of the art compared to new projects. | Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. The project is losing tenants at lease expiration. New lease terms are less favourable compared to those expiring. |
| Financial ratios and advance rate. | The property's debt service coverage ratio (DSCR) is considered strong (DSCR is not relevant for the construction phase) and its loan to value ratio (LTV) is considered low given its property type. Where a secondary market exists, the transaction is underwritten to market standards. | The DSCR (not relevant for development real estate) and LTV are satisfactory. Where a secondary market exists, the transaction is underwritten to market standards. | The property's DSCR has deteriorated and its value has fallen, increasing its LTV. | The property's DSCR has deteriorated significantly and its LTV is well above underwriting standards for new loans. |
| Stress analysis. | The property's resources, contingencies and liability structure allow it to meet its financial obligations during a period of severe financial stress (e.g. interest rates, economic growth). | The property can meet its financial obligations under a sustained period of financial stress (e.g. interest rates, economic growth). The property is likely to default only under severe economic conditions. | During an economic downturn, the property would suffer a decline in revenue that would limit its ability to fund capital expenditures and significantly increase the risk of default. | The property's financial condition is strained and is likely to default unless conditions improve in the near term. |
| **Cash-flow predictability** | | | | |
| For complete and stabilised property. | The property's leases are long-term with | Most of the property's leases are long-term, with | Most of the property's leases are medium rather | The property's leases are of various terms with tenants that range |

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| | | | | |
|---|---|---|---|---|
| | creditworthy tenants and their maturity dates are scattered. The property has a track record of tenant retention upon lease expiration. Its vacancy rate is low. Expenses (maintenance, insurance, security, and property taxes) are predictable. | tenants that range in creditworthiness. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable. | than long-term with tenants that range in creditworthiness. The property experiences a moderate level of tenant turnover upon lease expiration. Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue. | in creditworthiness. The property experiences a very high level of tenant turnover upon lease expiration. Its vacancy rate is high. Significant expenses are incurred preparing space for new tenants. |
| For complete but not stabilised property. | Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future. | Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future. | Most leasing activity is within projections; however, stabilisation will not occur for some time. | Market rents do not meet expectations. Despite achieving target occupancy rate, cash-flow coverage is tight due to disappointing revenue. |
| For construction phase. | The property is entirely pre-leased through the tenor of the loan or pre-sold to an investment grade tenant or buyer, or the bank has a binding commitment for take-out financing from an investment-grade lender. | The property is entirely pre-leased or pre-sold to a creditworthy tenant or buyer, or the bank has a binding commitment for permanent financing from a creditworthy lender. | Leasing activity is within projections but the building may not be pre-leased and there may not exist a take-out financing. The bank may be the permanent lender. | The property is deteriorating due to cost overruns, market deterioration, tenant cancellations or other factors. There may be a dispute with the party providing the permanent financing. |
| Asset characteristics | | | | |
| Location. | Property is located in highly desirable location that is convenient to services that tenants desire. | Property is located in desirable location that is convenient to services that tenants desire. | The property location lacks a competitive advantage. | The property's location, configuration, design and maintenance have contributed to the property's difficulties. |
| Design and condition. | Property is favoured due to its design, configuration, and maintenance, and is highly competitive with new properties. | Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties. | Property is adequate in terms of its configuration, design and maintenance. | Weaknesses exist in the property's configuration, design or maintenance. |
| Property is under construction. | Construction budget is conservative and technical hazards | Construction budget is conservative and technical hazards are limited. Contractors | Construction budget is adequate and contractors are ordinarily qualified. | Project is over budget or unrealistic given its technical hazards. Contractors may be |

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| | | | | |
|---|---|---|---|---|
| | are limited. Contractors are highly qualified. | are highly qualified. | | under qualified. |
| **Strength of sponsor/developer** | | | | |
| Financial capacity and willingness to support the property. | The sponsor/developer made a substantial cash contribution to the construction or purchase of the property. The sponsor/developer has substantial resources and limited direct and contingent liabilities. The sponsor/developer's properties are diversified geographically and by property type. | The sponsor/developer made a material cash contribution to the construction or purchase of the property. The sponsor/developer's financial condition allows it to support the property in the event of a cash-flow shortfall. The sponsor/developer's properties are located in several geographic regions. | The sponsor/developer's contribution may be immaterial or non-cash. The sponsor/developer is average to below average in financial resources. | The sponsor/developer lacks capacity or willingness to support the property. |
| Reputation and track record with similar properties. | Experienced management and high sponsors' quality. Strong reputation and lengthy and successful record with similar properties. | Appropriate management and sponsors' quality. The sponsor or management has a successful record with similar properties. | Moderate management and sponsors' quality. Management or sponsor track record does not raise serious concerns. | Ineffective management and substandard sponsors' quality. Management and sponsor difficulties have contributed to difficulties in managing properties in the past. |
| Relationships with relevant real estate actors. | Strong relationships with leading actors such as leasing agents. | Proven relationships with leading actors such as leasing agents. | Adequate relationships with leasing agents and other parties providing important real estate services. | Poor relationships with leasing agents and/or other parties providing important real estate services. |
| **Security package** | | | | |
| Nature of lien. | Perfected first lien.[(a)] | Perfected first lien.[(a)] | Perfected first lien.[(a)] | Ability of lender to foreclose is constrained. |
| Assignment of rents (for projects leased to long-term tenants). | The lender has obtained an assignment. It maintains current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as a current rent roll and copies of the | The lender has obtained an assignment. It maintains current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the | The lender has obtained an assignment. It maintains current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the | The lender has not obtained an assignment of the leases or has not maintained the information necessary to readily provide notice to the building's tenants. |

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| | | | | |
|---|---|---|---|---|
| | project's leases. | project's leases. | project's leases. | |
| Quality of the insurance coverage. | Appropriate. | Appropriate. | Appropriate. | Substandard. |

(a) Lenders in some markets extensively use loan structures that include junior liens. Junior liens may be indicative of this level of risk if the total LTV inclusive of all senior positions does not exceed a typical first loan LTV.

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List 2: Supervisory rating grades for *project finance exposures*

| **Rating grades →**<br>**Factors ↓** | Strong | Good | Satisfactory | Weak |
|---|---|---|---|---|
| **Financial strength** | | | | |
| Market conditions. | Few competing suppliers or substantial and durable advantage in location, cost, or technology. Demand is strong and growing. | Few competing suppliers or better than average location, cost, or technology but this situation may not last. Demand is strong and stable. | Project has no advantage in location, cost, or technology. Demand is adequate and stable. | Project has worse than average location, cost, or technology. Demand is weak and declining. |
| Financial ratios (eg debt service coverage ratio (DSCR), loan life coverage ratio (LLCR), project life coverage ratio PLCR), and debt-to-equity ratio). | Strong financial ratios considering the level of project risk; very robust economic assumptions. | Strong to acceptable financial ratios considering the level of project risk; robust project economic assumptions. | Standard financial ratios considering the level of project risk. | Aggressive financial ratios considering the level of project risk. |
| Stress analysis. | The project can meet its financial obligations under sustained, severely stressed economic or sectoral conditions. | The project can meet its financial obligations under normal stressed economic or sectoral conditions. The project is only likely to default under severe economic conditions. | The project is vulnerable to stresses that are not uncommon through an economic cycle, and may default in a normal downturn. | The project is likely to default unless conditions improve soon. |
| **Financial structure** | | | | |
| Duration of the credit compared to the duration of the project. | Useful life of the project significantly exceeds tenor of the loan. | Useful life of the project exceeds tenor of the loan. | Useful life of the project exceeds tenor of the loan. | Useful life of the project may not exceed tenor of the loan. |
| Amortisation schedule. | Amortising debt. | Amortising debt. | Amortising debt repayments with limited bullet payment. | Bullet repayment or amortising debt repayments with high bullet repayment. |
| **Political and legal environment** | | | | |
| Political risk, including transfer risk, considering project type and mitigants. | Very low exposure; strong mitigation instruments, if needed. | Low exposure; satisfactory mitigation instruments, if needed. | Moderate exposure; fair mitigation instruments. | High exposure; no or weak mitigation instruments. |
| Force majeure risk (war, civil unrest, etc). | Low exposure. | Acceptable exposure. | Standard protection. | Significant risks, not fully mitigated. |

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| | | | | |
|---|---|---|---|---|
| Government support and project's importance for the country over the long term. | Project of strategic importance for the country (preferably export-oriented). Strong support from Government. | Project considered important for the country. Good level of support from Government. | Project may not be strategic but brings unquestionable benefits for the country. Support from Government may not be explicit. | Project not key to the country. No or weak support from Government. |
| Stability of legal and regulatory environment (risk of change in law). | Favourable and stable regulatory environment over the long term. | Favourable and stable regulatory environment over the medium term. | Regulatory changes can be predicted with a fair level of certainty. | Current or future regulatory issues may affect the project. |
| Acquisition of all necessary supports and approvals for such relief from local content laws. | Strong. | Satisfactory. | Fair. | Weak. |
| Enforceability of contracts, collateral and security. | Contracts, collateral and security are enforceable. | Contracts, collateral and security are enforceable. | Contracts, collateral and security are considered enforceable even if certain non-key issues may exist. | There are unresolved key issues in respect of actual enforcement of contracts, collateral and security. |
| **Transaction characteristics** | | | | |
| Design and technology risk. | Fully proven technology and design. | Fully proven technology and design. | Proven technology and design — start-up issues are mitigated by a strong completion package. | Unproven technology and design; technology issues exist and/or complex design. |
| **Construction risk** | | | | |
| Permitting and siting. | All permits have been obtained. | Some permits are still outstanding but their receipt is considered very likely. | Some permits are still outstanding but the permitting process is well defined and they are considered routine | Key permits still need to be obtained and are not considered routine. Significant conditions may be attached. |
| Type of construction contract. | Fixed-price date-certain turnkey construction EPC (engineering and procurement contract). | Fixed-price date-certain turnkey construction EPC. | Fixed-price date-certain turnkey construction contract with one or several contractors. | No or partial fixed-price turnkey contract and/or interfacing issues with multiple contractors. |
| Completion guarantees. | Substantial liquidated damages supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing. | Significant liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing. | Adequate liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing. | Inadequate liquidated damages or not supported by financial substance or weak completion guarantees. |

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| | | | | |
|---|---|---|---|---|
| Track record and financial strength of contractor in constructing similar projects. | Strong. | Good. | Satisfactory. | Weak. |
| **Operating risk** | | | | |
| Scope and nature of operations and maintenance (O&M) contracts. | Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts. | Long-term O&M contract, and/or O&M reserve accounts. | Limited O&M contract or O&M reserve account. | No O&M contract: risk of high operational cost overruns beyond mitigants. |
| Operator's expertise, track record, and financial strength. | Very strong or committed technical assistance of the sponsors. | Strong. | Acceptable. | Limited/weak or local operator dependent on local authorities. |
| **Off-take risk** | | | | |
| If there is a take-or-pay or fixed-price off-take contract: | Excellent creditworthiness of off-taker; strong termination clauses; tenor of contract comfortably exceeds the maturity of the debt. | Good creditworthiness of off-taker; strong termination clauses; tenor of contract exceeds the maturity of the debt. | Acceptable financial standing of off-taker; normal termination clauses; tenor of contract generally matches the maturity of the debt. | Weak off-taker; weak termination clauses; tenor of contract does not exceed the maturity of the debt. |
| If there is no take-or-pay or fixed-price off-take contract: | Project produces essential services or a commodity sold widely on a world market; output can readily be absorbed at projected prices even at lower than historic market growth rates. | Project produces essential services or a commodity sold widely on a regional market that will absorb it at projected prices at historical growth rates. | Commodity is sold on a limited market that may absorb it only at lower than projected prices. | Project output is demanded by only one or a few buyers or is not generally sold on an organised market. |
| **Supply risk** | | | | |
| Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength. | Long-term supply contract with supplier of excellent financial standing. | Long-term supply contract with supplier of good financial standing. | Long-term supply contract with supplier of good financial standing — a degree of price risk may remain. | Short-term supply contract or long-term supply contract with financially weak supplier — a degree of price risk definitely remains. |
| Reserve risks (eg natural resource development). | Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project. | Independently audited, proven and developed reserves in excess of requirements over lifetime of the project. | Proven reserves can supply the project adequately through the maturity of the debt. | Project relies to some extent on potential and undeveloped reserves. |

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| | | | | |
|---|---|---|---|---|
| **Strength of sponsor** | | | | |
| Sponsor track record, financial strength, and country/sector experience. | Strong sponsor with excellent track record and high financial standing. | Good sponsor with satisfactory track record and good financial standing. | Adequate sponsor with adequate track record and good financial standing. | Weak sponsor with no or questionable track record and/or financial weaknesses. |
| Sponsor support, as evidenced by equity, ownership clause and incentive to inject additional cash if necessary. | Strong. Project is highly strategic for the sponsor (core business — long-term strategy). | Good. Project is strategic for the sponsor (core business — long-term strategy). | Acceptable. Project is considered important for the sponsor (core business). | Limited. Project is not key to sponsor's long-term strategy or core business. |
| **Security package** | | | | |
| Assignment of contracts and accounts. | Fully comprehensive. | Comprehensive. | Acceptable. | Weak. |
| Pledge of assets, taking into account quality, value and liquidity of assets. | First perfected security interest in all project assets, contracts, permits and accounts necessary to run the project. | Perfected security interest in all project assets, contracts, permits and accounts necessary to run the project. | Acceptable security interest in all project assets, contracts, permits and accounts necessary to run the project. | Little security or collateral for lenders; weak negative pledge clause. |
| Lender's control over cash-flow (eg cash sweeps, independent escrow accounts). | Strong. | Satisfactory. | Fair. | Weak. |
| Strength of the covenant package (mandatory prepayments, payment deferrals, payment cascade, dividend restrictions…). | Covenant package is strong for this type of project.<br>Project may issue no additional debt. | Covenant package is satisfactory for this type of project.<br>Project may issue extremely limited additional debt. | Covenant package is fair for this type of project.<br>Project may issue limited additional debt. | Covenant package is Insufficient for this type of project.<br>Project may issue unlimited additional debt. |
| Reserve funds (debt service, O&M, renewal and replacement, unforeseen events, etc). | Longer than average coverage period, all reserve funds fully funded in cash or letters of credit from highly rated bank. | Average coverage period, all reserve funds fully funded. | Average coverage period, all reserve funds fully funded. | Shorter than average coverage period, reserve funds funded from operating cash-flows. |

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List 3: Supervisory rating grades for *object finance exposures*

| **Rating grades →** | Strong | Good | Satisfactory | Weak |
|---|---|---|---|---|
| **Factors ↓** | | | | |
| **Financial strength** | | | | |
| Market conditions. | Demand is strong and growing, strong entry barriers, low sensitivity to changes in technology and economic outlook. | Demand is strong and stable. Some entry barriers, some sensitivity to changes in technology and economic outlook. | Demand is adequate and stable, limited entry barriers, significant sensitivity to changes in technology and economic outlook. | Demand is weak and declining, vulnerable to changes in technology and economic outlook, highly uncertain environment. |
| Financial ratios (debt service coverage ratio and loan to value ratio). | Strong financial ratios considering the type of asset. Very robust economic assumptions. | Strong/acceptable financial ratios considering the type of asset. Robust project economic assumptions. | Standard financial ratios for the asset type. | Aggressive financial ratios considering the type of asset. |
| Stress analysis. | Stable long-term revenues, capable of withstanding severely stressed conditions through an economic cycle. | Satisfactory short-term revenues. Loan can withstand some financial adversity. Default is only likely under severe economic conditions. | Uncertain short-term revenues. Cash-flows are vulnerable to stresses that are not uncommon through an economic cycle. The loan may default in a normal downturn. | Revenues subject to strong uncertainties; even in normal economic conditions the asset may default, unless conditions improve. |
| Market liquidity. | Market is structured on a worldwide basis; assets are highly liquid. | Market is worldwide or regional; assets are relatively liquid. | Market is regional with limited prospects in the short term, implying lower liquidity. | Local market and/or poor visibility. Low or no liquidity, particularly on niche markets. |
| **Political and legal environment** | | | | |
| Political risk, including transfer risk. | Very low; strong mitigation instruments, if needed. | Low; satisfactory mitigation instruments, if needed. | Moderate; fair mitigation instruments. | High; no or weak mitigation instruments. |
| Legal and regulatory risks. | Jurisdiction is favourable to repossession and enforcement of contracts. | Jurisdiction is favourable to repossession and enforcement of contracts. | Jurisdiction is generally favourable to repossession and enforcement of contracts, even if repossession might be long and/or difficult. | Poor or unstable legal and regulatory environment. Jurisdiction may make repossession and enforcement of contracts lengthy or impossible. |
| **Transactions characteristics** | | | | |
| Financing term compared to the economic life of the asset. | Full payout profile/minimum balloon. No grace period. | Balloon more significant, but still at satisfactory levels. | Important balloon with potentially grace periods. | Repayment in fine or high balloon. |
| **Operating risk** | | | | |

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| | | | | |
|---|---|---|---|---|
| Permits/licensing. | All permits have been obtained; asset meets current and foreseeable safety regulations. | All permits obtained or in the process of being obtained; asset meets current and foreseeable safety regulations. | Most permits obtained or in process of being obtained, outstanding ones considered routine, asset meets current safety regulations. | Problems in obtaining all required permits, part of the planned configuration and/or planned operations might need to be revised. |
| Scope and nature of O&M contracts. | Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts, if needed. | Long-term O&M contract, and/or O&M reserve accounts, if needed. | Limited O&M contract or O&M reserve account, if needed. | No O&M contract: risk of high operational cost overruns beyond mitigants. |
| Operator's financial strength, track record in managing the asset type and capability to remarket asset when it comes off-lease. | Excellent track record and strong remarketing capability. | Satisfactory track record and remarketing capability. | Weak or short track record and uncertain remarketing capability. | No or unknown track record and inability to remarket the asset. |
| **Asset characteristics** | | | | |
| Configuration, size, design and maintenance (ie age, size for a plane) compared to other assets on the same market. | Strong advantage in design and maintenance. Configuration is standard such that the object meets a liquid market. | Above average design and maintenance. Standard configuration, maybe with very limited exceptions — such that the object meets a liquid market. | Average design and maintenance. Configuration is somewhat specific, and thus might cause a narrower market for the object. | Below average design and maintenance. Asset is near the end of its economic life. Configuration is very specific; the market for the object is very narrow. |
| Resale value. | Current resale value is well above debt value. | Resale value is moderately above debt value. | Resale value is slightly above debt value. | Resale value is below debt value. |
| Sensitivity of the asset value and liquidity to economic cycles. | Asset value and liquidity are relatively insensitive to economic cycles. | Asset value and liquidity are sensitive to economic cycles. | Asset value and liquidity are quite sensitive to economic cycles. | Asset value and liquidity are highly sensitive to economic cycles. |
| **Strength of sponsor** | | | | |
| Operator's financial strength, track record in managing the asset type and capability to remarket asset when it comes off-lease | Excellent track record and strong remarketing capability. | Satisfactory track record and remarketing capability. | Weak or short track record and uncertain remarketing capability. | No or unknown track record and inability to remarket the asset. |
| Sponsors' track record and financial strength. | Sponsors with excellent track record and high financial standing. | Sponsors with good track record and good financial standing. | Sponsors with adequate track record and good financial standing. | Sponsors with no or questionable track record and/or financial weaknesses. |

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| Security package | | | | |
|---|---|---|---|---|
| Asset control. | Legal documentation provides the lender effective control (e.g. a first perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it. | Legal documentation provides the lender effective control (e.g. a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it. | Legal documentation provides the lender effective control (e.g. a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it. | The contract provides little security to the lender and leaves room to some risk of losing control on the asset. |
| Rights and means at the lender's disposal to monitor the location and condition of the asset. | The lender is able to monitor the location and condition of the asset, at any time and place (regular reports, possibility to lead inspections). | The lender is able to monitor the location and condition of the asset, almost at any time and place. | The lender is able to monitor the location and condition of the asset, almost at any time and place. | The lender's ability to monitor the location and condition of the asset is limited. |
| Insurance against damages. | Strong insurance coverage including collateral damages with top quality insurance companies. | Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies. | Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies. | Weak insurance coverage (not including collateral damages) or with weak quality insurance companies. |

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List 4: Supervisory rating grades for *commodities finance exposures*

| **Rating grades →**<br>**Factors ↓** | Strong | Good | Satisfactory | Weak |
|---|---|---|---|---|
| **Financial strength** | | | | |
| Degree of over-collateralisation of trade. | Strong. | Good. | Satisfactory. | Weak. |
| **Political and legal environment** | | | | |
| Country risk. | No country risk. | Limited exposure to country risk (in particular, offshore location of reserves in an emerging country). | Exposure to country risk (in particular, offshore location of reserves in an emerging country). | Strong exposure to country risk (in particular, inland reserves in an emerging country). |
| Mitigation of country risks. | Very strong mitigation:<br>Strong offshore mechanisms.<br>Strategic commodity.<br>1st class buyer. | Strong mitigation:<br>Offshore mechanisms.<br>Strategic commodity.<br>Strong buyer. | Acceptable mitigation:<br>Offshore mechanisms.<br>Less strategic commodity.<br>Acceptable buyer. | Only partial mitigation:<br>No offshore mechanisms.<br>Non-strategic commodity.<br>Weak buyer. |
| **Asset characteristics** | | | | |
| Liquidity and susceptibility to damage. | Commodity is quoted and can be hedged through futures or OTC instruments. Commodity is not susceptible to damage. | Commodity is quoted and can be hedged through OTC instruments. Commodity is not susceptible to damage. | Commodity is not quoted but is liquid. There is uncertainty about the possibility of hedging. Commodity is not susceptible to damage. | Commodity is not quoted. Liquidity is limited given the size and depth of the market. No appropriate hedging instruments. Commodity is susceptible to damage. |
| **Strength of sponsor** | | | | |
| Financial strength of trader. | Very strong, relative to trading philosophy and risks. | Strong. | Adequate. | Weak. |
| Track record, including ability to manage the logistic process. | Extensive experience with the type of transaction in question. Strong record of operating success and cost efficiency. | Sufficient experience with the type of transaction in question. Above average record of operating success and cost efficiency. | Limited experience with the type of transaction in question. Average record of operating success and cost efficiency. | Limited or uncertain track record in general. Volatile costs and profits. |
| Trading controls and hedging policies. | Strong standards for counterparty selection, hedging, and monitoring. | Adequate standards for counterparty selection, hedging, and monitoring. | Past deals have experienced no or minor problems. | Trader has experienced significant losses on past deals. |
| Quality of financial disclosure. | Excellent. | Good. | Satisfactory. | Financial disclosure contains some |

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| | | | | |
|---|---|---|---|---|
| | | | | uncertainties or is insufficient. |
| Security package | | | | |
| Asset control. | First perfected security interest provides the lender legal control of the assets at any time if needed. | First perfected security interest provides the lender legal control of the assets at any time if needed. | At some point in the process, there is a rupture in the control of the assets by the lender. The rupture is mitigated by knowledge of the trade process or a third party undertaking as the case may be. | Contract leaves room for some risk of losing control over the assets. Recovery could be jeopardised. |
| Insurance against damages. | Strong insurance coverage including collateral damages with top quality insurance companies. | Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies. | Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies. | Weak insurance coverage (not including collateral damages) or with weak quality insurance companies. |

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## Appendix 2 – CHANGES TO THE RANGE OF APPLICATION OF RATING SYSTEMS

(for Articles 143A to 143E)

### PART 1 CHANGES TO THE RANGE OF APPLICATION OF RATING SYSTEMS

#### Section 1 Changes requiring the PRA's approval ('material changes')

1. Extending the range of application of a *rating system* to:

   (a) exposures in an additional *business unit*, that are of the same type of product or obligor;

   (b) exposures of an additional type of product or obligor unless the additional type of product or obligor falls within the range of application of an approved *rating system* based on the criteria referred to in points (c)(i) and (ii);

   (c) additional exposures related to the lending decision of a third party to the group, unless the institution can prove that the additional exposures fall within the range of application of an approved *rating system*, based on all of the following criteria:

      (i) the 'representativeness' of the data used to build the model to assign exposures to grades or pools with respect to the key characteristics of the institution's additional exposures where the lending decision has been taken by a third party, according to point (c) of Article 174;

      (ii) the 'comparability' of the population of exposures represented in the data used for estimation, the lending standards used when the data was generated and other relevant characteristics with the ones of the additional exposures where the lending decision has been taken by a third party, according to point (d) of Article 179(1).

   For the purposes of establishing 'representativeness' and 'comparability' under points (i) and (ii) of the first paragraph an institution shall provide a complete description of the criteria and measures used.

#### Section 2 Changes requiring prior notification to the *PRA*

2. Reducing the range of application or the scope of use of a *rating system* where exposures are not moved to a less sophisticated approach in accordance with Article 149.

3. Extending the range of application of a *rating system* which does not fall under Part I, Section 1, point 1 of this Appendix 2.

### PART 2 CHANGES TO RATING SYSTEMS

#### Section 1 Changes requiring the *PRA's* approval ('material changes')

1. Changes in the methodology of assigning exposures to *exposure classes*, *exposure subclasses* and *rating systems*. These include:

   (a) changes in the methodology used for assigning exposures to different *exposure classes* and *exposure subclasses* according to Article 147;

   (b) changes in the methodology used for assigning an obligor or a transaction to a *rating system* according to Article 169(1).

2. The following changes in the algorithms and procedures used for: assigning obligors to *obligor grades* or pools; for assigning exposures to *facility grades* or pools; or for quantifying the risk of obligor default or associated loss:

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(a) changes of the modelling approach for assigning an obligor to grades or pools and/or exposures to *facility grades* or pools according to Article 171(1) and points (a) to (d) of Article 172(1);

(b) changes to the institution's approach to the 'one-obligor-one-rating principle' according to point (e) of Article 172(1);

(c) changes in the *rating system's* assumptions behind ratings relating to the extent by which a change in economic conditions is expected to result in a net migration of a large number of exposures, obligors or facilities across grades or pools of the model, as opposed to migration of only some exposures, obligors or facilities due only to their individual characteristics the measure and significance levels of which shall be appropriately defined by the institution;

(d) changes to the rating criteria as referred to in points (c) and (e) of Article 170(1) and Article 170(4) and/or their weights, sequence or hierarchy, if any of the following conditions are met:

(i) they change the rank ordering referred to in point (c) of Article 170(1) and point (c) of Article 170(3) in a significant manner, the measure and level of which shall be appropriately defined by the institution;

(ii) they change the distribution of obligors, facilities or exposures across grades or pools according to points (d) and (f) of Article 170(1) and point (b) of Article 170(3) in a significant manner, the measure and level of which shall be appropriately defined by the institution.

(e) introduction or withdrawal of an external rating as a primary factor determining an internal rating assignment according to Article 171(2);

(f) changes in the fundamental methodology for estimating *PDs*, *LGDs* (including *BEEL*), and estimates of *conversion factors* or *EADs* according to Articles 180, 181, 181A, 181B, 181C and 182, including the methodology for deriving a margin of conservatism related to the expected range of estimation errors according to point (f) of Article 179(1). For *LGDs*, and estimates of *conversion factors* or *EADs*, this includes fundamental changes in the methodology for accounting for an economic downturn according to point (b) of Article 181(1) and point (b) of Article 182(1);

(g) inclusion of additional types of collateral into the *LGD* estimation according to the *LGD Modelling Collateral Method* if their treatment differs from procedures that have already been approved;

(h) changing from providing own estimates of *conversion factors* to providing own estimates of *EAD*, or vice-versa;

(i) starting to apply or ceasing to apply the *LGD Modelling Collateral Method*;

(j) starting to apply or ceasing to apply the methodology set out in Article 169B;

(k) starting to apply or ceasing to apply the *LGD Adjustment Method*.

3. Changes in the definition of default according to Article 178.

4. Changes in the validation methodology and/or validation processes which lead to changes in the institution's judgment of the accuracy and consistency of the estimation of the relevant risk parameters, the rating processes or the performance of the institution's *rating systems* according to point (a) of Article 185.

**Section 2 Changes requiring prior notification to the *PRA***

5. Changes in the treatment of purchased receivables according to Article 153(6) and (7) and Article 154(5).

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6. The following changes in the algorithms and procedures used for: assigning obligors to *obligor grades* or pools; for assigning exposures to *facility grades* or pools; or for quantifying the risk of obligor default or associated loss:

   (a) changes in the internal procedures and criteria for assigning risk weights to specialised lending exposures according to the *Slotting Approach*;

   (b) changes from the use of direct estimates of *LGD*, or estimates of *conversion factors* or *EAD*, for individual obligors or exposures to the use of a discrete rating scale or vice versa according to Article 169(3), unless already classified as material according to Part 2, Section 1 of this Appendix 2;

   (c) changes to the rating scale in terms of the number or structure of rating grades according to Article 170(1), unless already classified as material according to Part 2, Section 2 of this Appendix 2;

   (d) changes to the rating criteria and/or their weights or hierarchy according to points (c) and (e) of Article 170(1) and 170(4), unless already classified as material according to Part 2, Section 1 of this Appendix 2;

   (e) changes to the grade or pool definitions or criteria according to Articles 171(1) and 172, unless already classified as material according to Part 2, Section 1 of this Appendix 2;

   (f) changes in the scope of information used to assign obligors to grades or pools according to Article 171(2) or inclusion of new or additional information in a model for parameter estimation according to point (d) of Article 179(1);

   (g) changes in the rules and processes for the use of overrides according to Article 172(3), unless already classified as material according to Part 2, Section 1 of this Appendix 2;

   (h) changes in the methodology for estimating *PDs*, *LGDs* (including *BEEL*), and estimates of *conversion factors* or *EADs*, according to Articles 180, 181, 181A, 181B, 181C and 182 including the methodology for deriving a margin of conservatism related to the expected range of estimation errors according to point (f) of Article 179(1), unless already classified as material according to Part 2, Section 1 of this Appendix 2. For *LGDs* and *conversion factors* this includes fundamental changes in the methodology for accounting for an economic downturn according to point (b) of Article 181(1) and point (b) of Article 182(1);

   (i) inclusion of additional types of collateral into the *LGD* estimation in accordance with the *LGD Modelling Collateral Method*, unless already classified as material according to Part 2, Section I of this Appendix 2;

   (j) if an institution maps its internal grades to the scale used by an ECAI and then attributes the default rate observed for the external organisation's grades to the institution’s grades according to point (f) of Article 180(1), changes in the mapping used for this purpose unless already classified as material according to Part 2, Section 1 of this Appendix 2.

7. Changes in the validation methodology and/or process according to Articles 185, unless already classified as material according to Part 2, Section 1 of this Appendix 2.

8. Changes in processes. These include:

   (a) changes in the credit risk control unit according to Article 190 as regards its position within the organisation and its responsibilities;

   (b) changes in the validation unit's position according to Articles 190(1) and (2) within the organisation and its responsibilities;

   (c) changes in the internal organisational or control environment or key processes that have an important influence on a *rating system*.

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9. Changes in the data. These include:

   (a) if an institution starts or ceases to use data that is pooled across institutions according to Article 179(2);

   (b) change of the data sources used in the process of allocating exposures to grades or pools or for parameter estimation according to point (a) of Article 175(4) and point (a) of Article 176(5) and;

   (c) change in the length and composition of time series used for parameter estimation according to point (a) of Article 179(1) that goes beyond the annual inclusion of the latest observations, unless already classified as material according to Part 2, Section 1 of this Appendix 2.

10. Changes in the use of models, if an institution starts using risk parameter estimates for internal business purposes that are not those used for regulatory purpose and, where this was previously not the case, according to Article 179(1).

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**Annex F**

**Credit Risk Mitigation (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# Credit Risk Mitigation (CRR)

**Chapter content**

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. CREDIT RISK MITIGATION (CHAPTER 4 OF TITLE II OF PART THREE OF CRR)
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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

*capital market-driven transaction*

means a transaction giving rise to an exposure secured by collateral which confers on the institution the right to receive margin at least daily.

[Note: this definition corresponds to Article 192(1)(3) of *CRR* as it applied immediately before revocation by the *Treasury*]

*IMM*

means the internal model method set out in Articles 283 to 294 of *CRR*.

*IMM Permission*

means a permission granted to an institution in accordance with Article 283 of *CRR*.

*main index*

means an index listed in Annex I to Commission Implementing Regulation (EU) 2016/1646 of 13 September 2016 laying down Implementing technical standards with regard to main indices and recognised exchanges in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

*margin period of risk*

has the meaning given in Article 272(9) of *CRR*.

*master netting agreement*

means a contract of a type specified in Article 196 which meets the requirements in Article 206.

*other funded credit protection*

means the eligible collateral specified in Article 200.

*Other Funded Credit Protection Method*

means calculating risk-weighted exposure amounts and, where applicable, expected loss amounts in accordance with the method set out in Article 232.

*secured lending transaction*

means any transaction giving rise to an exposure secured by collateral which does not include a provision conferring upon the institution the right to receive margin at least daily.

[Note: this definition corresponds to Article 192(1)(2) of *CRR* as it applied immediately before revocation by the *Treasury*]

*SFT VaR Method Permission*

means

(1) a permission granted to an institution in accordance with paragraph 1 of Article 221; or

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(2) a permission granted to an institution for an internal risk-measurement model under Market Risk: Internal Model Approach (CRR) Part Articles 325az to 325bp or Part A of Annex 3 of the Market Risk: Internal Model Approach (CRR) Part where that institution has notified the *PRA* in accordance with paragraph 3 of Article 221 that it intends to use the *SFT VaR Method*.

*underlying CIU*

means a CIU in the shares or units of which another CIU has invested.

[Note: this definition corresponds to Article 192(1)(4) of *CRR* as it applied immediately before revocation by the *Treasury*]

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution to which this Part applies shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under paragraph 1 of Article 9 of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

[Note: Rule 2.2 applies paragraph 1 of Article 9 of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* to which this Part applies shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Part Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in point 47 of Article 4(1) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution to which this Part applies that is required to comply with Part Two (Own Funds and Eligible Liabilities) and Part Three (Capital Requirements) of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: This rule sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]

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**Organisational Structure and Control Mechanisms**

2.7 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

2.8 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes, and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 2.8 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 3 CREDIT RISK MITIGATION (CHAPTER 4 OF TITLE II OF PART THREE OF CRR)

### SECTION 1 GENERAL REQUIREMENTS

### Article 191A USE OF CREDIT RISK MITIGATION TECHNIQUES UNDER THE STANDARDISED APPROACH AND THE IRB APPROACH

1. The provisions of this Part apply only to the extent that an institution takes into account credit risk mitigation techniques in the calculation of risk-weighted exposure amounts and, where applicable, expected loss amounts.

2. Where an institution calculating risk-weighted exposure amounts and, where applicable, expected loss amounts, chooses to take into account credit risk mitigation, the institution shall do so as follows:

   (a) where the institution takes into account funded credit protection covering an exposure that gives rise to counterparty credit risk, the institution shall take into account the funded credit protection in the calculation of the effect of credit risk mitigation for the purposes of calculating risk-weighted exposure amounts and, where applicable, expected loss amounts in accordance with the decision tree in Part 1 of Appendix 1;

   (b) where the institution takes into account funded credit protection covering an exposure that does not give rise to counterparty credit risk, the institution shall take into account the funded credit protection in the calculation of the effect of credit risk mitigation for the purposes of calculating risk-weighted exposure amounts and, where applicable, expected loss amounts in accordance with the decision tree in Part 2 of Appendix 1;

   (c) subject to point (e), where the institution takes into account unfunded credit protection covering an exposure, the institution shall take into account the unfunded credit protection in the calculation of the effect of credit risk mitigation for the purposes of calculating risk-weighted exposure amounts and, where applicable, expected loss amounts in accordance with the decision tree in Part 3 of Appendix 1;

   (d) without prejudice to paragraph 5 of Article 193, where the institution takes into account both funded credit protection and unfunded credit protection covering the same exposure (other than the situation described in point (e)), the institution shall take into account that credit protection in an appropriate manner that is consistent with the decision trees in Appendix 1, and in a way that does not double count the effects of the credit protection;

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(e) where an institution has an exposure that is covered by unfunded credit protection that, in turn, is covered by funded credit protection and such institution chooses to take into account either (i) only the funded credit protection or (ii) both the unfunded credit protection and the funded credit protection, then the institution shall take into account the applicable credit protection or credit protections in an appropriate manner that is consistent with the decision tree in Part 4 of Appendix 1 (and, to the extent referenced therein, the decision trees in Parts 1 to 3 of Appendix 1), and in a way that does not double count the effects of the credit protection. Notwithstanding this point (e), such institution may choose to take into account only the unfunded credit protection in accordance with point (c) and not the funded credit protection; and

(f) to the extent an institution chooses to take into account funded credit protection under point (e), references to the 'borrower' or the 'obligor' in this Part (in the context of unfunded credit protection which is covered by funded credit protection) shall be deemed to refer to either:

(i) only the provider of the unfunded protection;

(ii) one of the borrower/obligor or the provider of the unfunded credit protection; or

(iii) both the obligor and the provider of the unfunded credit protection,

in each case where appropriate from a prudential point of view to reflect the nature of the credit protection arrangement and the risks related to that arrangement.

3. Where an institution has a choice of methods available under this Part for taking into account unfunded credit protection, the institution shall use the same method when taking into account the same type of unfunded credit protection. An institution shall have in place documented policies specifying which method it shall use to take into account each type of unfunded credit protection.

4. Notwithstanding any other provision in this Part specifying the applicability of any of Articles 192 to 239, any such article shall apply to an institution using the *IMM*, the *LGD Modelling Collateral Method* or the *LGD Adjustment Method*, or to an institution taking into account funded credit protection covering an exposure arising from a derivative instrument listed in Annex II of *CRR*, or to an institution applying the methods set out in Sections 3 to 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part to a long settlement transaction in accordance with Article 271(2) of *CRR*, in each case solely to the extent provisions elsewhere in this *PRA* Rulebook or *CRR* cross-refer to such article. Absent such cross-reference, such articles shall not apply to institutions using any such method or institutions taking into account such funded credit protection covering any such exposure.

[Note: This rule and Credit Risk General Provisions (CRR) Part Article 108 correspond to Article 108 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 192 DEFINITIONS**

1. [Note: Provision left blank]

2. For the purposes of this Part, references to 'institutions' as issuers or as eligible credit providers shall also include undertakings established in third countries which would fall within the definition of 'institution' in Article 4(1)(3) of *CRR*, if they were established in the *UK*.

[Note: This rule corresponds to Article 192(2) of *CRR* as it applied immediately before revocation by the *Treasury*]

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## Article 193 PRINCIPLES FOR RECOGNISING THE EFFECT OF CREDIT RISK MITIGATION TECHNIQUES

A1. This Article applies to an institution taking into account credit risk mitigation using *on-balance sheet netting*, the *Financial Collateral Comprehensive Method*, the *Financial Collateral Simple Method*, the *Other Funded Credit Protection Method*, the *Foundation Collateral Method*, the *SFT VaR Method*, the *Risk-Weight Substitution Method* or the *Parameter Substitution Method*.

1. [Note: Provision left blank]

2. An institution shall not double count the effect of credit risk mitigation. Where the risk-weighted exposure amount already takes account of credit protection under the Credit Risk: Standardised Approach (CRR) Part, Chapter 2 of Title II of Part Three of *CRR* or the Credit Risk: Internal Ratings Based Approach (CRR) Part an institution shall not take into account that credit protection in the calculations under this Part.

2A. For the purpose of applying the methods set out in paragraph A1, an institution may choose to disregard any item of credit protection.

3. Where the provisions in Sections 2 and 3 are met, an institution may amend the calculation of risk-weighted exposure amounts under the *Standardised Approach* and the calculation of risk-weighted exposure amounts and expected loss amounts under the *IRB Approach* in accordance with the provisions of Sections 4 and 5.

4. An institution shall treat cash, securities, or commodities purchased, borrowed, or received under a securities financing transaction as collateral.

5. Where an institution calculating risk-weighted exposure amounts under the *Standardised Approach* has more than one form of credit risk mitigation covering a single exposure (other than the situation described in point (e) of paragraph 2 of Article 191A, which shall be considered a single form of credit risk mitigation for the purposes of this paragraph) it shall do both of the following:

   (a) subdivide the exposure into parts covered by each form of credit risk mitigation; and

   (b) calculate the risk-weighted exposure amount for each part obtained in point (a) separately in accordance with the provisions of the Credit Risk: Standardised Approach (CRR) Part, Chapter 2 of Title II of Part Three of *CRR* and this Part.

6. Subject to the prior application of paragraph 5, if applicable, if an institution calculating risk-weighted exposure amounts under the *Standardised Approach* covers a single exposure with multiple items of credit protection of the same form and provided by a single protection provider and these items of protection have differing maturities (other than the situation described in point (e) of paragraph 2 of Article 191A, which shall be considered a single form of credit protection for the purposes of this paragraph), it shall do both of the following:

   (a) subdivide the exposure into parts, each of which are covered by credit protection with a single maturity; and

   (b) calculate the risk-weighted exposure amount for each part obtained in point (a) separately in accordance with the provisions of the Credit Risk: Standardised Approach (CRR) Part, Chapter 2 of Title II of Part Three of *CRR* and this Part.

7. Where an institution has an item of eligible collateral covering multiple exposures the institution shall:

   (a) subdivide the eligible collateral into one or more portions;

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(b) allocate each portion of eligible collateral to one of the exposures it covers, without any double-counting; and

(c) calculate the effect of each portion of eligible collateral on the exposure to which it is allocated under point (b) separately in accordance with the provisions of this Part.

8.

(a) Where an institution has exposures associated with undrawn facilities, it may recognise collateral that satisfies all eligibility requirements set out in this Part.

(b) Where drawing under a facility is conditional on the prior or simultaneous receipt of collateral by the institution, to the extent of the institution's interest in the collateral once the facility is drawn, notwithstanding that the institution does not have any interest in the collateral to the extent the facility is undrawn, such collateral may be recognised for the exposures associated with the undrawn facility.

[Note: This rule corresponds to Article 193 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 194 PRINCIPLES GOVERNING THE ELIGIBILITY OF CREDIT RISK MITIGATION TECHNIQUES**

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A1. This Article applies to an institution taking into account credit risk mitigation using *on-balance sheet netting*, the *Financial Collateral Comprehensive Method*, the *Financial Collateral Simple Method*, the *Other Funded Credit Protection Method*, the *Foundation Collateral Method*, the *SFT VaR Method*, the *Risk-Weight Substitution Method* or the *Parameter Substitution Method*.

1. An institution shall conduct sufficient legal review to ensure that the technique used to provide the credit protection, together with the actions and steps taken and procedures and policies implemented by the institution, shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions. It shall repeat such review as necessary to ensure continuing enforceability.

   The institution shall be able to, upon request by the *PRA*, provide the most recent version of the independent, written and reasoned legal opinion that it used to establish whether its credit protection arrangements are legally effective and enforceable in all relevant jurisdictions.

2. An institution shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement.

3. An institution may only recognise funded credit protection in the calculation of the effect of credit risk mitigation where the assets relied upon for protection:

   (a) are included in the list of eligible assets set out in Articles 197 to 200 or are eligible collateral pursuant to Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A, as applicable; and

   (b) are sufficiently liquid and their value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved, having regard to the approach used to calculate risk-weighted exposure amounts and to the degree of recognition allowed.

4. An institution may only recognise funded credit protection in the calculation of the effect of credit risk mitigation where the institution has the right to liquidate or retain, in a timely manner, the assets from which the protection derives in the event of the default, insolvency or bankruptcy or other credit event set out in the transaction documentation of the obligor and, where applicable, of the custodian holding the collateral. An institution shall ensure that there is

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no material positive correlation between the value of the assets relied upon for protection and the credit quality of the obligor.

5. [Note: Provision left blank]

6. An institution may take into account unfunded credit protection only where:

   (a) the protection agreement is included in the list of eligible protection agreements set out in Article 203 and paragraph 1 (subject to paragraphs 2 and 3) of Article 204;

   (b) the protection agreement is legally effective and enforceable in the relevant jurisdictions to provide appropriate certainty as to the credit protection achieved, having regard to the approach used to calculate risk-weighted exposure amounts and to the degree of recognition allowed; and

   (c) the protection provider is of a kind that is included in the list of eligible protection providers set out in Article 201.

7. An institution may take into account credit protection only where that credit protection complies with the applicable requirements set out in Section 3.

8. An institution shall have adequate risk management processes to control those risks to which it may be exposed as a result of carrying out credit risk mitigation practices.

9. Notwithstanding the fact that credit risk mitigation has been taken into account for the purposes of calculating risk-weighted exposure amounts and, where applicable, expected loss amounts, an institution shall continue to undertake and document a full credit risk assessment of the underlying exposure. In the case of securities financing transactions the underlying exposure shall, for the purposes of this paragraph only, be deemed to be the net amount of the exposure.

10. [Note: Provision left blank]

[Note: Paragraphs 1, 4 and 6 to 9 of this rule correspond to Article 194(1) to (9) of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 2 ELIGIBLE FORMS OF CREDIT RISK MITIGATION

### SUB-SECTION 1 FUNDED CREDIT PROTECTION

#### Article 195 ON-BALANCE SHEET NETTING

1. An institution may use *on-balance sheet netting* of mutual claims between itself and its counterparty as an eligible form of credit risk mitigation.

2. Without prejudice to Article 196, an institution using *on-balance sheet netting* may only take into account reciprocal cash balances between the institution and the counterparty. An institution using *on-balance sheet netting* may only reflect loans to, and deposits received by, the institution that are subject to an on-balance sheet netting agreement.

[Note: This rule corresponds to Article 195 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 196 MASTER NETTING AGREEMENTS COVERING SECURITIES FINANCING TRANSACTIONS**

1. An institution using the *Financial Collateral Comprehensive Method* or the *SFT VaR Method* may take into account the effects of bilateral netting contracts covering securities financing transactions.

[Note: This rule corresponds to Article 196 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 197 ELIGIBILITY OF COLLATERAL UNDER THE FINANCIAL COLLATERAL SIMPLE METHOD, THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD, THE FOUNDATION COLLATERAL METHOD AND THE SFT VAR METHOD**

1. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use the following items as eligible collateral:

   (a) cash on deposit with, or cash assimilated instruments issued and held by, the institution;

   (b) debt securities issued by central governments or central banks, where:

      (i) the securities have a credit assessment by an ECAI recognised for risk weighting purposes under Credit Risk: Standardised Approach (CRR) Part Article 135;

      (ii) the securities do not have a credit assessment as set out in point (i) and a general issuer credit assessment of the relevant issuer by an ECAI recognised for risk weighting purposes under Credit Risk: Standardised Approach (CRR) Part Articles 135 and 137 respectively is available;

      (iii) the securities do not have a credit assessment as set out in point (i), a general issuer credit assessment as set out in point (ii) is not available, the security is issued by a central bank, and a general issuer credit assessment of the central government of the jurisdiction of the central bank by an ECAI recognised for risk weighting purposes under Credit Risk: Standardised Approach (CRR) Part Articles 135 is available; or

      (iv) the securities do not have a credit assessment as set out in point (i) and a credit assessment by an Export Credit Agency recognised for risk weighting purposes under Credit Risk: Standardised Approach (CRR) Part Article 137 is available,

   and the available credit assessment in point (i), (ii), (iii) or (iv), as applicable, is associated with credit quality step 4 or above or with a minimum export insurance premium (MEIP) of 4 or better under the rules for the risk weighting of exposures to central governments or central banks under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*, and for this purpose where a credit assessment is available under both (iv) and either (ii) or (iii), the institution may decide which credit assessment to refer to;

   (c) debt securities issued by:

      (i) institutions; or

      (ii) financial institutions exposures to which may be treated as exposures to institutions under Article 119(5) of *CRR*,

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where the securities have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of exposures to institutions under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*;

(d) debt securities issued by other entities where the securities have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*;

(e) debt securities with a short-term credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of short-term exposures under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*;

(f) equities or convertible bonds that are included in a *main index*;

(g) gold;

(h) securitisation positions that are not resecuritisation positions and which are subject to a 100% risk weight or lower in accordance with Article 261 to Article 264 of *CRR*.

2. For the purposes of point (b) of paragraph 1, 'debt securities issued by central governments or central banks' include:

(a) debt securities issued by regional governments or local authorities, exposures to which are treated as exposures to the central government in whose jurisdiction they are established under paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 115;

(b) [Note: Provision left blank]

(c) debt securities issued by *multilateral development banks* to which a 0% risk weight is assigned under paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 117;

(d) debt securities issued by international organisations which are assigned a 0% risk weight under Credit Risk: Standardised Approach (CRR) Part Article 118.

However points (b)(ii) and (iii) of paragraph 1 do not apply in relation to the debt securities set out in points (a), (c) and (d) of this paragraph.

3. For the purposes of point (c) of paragraph 1, 'debt securities issued by institutions' include:

(a) debt securities issued by regional governments or local authorities other than those debt securities referred to in point (a) of paragraph 2;

(b) debt securities issued by public sector entities, exposures to which are treated in accordance with paragraphs 1 and 2 of Credit Risk: Standardised Approach (CRR) Part Article 116 or are treated in accordance with paragraphs 1 and 2 of Credit Risk: Standardised Approach (CRR) Part Article 116 under Article 116(5) of *CRR*;

(c) debt securities issued by *multilateral development banks* other than those to which a 0% risk weight is assigned under paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 117.

4. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use as

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eligible collateral debt securities issued by other institutions, or financial institutions exposures to which may be treated as exposures to institutions under Article 119(5) of *CRR*, where such debt securities do not have a credit assessment by an ECAI where:

(a) the debt securities are listed on a recognised exchange;

(b) the debt securities qualify as senior debt;

(c) all rated issues by the issuing institution of the same seniority have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of exposures to institutions or short-term exposures under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*;

(d) the institution has no information to suggest that the issue would justify a credit assessment below that indicated in point (c); and

(e) the market liquidity of the instrument is sufficient for these purposes.

5. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use as eligible collateral units or shares in CIUs where:

(a) the units or shares have a daily public price quote;

(b) the CIUs are limited to investing in instruments that are eligible for recognition under paragraphs 1 and 4; and

(c) the CIUs meet the conditions laid down in paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 132.

Where a CIU invests in shares or units of another CIU, the conditions laid down in points (a) to (c) of this paragraph shall apply to any such *underlying CIU*.

The use by a CIU of derivative instruments to hedge permitted investments shall not prevent units or shares in that CIU from being eligible as collateral.

6. For the purposes of paragraph 5, where a CIU ('the original CIU') or any of its *underlying CIUs* are not limited to investing in instruments that are eligible under paragraphs 1 and 4:

(a) where the institution would apply the look-through approach for a direct exposure to a CIU, as referred to in paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 132A or paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152, it may use units or shares in that CIU as collateral up to an amount (subject to the prior application of point (d)) equal to the value of the assets held by that CIU that are eligible under paragraphs 1 and 4, multiplied by the percentage of units or shares in that CIU pledged as collateral;

(b) where the institution would apply the mandate-based approach for a direct exposure to a CIU, as referred to in paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 132A or paragraph 5 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152, it may use units or shares in that CIU as collateral up to an amount (subject to the prior application of point (d)) equal to the value of the assets held by that CIU that are eligible under paragraphs 1 and 4 under the assumption that that CIU or any of its *underlying CIUs* have invested in non-eligible assets to the maximum extent allowed under their respective mandates, multiplied by the percentage of units or shares in that CIU pledged as collateral.

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For the purpose of points (a) and (b), the institution shall assume that the direct exposure is included in the non-trading book disregarding Trading Book (CRR) Part Article 104.

Where any *underlying CIU* has *underlying CIUs* of its own, an institution may use units or shares in the original CIU as eligible collateral provided that it applies the appropriate methodology laid down in the first and second sub-paragraphs.

Where non-eligible assets held by the CIU may have a negative value due to liabilities or contingent liabilities resulting from ownership, an institution shall:

(c) calculate the total value of the non-eligible assets held by the CIU; and

(d) where the amount obtained under point (c) is negative, subtract the absolute value of that amount from the total value of the eligible assets held by the CIU.

7. With regard to points (b) to (e) of paragraph 1, where a security has two credit assessments by ECAIs, an institution shall apply the less favourable assessment. Where a security has more than two credit assessments by ECAIs, the two most favourable credit assessments shall be referred to. If the two most favourable credit assessments are different, the institution shall apply the less favourable of the two. If the two most favourable credit assessments are the same, the institution shall apply either of those credit assessments.

8. [Note: Provision not in *PRA* Rulebook]

9. This Article shall be without prejudice to Article 299 of *CRR* and Counterparty Credit Risk (CRR) Part Article 299A.

[Note: Paragraphs 1 to 7 of this rule correspond to Article 197(1) to (7) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 198 ADDITIONAL ELIGIBILITY OF COLLATERAL UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD, THE FOUNDATION COLLATERAL METHOD AND THE SFT VAR METHOD**

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1. In addition to the collateral referred to in Article 197, an institution using the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method*, may, without prejudice to Article 299 of *CRR* and Counterparty Credit Risk (CRR) Part Article 299A, also use the following items as eligible collateral:

(a) equities or convertible bonds not included in a *main index* but listed on a recognised exchange;

(b) units or shares in CIUs where:

(i) the units or shares have a daily public price quote;

(ii) the CIU is limited to investing in instruments that are eligible for recognition under paragraphs 1 and 4 of Article 197 and the items referred to in point (a) of this sub-paragraph; and

(iii) the CIU meets the conditions laid down in paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 132.

In the case a CIU invests in units or shares of another CIU, conditions (b)(i) to (iii) of this paragraph apply to any such *underlying CIU*.

The use by a CIU of derivative instruments to hedge permitted investments shall not prevent units or shares in that CIU from being eligible as collateral.

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2. Where the CIU or any of its *underlying CIUs* are not limited to investing in instruments that are eligible for recognition under paragraphs 1 and 4 of Article 197 and the items referred to in point (a) of paragraph 1:

   (a) where the institution would apply the look-through approach, for a direct exposure to a CIU, as referred to in paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 132A or paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152, it may use units or shares in that CIU as collateral up to an amount (subject to the prior application of point (d)) equal to the value of the assets held by that CIU that are eligible under paragraphs 1 and 4 of Article 197 or point (a) of paragraph 1, multiplied by the percentage of units or shares in that CIU pledged as collateral;

   (b) where the institution would apply the mandate-based approach, for direct exposures to the CIUs, as referred to in paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 132A or paragraph 5 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152, it may use units or shares in that CIU as collateral up to an amount (subject to the prior application of point (d)) equal to the value of the assets held by that CIU that are eligible under paragraphs 1 and 4 of Article 197 or point (a) of paragraph 1, under the assumption that that CIU or any of its *underlying CIUs* have invested in non-eligible assets to the maximum extent allowed under their respective mandates, multiplied by the percentage of units or shares in that CIU pledged as collateral.

   For the purpose of points (a) and (b), the institution shall assume that the direct exposure is included in the non-trading book disregarding Trading Book (CRR) Part Article 104.

   Where non-eligible assets held by the CIU may have a negative value due to liabilities or contingent liabilities resulting from ownership, the institution shall:

   (c) calculate the total value of the non-eligible assets held by the CIU; and

   (d) where the amount obtained under point (c) is negative, subtract the absolute value of that amount from the total value of the eligible assets held by the CIU.

[Note: This rule corresponds to Article 198 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 199 ADDITIONAL ELIGIBILITY FOR COLLATERAL UNDER THE FOUNDATION COLLATERAL METHOD**

1. In addition to the collateral referred to in Articles 197 and 198, an institution that calculates risk-weighted exposure amounts and expected loss amounts under the *Foundation Collateral Method* may also use the following forms of collateral:

   (a) immovable property collateral in accordance with paragraph 2;

   (b) receivables in accordance with paragraph 5;

   (c) other physical collateral in accordance with paragraph 6;

   (d) leased property in accordance with paragraph 7.

2. The institution may use as eligible collateral residential property which is, or will be, occupied or let by the owner, or the beneficial owner in the case of ownership by personal investment companies, and commercial immovable property, including offices and other commercial premises, where:

   (a) the value of the property does not materially depend upon the credit quality of the obligor. (The institution may exclude situations where purely macro-economic factors affect both

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the value of the property and the performance of the obligor from their determination of the materiality of such dependence); and

(b) in the case of commercial immovable property, the credit risk of the obligor does not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the obligor to repay the debt from other sources and, as a consequence, repayment of the facility does not materially depend on any cash-flow generated by the underlying property serving as collateral.

3. [Note: Provision left blank]

4. [Note: Provision left blank]

5. The institution may use as eligible collateral amounts receivable linked to a commercial transaction with an original maturity of less than or equal to one year where repayment will be funded by the commercial or financial flows related to the underlying assets of the counterparty, including:

(a) self-liquidating debt arising from the sale of goods or services linked to a commercial transaction; and

(b) amounts owed by buyers, suppliers, renters, national and local governmental authorities, or other non-affiliated parties not related to the sale of goods or services linked to a commercial transaction,

but not including receivables associated with securitisations, sub-participations or credit derivatives or amounts owed by affiliated parties.

6. The institution may, with the prior permission of the *PRA*, use as eligible collateral physical collateral of a type other than those indicated in paragraph 2 where the institution is able to demonstrate to the *PRA* that:

(a) there are liquid markets, evidenced by frequent transactions taking into account the asset type, for the disposal of the collateral in an expeditious and economically efficient manner. The institution shall carry out the assessment of this requirement periodically and where information indicates material changes in the market;

(b) there are well-established and publicly available market prices for the collateral. The institution may consider market prices to be well-established where they come from reliable sources of information such as public indices and reflect the price of the transactions under normal conditions. The institution may consider market prices to be publicly available where these prices are disclosed, easily accessible and obtainable regularly and without any undue administrative or financial burden;

(c) the institution analyses the market prices, time and costs required to realise the collateral and the realised proceeds from the collateral;

(d) the institution demonstrates that the realised proceeds from the collateral have not been below 70% of the collateral value in more than 10% of all liquidations for a given type of collateral; and

(e) where there is material volatility in the market prices of the collateral, the institution is able to demonstrate that its valuation is sufficiently conservative.

The institution shall comply with the requirements in points (a) to (e) of this paragraph on an ongoing basis and shall document how these requirements, and those specified in Article 210, are met.

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[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

7. Where the requirements set out in Article 211 are met, the institution may treat exposures arising from transactions whereby the institution leases property to a third party in the same manner as it would treat loans collateralised by the type of property leased.

8. [Note: Provision left blank]

[Note: Paragraphs 1 to 7 of this rule correspond to Article 199(1) to (7) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 200 OTHER FUNDED CREDIT PROTECTION**

1. An institution may use the following *other funded credit protection* as eligible collateral when using the *Other Funded Credit Protection Method*:

   (a) cash on deposit with, or cash assimilated instruments issued by the institution and held by, a third party institution in a non-custodial arrangement and pledged to the institution;

   (b) life insurance policies pledged to the institution;

   (c) instruments issued by another institution (or by a financial institution exposures to which may be treated as exposures to institutions under Article 119(5) of *CRR*), which instruments will be repurchased by that institution or financial institution on request.

[Note: This rule corresponds to Article 200 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 UNFUNDED CREDIT PROTECTION**

**Article 201 ELIGIBILITY OF PROTECTION PROVIDERS UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. An institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use the following parties as eligible providers of unfunded credit protection:

   (a) central governments or central banks;

   (b) regional governments or local authorities;

   (c) *multilateral development banks*;

   (d) international organisations exposures to which a 0% risk weight under Credit Risk: Standardised Approach (CRR) Part Article 118 is assigned;

   (e) public sector entities;

   (f) institutions, (and financial institutions exposures to which may be treated as exposures to institutions under Article 119(5) of *CRR*);

   (g) other corporate entities, including parent undertakings, subsidiaries and affiliated corporate entities of the obligor, where those other corporate entities have a credit assessment by an ECAI;

   (h) qualifying central counterparties.

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2. In addition to the parties in paragraph 1, for an exposure where an institution calculates risk-weighted exposure amounts and expected loss amounts using the *Parameter Substitution Method*, the institution may use as eligible providers of unfunded credit protection other corporate entities that are internally rated by the institution in accordance with the provisions of Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 169 to 191.

[Note: This rule corresponds to Article 201 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 202**

[Note: Provision left blank]

**Article 203 ELIGIBILITY OF GUARANTEES AS UNFUNDED CREDIT PROTECTION UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. An institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use guarantees as eligible unfunded credit protection.

[Note: This rule corresponds to Article 203 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 204 ELIGIBLE TYPES OF CREDIT DERIVATIVES UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. Subject to paragraph 3, an institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use the following types of credit derivatives, and instruments that may be composed of such credit derivatives or that are similar in their economic effect to such credit derivatives, as eligible credit protection:

   (a) credit default swaps;

   (b) total return swaps;

   (c) credit linked notes to the extent of their cash funding.

   Where the institution buys credit protection through a total return swap and records the net payments received on the swap as net income, but does not record the offsetting deterioration in the value of the asset that is protected either through reductions in fair value or by an addition to reserves, the institution may not use that credit protection as eligible credit protection.

2. Where the institution conducts an internal hedge using a credit derivative, the institution may only use that credit derivative as eligible credit protection where the credit risk transferred to the trading book is transferred out to a third party.

   Where an internal hedge has been conducted in accordance with the first sub-paragraph and the applicable requirements in this Part have been met, the institution shall apply the rules set out in Sections 4 and 5 for the calculation of risk-weighted exposure amounts and expected loss amounts where it acquires unfunded credit protection.

3. The institution may not use first-to-default and all other nth-to-default credit derivatives as eligible credit protection.

[Note: This rule corresponds to Article 204 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## SECTION 3 REQUIREMENTS

## SUB-SECTION 1 FUNDED CREDIT PROTECTION

### Article 205 REQUIREMENTS FOR ON-BALANCE SHEET NETTING AGREEMENTS OTHER THAN MASTER NETTING AGREEMENTS REFERRED TO IN ARTICLE 206

1. If using *on-balance sheet netting* an institution may use on-balance sheet netting agreements other than *master netting agreements* referred to in Article 206 as an eligible form of credit risk mitigation where all the following conditions are met:

   (a) those agreements are legally effective and enforceable in all relevant jurisdictions, including in the event of the insolvency or bankruptcy of a counterparty;

   (b) the institution is able to determine at any time the assets and liabilities that are subject to those agreements;

   (c) the institution monitors and controls the risks associated with the termination of the credit protection on an ongoing basis; and

   (d) the institution monitors and controls the relevant exposures on a net basis and does so on an ongoing basis.

[Note: This rule corresponds to Article 205 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 206 REQUIREMENTS FOR MASTER NETTING AGREEMENTS COVERING SECURITIES FINANCING TRANSACTIONS

1. An institution using the *Financial Collateral Comprehensive Method* or the *SFT VaR Method* may use *master netting agreements* covering securities financing transactions as an eligible form of credit risk mitigation where:

   (a) they are legally effective and enforceable in all relevant jurisdictions, including in the event of the bankruptcy or insolvency of the counterparty;

   (b) they give the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement upon the event of default, including in the event of the bankruptcy or insolvency of the counterparty;

   (c) they provide for the netting of gains and losses on transactions closed out under an agreement so that a single net amount is owed by one party to the other; and

   (d) they allow for the prompt liquidation or set-off of collateral upon the event of default.

[Note: This rule corresponds to Article 206 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## Article 207 REQUIREMENTS FOR FINANCIAL COLLATERAL UNDER THE FINANCIAL COLLATERAL SIMPLE METHOD, THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD, THE FOUNDATION COLLATERAL METHOD AND THE SFT VAR METHOD

1. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use financial collateral and gold as eligible collateral where all the requirements laid down in paragraphs 2 to 4 are met.

2. The credit quality of the obligor and the value of the collateral shall not have a material positive correlation. Where the value of the collateral is reduced significantly, this shall not alone imply a significant deterioration of the credit quality of the obligor. Where the credit quality of the obligor deteriorates significantly, this shall not alone imply a significant reduction in the value of the collateral.

   The institution may not use securities issued by the obligor, or any related group entity, as eligible collateral. This notwithstanding, the institution may use the obligor's own issues of *eligible covered bonds* as eligible collateral when they are posted as collateral for a repurchase transaction, provided that they comply with the condition set out in the first sub-paragraph.

3. The institution shall fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of the collateral arrangements under the law applicable to their interest in the collateral.

   The institution shall have conducted sufficient legal review confirming the enforceability of the collateral arrangements in all relevant jurisdictions. It shall re-conduct such review as necessary to ensure continuing enforceability.

4. The institution shall fulfil all the following operational requirements:

   (a) it shall properly document the collateral arrangements and have in place clear and robust procedures for the timely liquidation of collateral;

   (b) it shall use robust procedures and processes to control risks arising from the use of collateral, including risks of failed or reduced credit protection, valuation risks, risks associated with the termination of the credit protection, and concentration risk arising from the use of collateral and the interaction with the institution's overall risk profile;

   (c) it shall have in place documented policies and practices concerning the types and amounts of collateral accepted;

   (d) it shall calculate the market value of the collateral, and revalue it accordingly, at least once every six *months* and whenever it has reason to believe that a significant decrease in the market value of the collateral has occurred;

   (e) where the collateral is held by a third party, it shall take reasonable steps to ensure that the third party segregates the collateral from its own assets;

   (f) it shall ensure that it devotes sufficient resources to the orderly operation of margin agreements with OTC derivatives and securities financing counterparties, as measured by the timeliness and accuracy of its outgoing margin calls and response time to incoming margin calls; and

   (g) it shall have in place collateral management policies to control, monitor, and report the following:

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(i) the risks to which margin agreements expose it;

(ii) the concentration risk to particular types of collateral assets;

(iii) the reuse of collateral including the potential liquidity shortfalls resulting from the reuse of collateral received from counterparties;

(iv) the surrender of rights on collateral posted to counterparties.

5. In addition to meeting all the requirements set out in paragraphs 2 to 4, an institution using the *Financial Collateral Simple Method* may use financial collateral as eligible collateral only where the residual maturity of the protection is at least as long as the residual maturity of the exposure.

[Note: This rule corresponds to Article 207 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 208 REQUIREMENTS FOR IMMOVABLE PROPERTY COLLATERAL UNDER THE FOUNDATION COLLATERAL METHOD**

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1. An institution using the *Foundation Collateral Method* may use immovable property as eligible collateral only where all the requirements laid down in paragraphs 2 to 7 are met.

2. The following requirements on legal certainly shall be met:

(a) a mortgage or charge or other relevant security interest used is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis;

(b) all legal requirements for establishing the pledge or other relevant security interest have been fulfilled;

(c) the protection agreement and the legal process underpinning it enable the institution to realise the value of the protection within a reasonable timeframe.

3. The following requirements on monitoring of property values and on property valuation shall be met:

(a) the institution monitors the value of the property on a frequent basis and at a minimum once every year for commercial immovable property and once every three years for residential property. The institution carries out more frequent monitoring where the market is subject to significant changes in conditions;

(b) the institution ensures the property valuation is reviewed and, if necessary, updated in the event that either:

(i) a default, as set out in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 178, is considered to have occurred with regard to the obligor; or

(ii) information available to the institution indicates that the value of the property may have declined materially relative to general market prices,

and such review either is carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process or, where the property is valued by a statistical method in accordance with paragraph 1 of Article 229, comprises an assessment by the institution that the use of the statistical method remains suitably robust. For loans exceeding GBP

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2.6 million or 5% of the own funds of an institution, the property valuation shall be reviewed by such a valuer at least every three years.

The institution may use statistical methods to monitor the value of the immovable property and to identify immovable property that needs revaluation.

4. The institution shall clearly document the types of residential property and commercial immovable property it accepts and its lending policies in this regard.

5. The institution shall have in place procedures to monitor that the immovable property taken as credit protection is adequately insured against the risk of damage.

6. The institution shall monitor the extent of any permissible prior claims on the immovable property.

7. The institution shall monitor the risk of environmental liability arising in respect of the immovable property.

[Note: This rule corresponds to Article 208 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 209 REQUIREMENTS FOR RECEIVABLES UNDER THE FOUNDATION COLLATERAL METHOD**

1. An institution using the *Foundation Collateral Method* may use receivables as eligible collateral where all the requirements laid down in paragraphs 2 and 3 are met.

2. The following requirements on legal certainty shall be met:

   (a) the legal mechanism by which the collateral is provided to the institution shall be robust and effective and ensure that the institution has clear rights over the collateral including the right to the proceeds from the sale of the collateral;

   (b) the institution shall take all steps necessary to fulfil requirements in all relevant jurisdictions in respect of the enforceability of its security interest. The institution shall have a first priority claim over the collateral although such claims may still be subject to the claims of preferential creditors provided for in legislative provisions;

   (c) the institution shall have conducted sufficient legal review confirming the enforceability of the collateral arrangements in all relevant jurisdictions, and shall undertake such further review as is necessary to confirm continuing enforceability;

   (d) the institution shall properly document their collateral arrangements and shall have in place clear and robust procedures for the timely collection of collateral;

   (e) the institution shall have in place procedures that ensure that any legal conditions required for declaring the default of a borrower and timely collection of collateral are observed;

   (f) in the event of a borrower's financial distress or default, the institution shall have legal authority to sell or assign the receivables to other parties without consent of the receivables' obligors.

3. The following requirements on risk management shall be met:

   (a) the institution shall have in place a sound process for determining the credit risk associated with the receivables. Such a process shall include analyses of a borrower's business and industry and the types of customers with whom that borrower does business. Where the institution relies on its borrowers to ascertain the credit risk of the customers,

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the institution shall review the borrowers' credit practices to ascertain their soundness and credibility;

(b) the difference between the amount of the exposure and the value of the receivables shall reflect all appropriate factors, including the cost of collection, concentration within the receivables pool pledged by an individual borrower, and potential concentration risk within the institution's total exposures beyond that controlled by the institution's general methodology;

(ba) the institution shall maintain a continuous monitoring process appropriate for the specific exposures attributable to the receivables to be used as collateral. This process shall include, where appropriate and relevant, ageing reports, control of trade documents, borrowing base certificates, frequent audits of collateral, confirmation of accounts, control of the proceeds of accounts paid, analyses of dilution (credits given by the borrower to the issuers of the receivables), regular financial analysis of the borrower and, especially where a small number of large-sized receivables are to be used as collateral, the issuers of the receivables. The institution shall monitor compliance with their overall concentration limits. It shall also review, on a regular basis, compliance with loan covenants, environmental restrictions, and other legal requirements;

(c) receivables pledged by a borrower shall be diversified and not be unduly correlated with that borrower. Where there is material positive correlation, the institution shall take into account the attendant risks in the setting of margins for the collateral pool as a whole;

(d) the institution shall not use receivables from affiliates of a borrower, including subsidiaries and employees, as eligible credit protection;

(e) the institution shall have in place a documented process for collecting receivable payments in distressed situations. The institution shall have in place the requisite facilities for collection even when it normally relies on its borrowers for collections.

[Note: This rule corresponds to Article 209 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 210 REQUIREMENTS FOR OTHER PHYSICAL COLLATERAL UNDER THE FOUNDATION COLLATERAL METHOD**

1. An institution using the *Foundation Collateral Method* may use physical collateral other than immovable property collateral as eligible collateral where all the following conditions are met:

(a) the collateral arrangement under which the physical collateral is provided to the institution shall be legally effective and enforceable in all relevant jurisdictions and shall enable the institution to realise the value of the collateral within a reasonable timeframe;

(b) with the sole exception of claims of preferential creditors provided for in legislative provisions, the institution shall have only first liens on, or charges over, such collateral and the institution shall have priority over all other lenders to the realised proceeds of the collateral;

(c) the institution shall monitor the value of the collateral on a frequent basis and at least once every year. The institution shall carry out more frequent monitoring where the market is subject to significant changes in conditions;

(d) the transaction documentation shall include detailed descriptions of the collateral as well as detailed specifications of the manner and frequency of revaluation;

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(e) the institution shall clearly document in internal credit policies and procedures available for examination the types of physical collateral it accepts and the policies and practices it has in place in respect of the appropriate amount of each type of collateral relative to the exposure amount;

(f) the institution's credit policies with regard to the transaction structure shall address the following:

(i) appropriate collateral requirements relative to the exposure amount;

(ii) the ability to liquidate the collateral readily;

(iii) the ability to establish objectively a price or market value;

(iv) the frequency with which the value can readily be obtained, including a professional appraisal or valuation;

(v) the volatility or a proxy of the volatility of the value of the collateral.

(g) when conducting valuation and revaluation, the institution shall take fully into account any deterioration or obsolescence of the collateral, paying particular attention to the effects of the passage of time on fashion-sensitive or date-sensitive collateral;

(h) the institution shall have the right to physically inspect the collateral. It shall also have in place policies and procedures addressing their exercise of the right to physical inspection, and, in the case of inventories, the periodic revaluation process shall include physical inspection;

(i) the collateral taken as protection shall be adequately insured against the risk of damage and the institution shall have in place procedures to monitor this;

(j) the institution shall monitor the extent of any permissible prior claims on the physical collateral; and

(k) the institution shall monitor the risk of environmental liability arising in respect of the physical collateral.

2. Where a general security agreement, or other form of floating charge, provides an institution using the *Foundation Collateral Method* with a registered claim over a company's assets, the institution may recognise as eligible funded credit protection the assets that meet the requirements to qualify as eligible collateral under Articles 207 to 211. Where that claim is over both assets that meet such requirements and assets that do not meet such requirements, the institution may recognise only the former as eligible funded credit protection.

[Note: This rule corresponds to Article 210 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 211 REQUIREMENTS FOR TREATING LEASE EXPOSURES AS COLLATERALISED UNDER THE FOUNDATION COLLATERAL METHOD**

1. An institution using the *Foundation Collateral Method* shall treat exposures arising from leasing transactions as collateralised by the type of property leased, where all the following conditions are met:

(a) the conditions set out in Article 208 or 210, as applicable, for the type of property leased to qualify as eligible collateral are met;

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(b) the lessor has in place robust risk management with respect to the use to which the leased asset is put, its location, its age and the planned duration of its use, including appropriate monitoring of the value of the security;

(c) the lessor has legal ownership of the asset and is able to exercise its rights as owner in a timely fashion; and

(d) the difference between the value of the unamortised amount and the market value of the security is not so large as to overstate the credit risk mitigation attributed to the leased assets.

[Note: This rule corresponds to Article 211 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 212 REQUIREMENTS FOR OTHER FUNDED CREDIT PROTECTION**

1. An institution using the *Other Funded Credit Protection Method* may treat cash on deposit with, or cash assimilated instruments issued by the institution and held by, a third party institution in accordance with paragraph 1 of Article 232, where all the following conditions are met:

   (a) the borrower's claim against the third party institution is openly pledged or assigned to the institution and such pledge or assignment is legally effective and enforceable in all relevant jurisdictions and is unconditional and irrevocable;

   (b) the third party institution is notified of the pledge or assignment; and

   (c) as a result of the notification, the third party institution is able to make payments solely to the institution or to other parties only with the institution's prior consent.

2. An institution using the *Other Funded Credit Protection Method* may use life insurance policies pledged to the institution as eligible collateral where all the following conditions are met:

   (a) the life insurance policy is openly pledged or assigned to the institution;

   (b) the company providing the life insurance is notified of the pledge or assignment and, as a result of the notification, may not pay amounts payable under the contract without the prior consent of the institution;

   (c) the institution has the right to cancel the policy and receive the surrender value in the event of the default of the borrower;

   (d) the institution is informed of any non-payments under the policy by the policy-holder;

   (e) the credit protection is provided for the maturity of the loan. Where this is not possible because the insurance relationship ends before the loan relationship expires, the institution shall ensure that the amount deriving from the insurance contract serves the institution as security until the end of the duration of the credit agreement;

   (f) the pledge or assignment is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement;

   (g) the surrender value is declared by the company providing the life insurance and is non-reducible;

   (h) the surrender value is to be paid by the company providing the life insurance in a timely manner upon request;

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(i) the surrender value shall not be requested without the prior consent of the institution; and

(j) the company providing the life insurance is an insurance undertaking or reinsurance undertaking or is subject to supervision by a competent authority of a *third country* which applies supervisory and regulatory arrangements at least equivalent to those applied in the *UK*.

[Note: This rule corresponds to Article 212 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 UNFUNDED CREDIT PROTECTION AND CREDIT LINKED NOTES**

**Article 213 REQUIREMENTS COMMON TO GUARANTEES AND CREDIT DERIVATIVES UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. Subject to paragraph 1 of Article 214, an institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use credit protection deriving from a guarantee or credit derivative as eligible unfunded credit protection where all the following conditions are met:

   (a) the credit protection is direct;

   (b) the extent of the credit protection is clearly defined and incontrovertible;

   (c) the credit protection contract does not contain any clause, the fulfilment of which is outside the direct control of the institution, that:

      (i) would allow the protection provider to unilaterally cancel or change the protection in a way that would adversely impact the institution;

      (ii) would increase the effective cost of protection as a result of a deterioration in the credit quality of the protected exposure;

      (iii) could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due, or when the leasing contract has expired for the purposes of recognising guaranteed residual value under paragraph 7 of Credit Risk: Standardised Approach (CRR) Part Article 134 and paragraph 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 166A;

      (iv) could allow the maturity of the credit protection to be reduced by the protection provider;

   (d) the credit protection contract is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement.

   For the purposes of point (c)(iii) of paragraph 1, a clause in the credit protection contract providing that the protection provider may pay all monies due in a timely manner and assume the future payment obligations of the obligor covered by the credit protection contract shall not disqualify that credit protection from being eligible.

2. The institution shall be able to demonstrate that it has in place systems to manage potential concentration of risk arising from its use of guarantees and credit derivatives.

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2A. The institution shall be able to demonstrate how its strategy in respect of its use of credit derivatives and guarantees interacts with its management of its overall risk profile.

3. The institution shall fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of its unfunded credit protection under the law applicable to its interest in the credit protection.

The institution shall have conducted sufficient legal review confirming the enforceability of the unfunded credit protection in all relevant jurisdictions. It shall repeat such review as necessary to ensure continuing enforceability.

[Note: This rule corresponds to Article 213 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 214 SOVEREIGN COUNTER GUARANTEES UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. An institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may treat the exposures referred to in paragraph 2 as protected by a guarantee provided by the entities listed in that paragraph, provided that all the following conditions are satisfied:

(a) the counter-guarantee covers all credit risk elements of the exposure;

(b) both the original guarantee and the counter-guarantee meet the requirements for guarantees set out in Article 213 and paragraph 1 of Article 215, except that the counter-guarantee need not be direct; and

(c) the cover is robust and there is no historical evidence that suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee by the entity in question.

2. The treatment set out in paragraph 1 shall apply to exposures protected by a guarantee which is counter-guaranteed by a central government or a central bank.

3. The institution may apply the treatment set out in paragraph 1 also to an exposure which is not counter-guaranteed by an entity listed in paragraph 2 where that exposure's counter-guarantee is in turn directly guaranteed by one of those entities and the conditions listed in paragraph 1 are also satisfied in respect of that guarantee of the counter-guarantee.

[Note: This rule corresponds to Article 214 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 215 ADDITIONAL REQUIREMENTS FOR GUARANTEES UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. An institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use guarantees as eligible unfunded credit protection where all the conditions in Article 213 and all the following conditions are met:

(a) on the qualifying default of or non-payment by the obligor, the institution has the right to pursue, in a timely manner, the guarantor for any monies due under the claim in respect of which the protection is provided.

In the case of unfunded credit protection covering residential mortgage loans, the requirements in point (c)(iii) of paragraph 1 of Article 213 and in the first paragraph of this point (a) may be satisfied within 24 *months*;

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(aa) payment by the guarantor to the institution shall not be subject to the institution first having to pursue the obligor;

(b) the guarantee is an explicitly documented obligation assumed by the guarantor;

(c) either of the following conditions is met:

(i) the guarantee covers all types of payments the obligor is expected to make in respect of the claim;

(ii) where certain types of payment are excluded from the guarantee, the institution has adjusted the value of the guarantee to reflect the limited coverage.

2. In the case of guarantees provided in the context of mutual guarantee schemes or provided by or counter-guaranteed by entities listed in paragraph 2 of Article 214, the requirements in points (a) and (aa) of paragraph 1 shall be considered to be satisfied where either of the following conditions is met:

(a) on the qualifying default of or non-payment by the obligor, the institution has the right to obtain in a timely manner a provisional payment by the guarantor that meets both the following conditions:

(i) it represents a robust estimate of the amount of the loss, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make, that the institution is likely to incur;

(ii) it is proportional to the coverage of the guarantee;

(b) the institution can demonstrate that the effects of the guarantee, which shall also cover losses resulting from the non-payment of interest and other types of payments which the borrower is obliged to make, justify such treatment.

[Note: This rule corresponds to Article 215 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 216 ADDITIONAL REQUIREMENTS FOR CREDIT DERIVATIVES UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. An institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use credit derivatives as eligible unfunded credit protection where all the conditions in Article 213 and all the following conditions are met:

(a) the credit events specified in the credit derivative contract include;

(i) the failure to pay the amounts due under the terms of the underlying obligation that are in effect at the time of such failure, with a grace period that is equal to or shorter than the grace period in the underlying obligation;

(ii) the bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due, and analogous events;

(iii) the restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that results in a credit loss event;

(b) where credit derivatives allow for cash settlement:

(i) the institution has in place a robust valuation process in order to estimate loss reliably;

(ii) there is a clearly specified period for obtaining post-credit-event valuations of the underlying obligation;

(c) where the protection buyer's right and ability to transfer the underlying obligation to the protection provider is required for settlement, the terms of the underlying obligation provide that any required consent to such transfer shall not be unreasonably withheld;

(d) the identity of the parties responsible for determining whether a credit event has occurred is clearly defined;

(e) the determination of the credit event is not the sole responsibility of the protection provider; and

(f) the protection buyer has the right or ability to inform the protection provider of the occurrence of a credit event.

Where the credit events do not include restructuring of the underlying obligation as described in point (a)(iii), the institution may nonetheless use such credit protection as eligible unfunded credit protection, which unfunded credit protection shall (unless paragraph 3 applies) be subject to a reduction in the value as specified in paragraph 2 of Article 233.

2. The institution may use as eligible unfunded credit protection a credit derivative for which there is a mismatch between the underlying obligation and the reference obligation under the credit derivative, or between the underlying obligation and the obligation used for the purposes of determining whether a credit event has occurred, only where both the following conditions are met:

(a) the reference obligation or the obligation used for the purpose of determining whether a credit event has occurred, as the case may be, ranks pari passu with or is junior to the underlying obligation;

(b) the underlying obligation and the reference obligation or the obligation used for the purpose of determining whether a credit event has occurred, as the case may be, share the same obligor and legally enforceable cross-default or cross-acceleration clauses are in place.

3. By way of derogation from paragraph 1, for a corporate exposure covered by a credit derivative, the credit event referred to in point (a)(iii) of that paragraph shall not need to be specified in the derivative contract, provided that all of the following conditions are met:

(a) a 100% vote of all those affected is needed to amend the maturity, principal, coupon, currency, or seniority status of the underlying corporate exposure; and

(b) the legal domicile in which the corporate exposure is governed has a well-established bankruptcy code that allows for a company to reorganise and restructure, and provides for an orderly settlement of creditor claims.

[Note: This rule corresponds to Article 216 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 217**

[Note: Provision left blank]

**SECTION 4 CALCULATING THE EFFECTS OF CREDIT RISK MITIGATION**

**SUB-SECTION 1 FUNDED CREDIT PROTECTION**

**Article 218 CREDIT LINKED NOTES**

1. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method* or the *Foundation Collateral Method* may treat investments in credit linked notes issued by the institution as cash collateral for the purpose of calculating the effect of funded credit protection in accordance with Sub-section 1 of Section 4, provided that the credit default swap embedded in the credit linked note qualifies as eligible unfunded credit protection under this Part. For the purpose of determining whether the credit default swap embedded in a credit linked note qualifies as eligible unfunded credit protection, the institution may consider the condition in point (c) of paragraph 6 of Article 194 to be met.

[Note: This rule corresponds to Article 218 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 219 ON-BALANCE SHEET NETTING**

1. Where an institution has loans and deposits subject to an eligible on-balance sheet netting agreement, the institution may calculate the exposure value as the greater of:

   (a) zero; and

   (b) the amount in point (ii) subtracted from the amount in point (i):

      (i) the value of the exposure calculated in accordance with paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 111 or paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 166A, as applicable, to the counterparty subject to the on-balance sheet netting agreement;

      (ii) total value of loans to and deposits with the institution subject to the on-balance sheet netting agreement, adjusted for any currency and maturity mismatches between the exposure in point (i) and the loans and deposits in this point (ii) in accordance with paragraphs 2 and 3.

2. Where there is a currency mismatch between the exposure referred to in point (b)(i) of paragraph 1 and the loans and deposits referred to in point (b)(ii) of paragraph 1, the institution shall reflect the mismatch by applying the appropriate volatility adjustment specified in Table 4 in paragraph 1 of Article 224 to the value of the protection. The institution shall apply a 10 *business day* liquidation period. Where marking to market is not conducted daily, the institution shall scale up the volatility adjustment using the formula in paragraph 1 of Article 226.

3. Where there is a maturity mismatch as determined by Articles 237 or 238, the institution shall reflect the mismatch in accordance with paragraph 2 of Article 239. References to collateral in paragraph 2 of Article 239 shall be read as references to the loans to and deposits with the institution subject to the eligible on-balance sheet netting agreement for the purposes of this Article.

4. Subject to paragraph 1 of Article 228, the institution shall use the exposure value as calculated under paragraph 1 as the exposure value of the exposure to the counterparty arising from the

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loans and deposits subject to the eligible on-balance sheet netting agreement for the purposes of Credit Risk: Standardised Approach (CRR) Part Article 113 or the Credit Risk: Internal Ratings Based Approach (CRR) Part.

[Note: This rule corresponds to Article 219 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 220 USING THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD FOR MASTER NETTING AGREEMENTS**

1. An institution using the *Financial Collateral Comprehensive Method* shall, when calculating the 'fully adjusted exposure value' ($E^*$) for the exposures subject to an eligible *master netting agreement* covering securities financing transactions, calculate the volatility adjustments in accordance with that method.

2. For the purpose of calculating $E^*$, the institution shall:

   (a) calculate the net position in each group of securities, in each type of commodity or in cash positions by subtracting the amount in point (ii) from the amount in point (i):

      (i) the total value of a group of securities or of commodities of the same type lent, sold or provided under the *master netting agreement* or the amount of cash lent or transferred under that *master netting agreement*;

      (ii) the total value of a group of securities or of commodities of the same type borrowed, purchased, or received under the *master netting agreement* or the amount of cash borrowed or received under that *master netting agreement*;

   (b) calculate the net position in each currency, other than the settlement currency of the *master netting agreement*, by subtracting the amount in point (ii) from the amount in point (i):

      (i) the sum of the total value of groups of securities and types of commodities denominated in that currency lent, sold or provided under the *master netting agreement* and the amount of cash in that currency lent or transferred under that *master netting agreement*;

      (ii) the sum of the total value of groups of securities and types of commodities denominated in that currency borrowed, purchased, or received under the *master netting agreement* and the amount of cash in that currency borrowed or received under that *master netting agreement*.

   These calculations pursuant to points (i) and (ii) shall exclude groups of securities and commodities where:

      (1) the net position calculated in point (a) of paragraph 2 is negative; and

      (2) the securities and commodities either:

         (A) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A; or

         (B) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207.

3. The institution shall calculate $E^*$ in accordance with the following formula:

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$$E^* = \max\left\{0, \sum_m E_m + 0.4 \cdot E_{net} + 0.6 \cdot \left(\frac{E_{gross}}{\sqrt{N}}\right) + \sum_k \left|E_k^{fx}\right| \cdot H_k^{fx}\right\}$$

where:

$m$ = the index that denotes all groups of securities, types of commodities, or cash positions under the *master netting agreement*. This index shall exclude groups of securities and types of commodities where:

(a) the net position calculated in point (a) of paragraph 2 is negative; and

(b) the securities or commodities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A; or

(ii) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207;

$E_m$ = the net position in each group of securities, type of commodities, or cash position under the *master netting agreement*. This shall have a positive sign where the net position as calculated in point (a) of paragraph 2 is positive, and a negative sign where the net position as calculated in point (a) of paragraph 2 is negative.

$k$ = the index that denotes all separate currencies in which any securities, commodities or cash positions under the *master netting agreement* are denominated;

$E_k^{fx}$ = the net position (positive or negative) in a given currency $k$ other than the settlement currency of the *master netting agreement* as calculated under point (b) of paragraph 2;

$H_k^{fx}$ = the foreign exchange volatility adjustment for currency $k$, which shall always be expressed as a positive value;

$E_{net}$ = the net exposure of the *master netting agreement*, calculated as follows:

$$E_{net} = \left|\sum_m E_m \cdot H_m\right|$$

where:

$H_m$ = the volatility adjustment appropriate to each group of securities, type of commodities, or cash position $m$, which shall always be expressed as a positive value (or zero, as applicable);

$N$ = the total number of distinct groups of the same securities and distinct types of the same commodities under the *master netting agreement*; for the purposes of this calculation, those groups and types $E_m$ for which $|E_m|$ is less than $\frac{1}{10} \cdot \max_m(|E_m|)$ shall not be counted. This index shall exclude groups of securities and types of commodities where:

(a) the net position calculated in point (a) of paragraph 2 is negative; and

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(b) the securities or commodities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A; or

(ii) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207;

$E_{gross}$ = the gross exposure of the *master netting agreement*, calculated as follows:

$$E_{gross} = \sum_{m} |E_m| \cdot H_m$$

4. For the purpose of calculating risk-weighted exposure amounts and, where applicable, expected loss amounts for securities financing transactions covered by *master netting agreements*, an institution using the *Financial Collateral Comprehensive Method* shall use $E^*$ as calculated under paragraph 3 as the exposure value of the exposure to the counterparty arising from the transactions subject to the *master netting agreement* for the purposes of Credit Risk: Standardised Approach (CRR) Part Article 113 or Credit Risk: Internal Ratings Based Approach (CRR) Part Article 166B.

5. For the purposes of paragraphs 2 and 3, 'group of securities' means securities which are issued by the same entity, have the same issue date, have the same maturity, are subject to the same terms and conditions, are denominated in the same currency, and are subject to the same liquidation periods as indicated in Article 224.

[Note: This rule corresponds to Article 220 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 221 USING THE SFT VAR METHOD**

1. An institution using the *IRB Approach* may, with the prior permission of the *PRA*, use the *SFT VaR Method* if, when it applies for permission, it can demonstrate to the satisfaction of the *PRA* that it is materially compliant with the requirements and standards in this Article.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

1A.

(a) An institution using the *SFT VaR Method* in accordance with paragraph 1 (including where this is a further permission granted to the institution using the *SFT VaR Method* in accordance with point (c) of paragraph 3) may only use the *SFT VaR Method* to calculate the fully adjusted exposure value ($E^*$) of transactions which:

(i) give rise to exposures for which the institution calculates risk-weighted exposure amounts using the *IRB Approach*; and

(ii) fall within the scope of paragraph 1B.

(b) An institution using the *SFT VaR Method* in accordance with paragraph 1 shall take into account correlation effects between security positions as well as the liquidity of the instruments concerned in the calculation of $E^*$.

1B. The transactions referred to in paragraphs 1A(a) and 3 are securities financing transactions and *capital market-driven transactions*, but excluding derivative transactions, that are:

(a) transactions which are not treated as being subject to an eligible *master netting agreement* and are therefore treated as single exposures;

(b) in the case of securities financing transactions other than margin lending transactions, transactions covered by an eligible *master netting agreement* provided that the *SFT VaR Method* is used for all transactions covered by the agreement;

(c) in the case of margin lending transactions, transactions covered under a *master netting agreement* that meets the requirements set out in Articles 295 to 298 of *CRR* provided that the *SFT VaR Method* is used for all transactions covered by the agreement.

2. [Note: Provision left blank]

2A. For the purposes of paragraphs 1 and 10, an institution shall be considered to be materially compliant with the requirements and standards in this Article if the overall effect of any non-compliance is immaterial.

2B. Where an institution uses the *SFT VaR Method* in accordance with paragraph 1 (including where this use is pursuant to a further permission granted to the institution using the *SFT VaR Method* in accordance with point (c) of paragraph 3), it shall do so for all counterparties and securities where the transaction meets the criteria in point (a) of paragraph 1A, excluding immaterial portfolios.

3.

(a) An institution using the *IRB Approach* that has received permission for an internal risk-measurement model under Market Risk: Internal Model Approach (CRR) Part Articles 325az to 325bp or Part A of Annex 3 of the Market Risk: Internal Model Approach (CRR) Part may use the *SFT VaR Method* for transactions that:

(i) fall within the scope of that permission;

(ii) give rise to exposures for which the institution calculates risk-weighted exposure amounts using the *IRB Approach*; and

(iii) fall within the scope of paragraph 1B,

provided that the institution has notified the *PRA* in advance that it intends to use the *SFT VaR Method* for these exposures and as part of that notification has confirmed to the *PRA* that it is materially compliant with the requirements and standards in this Article.

(b) where an institution uses the *SFT VaR Method* in accordance with point (a) of paragraph 3 only, it shall do so for all counterparties and securities where the transaction meets the criteria in point (a) of paragraph 3, excluding immaterial portfolios.

(c) an institution may use the *SFT VaR Method* in accordance with this paragraph and also in accordance with any further permission granted under paragraph 1 in relation to other transactions falling within the scope of paragraph 1B.

4. An institution shall comply with the following qualitative standards:

(a) the institution's internal risk-measurement model used for calculating the potential price volatility for the transactions is closely integrated into the daily risk-management process of the institution and serves as the basis for reporting risk exposures to the senior management of the institution;

(b) the institution has a risk control unit that meets all the following requirements:

(i) it is independent from business trading units and reports directly to senior management;

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(ii) it is responsible for designing and implementing the institution's risk-management system;

(iii) it produces and analyses daily reports on the output of the internal risk-measurement model and on the appropriate measures to be taken in terms of position limits;

(c) the daily reports produced by the risk-control unit are reviewed by a member of senior management with sufficient authority to enforce reductions of positions taken and of overall risk exposure;

(d) the institution has sufficient staff skilled in the use of sophisticated models in the risk control unit;

(e) the institution has established procedures for monitoring and ensuring compliance with a documented set of internal policies and controls concerning the overall operation of the risk-measurement system;

(f) the institution's models have a proven track record of reasonable accuracy in measuring risks demonstrated through the back-testing of its output using at least one year of data;

(g) the institution frequently conducts a rigorous programme of stress testing and the results of these tests are reviewed by senior management and reflected in the policies and limits it sets;

(h) the institution conducts, as part of its regular internal auditing process, an independent review of its risk-measurement system. This review shall include both the activities of the business trading units and of the independent risk-control unit;

(i) at least once a year, the institution conducts a review of its risk-management system;

(j) the institution's approach meets the requirements set out in paragraphs 8 and 9 of Article 292 and Article 294 of *CRR*;

(k) where the approach is to be used for transactions covered by an eligible *master netting agreement*, the institution's system for managing the risks arising from those transactions is conceptually sound and implemented with integrity.

5.

(a) An institution's internal risk-measurement model shall capture a sufficient number of risk factors in order to capture all material price risks.

(b) An institution using empirical correlations within risk categories and across risk categories shall have a system for measuring correlations that is sound and implemented with integrity.

6. An institution with an *SFT VaR Method Permission* shall calculate $E^*$ in accordance with the following formula:

$$E^* = \max\left\{0\,, \left(\sum_i E_i - \sum_i C_i\right) + \text{potential change in value}\right\}$$

where:

$E_i$ = the exposure value for each separate exposure $i$ under the *master netting agreement* (or the exposure if there is no *master netting agreement*) that would apply in the absence of

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the credit protection. This calculation shall exclude securities lent, sold with an agreement to repurchase, or transacted in a manner similar to either securities lending or a repurchase agreement where:

(a) the institution's net position borrowed, purchased, or received of those securities under the *master netting agreement* is positive; and

(b) the securities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A; or

(ii) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207;

$C_i$ = the value of the securities borrowed, purchased, or received or the cash borrowed or received in respect of each such exposure $i$. This calculation shall exclude securities borrowed, purchased, or received where:

(a) the institution's net position borrowed, purchased, or received of those securities under the *master netting agreement* is positive; and

(b) the securities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A; or

(ii) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207.

When calculating risk-weighted exposure amounts under this paragraph, an institution shall use the previous *business day's* model output.

7. The calculation of the potential change in value referred to in paragraph 6 shall be subject to all the following standards:

(a) it shall be carried out at least daily;

(b) it shall be based on a 99th percentile, one-tailed confidence interval;

(c) it shall be based on a five-day equivalent liquidation period, except in the case of transactions other than securities repurchase transactions or securities lending or borrowing transactions where a 10-day equivalent liquidation period shall be used;

(d) it shall be based on an effective historical observation period of at least one year except where a shorter observation period is justified by a significant upsurge in price volatility;

(e) the data set used in the calculation shall be updated every three *months*;

(f) it shall not reflect types of securities where:

(i) the institution's net position borrowed, purchased, or received of those securities under the *master netting agreement* is positive; and

(ii) the securities either:

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(A) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A; or

(B) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207.

Where the institution has a securities financing transaction or similar transaction or netting set which meets the criteria set out in Article 285(2), (3) and (4) of *CRR*, the minimum liquidation period shall be brought in line with the *margin period of risk* that would apply under those paragraphs, in combination with Article 285(5) of *CRR*.

8. For the purpose of calculating risk-weighted exposure amounts and expected loss amounts for securities financing transactions covered by *master netting agreements* or for single transactions, an institution with an *SFT VaR Method Permission* shall use $E^*$ as calculated under paragraph 6 as the exposure value of the exposure to the counterparty arising from such transactions for the purposes of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 166B.

9. [Note: Provision left blank]

10.

(a) An institution using the *SFT VaR Method* in accordance with paragraph 1 (including where this use is pursuant to a further permission granted to an institution using the *SFT VaR Method* in accordance with paragraph 3(c)) may, with the prior permission of the *PRA*, make a material change to the approach that it uses when using the *SFT VaR Method*, if when it applies for such a permission the institution can demonstrate to the satisfaction of the *PRA* that either:

(i) it is materially compliant with the requirements and standards in this Article; or

(ii) it is remediating instances of non-compliance in its model and the proposed changes reduce the extent or degree of such non-compliance.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

(b) An institution using the *SFT VaR Method* in accordance with paragraph 3 but where no further permission has been granted to the institution under paragraph 1, may make a material change to the model that it uses when using the *SFT VaR Method* provided that the institution has notified the *PRA* in advance of the material change and as part of that notification has confirmed to the *PRA* that the application materially complies with the requirements and standards in this Article.

11. An institution with an *SFT VaR Method Permission* shall notify the *PRA* on at least a quarterly basis of all changes to the model that it uses when using the *SFT VaR Method* for which a permission from the *PRA* or a notification to the *PRA* in advance of implementation is not required in accordance with this Article.

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12.

(a) Subject to point (b), an institution which has an *SFT VaR Method Permission* shall comply with the requirements and standards in this Article.

(b) An institution which has an *SFT VaR Method Permission* that does not comply with the requirements and standards in this Article, shall notify the *PRA* promptly and do one of the following:

(i) demonstrate that the effect of non-compliance is immaterial; or

(ii) present a plan for addressing non-compliance in a timely way so that the effect of non-compliance would become immaterial, and realise this plan within a reasonable time period.

(c) For the purposes of point (b)(i), the institution shall demonstrate that:

(i) it has taken into account all instances of non-compliance with the requirements and standards in this Article; and

(ii) the overall effect of non-compliance is immaterial.

[Note: This rule corresponds to Article 221(1) to (8) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 222 FINANCIAL COLLATERAL SIMPLE METHOD**

1. An institution may use the *Financial Collateral Simple Method* only where it calculates risk-weighted exposure amounts under the *Standardised Approach* (including in relation to exposures for which the institution may use the *Standardised Approach* instead of the *IRB Approach* under the Credit Risk: Internal Ratings Based Approach (CRR) Part). An institution that chooses to use the *Financial Collateral Simple Method* in respect of exposures for which it calculates risk-weighted exposure amounts using the *Standardised Approach* shall not use the *Financial Collateral Comprehensive Method* in respect of any such exposures.

2. The institution shall assign to eligible financial collateral a value equal to its market value as determined in accordance with point (d) of paragraph 4 of Article 207.

3. The institution shall assign a risk weight to those portions of exposure values that are collateralised by the market value of eligible collateral, being the risk weight that it would assign under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* where the institution had a direct exposure to the collateral instrument.

The risk weight of the collateralised portion shall be at least 20% except as specified in paragraphs 4 to 6. The institution shall apply to the remainder of the exposure value the risk weight that it would assign to an unsecured exposure to the counterparty under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*.

3A. For the purposes of paragraph 3, the institution shall:

(a) for an on-balance sheet exposure:

(i) where Article 219 applies, use the exposure value calculated in accordance with that Article;

(ii) where Article 219 does not apply, use the exposure value calculated in accordance with paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 111; and

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(b) for an off-balance sheet item, use an exposure value equal to 100% of the item's value.

4. The institution shall assign a risk weight of 0% to the collateralised portion of the exposure arising from securities financing transactions which fulfil the criteria in Article 227. Where the counterparty to the transaction is not a core market participant, the institution shall assign a risk weight of 10%.

5. [Note: Provision left blank]

6. For transactions other than those referred to in paragraph 4, the institution may assign a 0% risk weight where the exposure and the collateral are denominated in the same currency, and either of the following conditions is met:

(a) the collateral is cash on deposit or a cash assimilated instrument issued by the institution;

(b) the collateral is in the form of debt securities issued by central governments or central banks eligible for a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*, and its market value has been discounted by 20%.

7. For the purposes of paragraph 6 debt securities issued by central governments or central banks shall include:

(a) debt securities issued by regional governments or local authorities, exposures to which are treated as exposures to the central government in whose jurisdiction they are established under paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 115;

(b) debt securities issued by *multilateral development banks* to which a 0% risk weight is assigned under or by virtue of paragraph 2 of Credit Risk: Standardised Approach (CRR) Part Article 117;

(c) debt securities issued by international organisations which are assigned a 0% risk weight under Credit Risk: Standardised Approach (CRR) Part Article 118.

(d) [Note: Provision left blank]

[Note: This rule corresponds to Article 222 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 223 FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

A1. This Article applies to an institution using the *Financial Collateral Comprehensive Method*.

1. In order to take account of price volatility, an institution shall apply volatility adjustments to the market value of collateral, as set out in Articles 224, 226, and 227, when valuing financial collateral.

Where collateral is denominated in a currency that differs from the currency in which the underlying exposure is denominated, the institution shall add an adjustment reflecting currency volatility to the volatility adjustment appropriate to the collateral as set out in Articles 224, 226, and 227.

In the case of OTC derivatives transactions covered by netting agreements recognised by the *PRA* under Articles 295 to 298 of *CRR*, the institution shall apply a volatility adjustment reflecting currency volatility when there is a mismatch between the collateral currency and the settlement currency. Where multiple currencies are involved in the transactions covered by the netting agreement, the institution shall apply a single volatility adjustment.

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2. The institution shall calculate the volatility-adjusted value of the collateral ($C_{VA}$) it recognises as follows:

$$C_{VA} = C \cdot (1 - H_C - H_{fx})$$

where:

$C$ = the value of the collateral;

$H_C$ = the volatility adjustment appropriate to the collateral, as calculated under Articles 224, 226, and 227;

$H_{fx}$ = the volatility adjustment appropriate to currency mismatch, as calculated under Articles 224, 226, and 227.

The institution shall use the formula in this paragraph when calculating the volatility-adjusted value of the collateral for all transactions except for those transactions to which the provisions set out in Article 220 apply.

3. The institution shall calculate the volatility-adjusted value of the exposure ($E_{VA}$) as follows:

$$E_{VA} = E \cdot (1 + H_E)$$

where:

$E$ =

(a) where Article 219 applies, the exposure value calculated in accordance with that Article;

(b) where Article 219 does not apply, the exposure value as would be determined under the Credit Risk: Standardised Approach (CRR) Part, Chapter 2 of Title II of Part Three of *CRR* or the Credit Risk: Internal Ratings Based Approach (CRR) Part as applicable, as if the exposure was not collateralised;

$H_E$ = the volatility adjustment appropriate to the exposure, as calculated under Articles 224, 226, and 227.

In the case of OTC derivative transactions, an institution using the *IMM* shall calculate $E_{VA}$ as follows:

$$E_{VA} = E$$

4. For the purpose of calculating $E$ in paragraph 3 when Article 219 does not apply, the following shall apply:

(a) for exposures where the institution calculates risk-weighted exposure amounts using the *Standardised Approach*, it shall calculate the exposure value in accordance with Credit Risk: Standardised Approach (CRR) Part Article 111, with the exception that for the purposes of this paragraph the exposure value of an off-balance sheet item shall be 100% of that item's value;

(b) for exposures where the institution calculates risk-weighted exposure amounts using the *IRB Approach*, it shall calculate the exposure value in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 166A to 166C, with the exception that for the purposes of this paragraph the exposure value of an off-balance sheet item shall be 100% of its value.

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5. The institution shall calculate the fully adjusted value of the exposure $E^*$, taking into account both volatility and the risk-mitigating effects of collateral as follows:

$$E^* = \max\{0, E_{VA} - C_{VAM}\}$$

where:

$E_{VA}$ = the volatility adjusted value of the exposure as calculated in paragraph 3;

$C_{VAM}$ = $C_{VA}$ further adjusted for any maturity mismatch in accordance with the provisions of Articles 237 to 239.

Subject to paragraph 5A, the institution shall use the formula in this paragraph when calculating the fully adjusted value of the exposure for all transactions except for those transactions to which the provisions set out in Article 220 apply.

5A. For the purposes of the calculation under paragraph 5, in the case of OTC derivative transactions, an institution using the methods laid down in Sections 3, 4 and 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part shall take into account the risk-mitigating effects of collateral in accordance with the provisions laid down in Sections 3, 4 and 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part, as applicable.

6. [Note: Provision left blank]

7. Where the collateral consists of a number of eligible items, the institution shall calculate the volatility adjustment $(H)$ as follows:

$$H = \sum_i a_i H_i$$

where:

$a_i$ = the proportion of the value of an eligible item $i$ in the total value of such collateral;

$H_i$ = the volatility adjustment applicable to eligible item $i$.

[Note: This rule corresponds to Article 223 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## Article 224 SUPERVISORY VOLATILITY ADJUSTMENT UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD

1. An institution using the *Financial Collateral Comprehensive Method* shall, where there is daily revaluation, apply the volatility adjustments set out in Tables 1 to 4 of this paragraph.

VOLATILITY ADJUSTMENTS

Table 1 Rated debt securities and securitisation positions

| Credit quality step with which the credit assessment of the debt security is associated | Residual Maturity | Volatility adjustments for debt securities issued by entities described in point (b) of paragraph 1 of Article 197 | | | Volatility adjustments for debt securities issued by entities described in points (c) and (d) of paragraph 1 of Article 197 | | | Volatility adjustments for securitisation positions and meeting the criteria in point (h) of paragraph 1 of Article 197 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) | 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) | 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) |
| 1 | ≤ 1 year | 0.707 | 0.5 | 0.354 | 1.414 | 1 | 0.707 | 2.828 | 2 | 1.414 |
| | >1 ≤ 3 years | 2.828 | 2 | 1.414 | 4.243 | 3 | 2.121 | 11.314 | 8 | 5.657 |
| | >3 ≤ 5 years | 2.828 | 2 | 1.414 | 5.657 | 4 | 2.828 | 11.314 | 8 | 5.657 |
| | > 5 ≤ 10 years | 5.657 | 4 | 2.828 | 8.485 | 6 | 4.243 | 22.627 | 16 | 11.314 |
| | > 10 years | 5.657 | 4 | 2.828 | 16.971 | 12 | 8.485 | 22.627 | 16 | 11.314 |
| 2-3 | ≤ 1 year | 1.414 | 1 | 0.707 | 2.828 | 2 | 1.414 | 5.657 | 4 | 2.828 |
| | >1 ≤ 3 years | 4.243 | 3 | 2.121 | 5.657 | 4 | 2.828 | 16.971 | 12 | 8.485 |
| | >3 ≤ 5 years | 4.243 | 3 | 2.121 | 8.485 | 6 | 4.243 | 16.971 | 12 | 8.485 |
| | > 5 ≤ 10 years | 8.485 | 6 | 4.243 | 16.971 | 12 | 8.485 | 33.941 | 24 | 16.971 |
| | > 10 years | 8.485 | 6 | 4.243 | 28.284 | 20 | 14.142 | 33.941 | 24 | 16.971 |
| 4 | all | 21.213 | 15 | 10.607 | N/A | N/A | N/A | N/A | N/A | N/A |

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Table 2 Debt securities and securitisation positions with a short-term credit assessment

| Credit quality step with which the credit assessment of a short-term debt security is associated | Volatility adjustments for debt securities issued by entities described in point (b) of paragraph 1 of Article 197 with short-term credit assessments | | | Volatility adjustments for debt securities issued by entities described in points (c) and (d) of paragraph 1 of Article 197 with short-term credit assessments | | | Volatility adjustments for securitisation positions and meeting the criteria in point (h) of paragraph 1 of Article 197 with short-term credit assessments | | |
|---|---|---|---|---|---|---|---|---|---|
| | 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) | 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) | 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) |
| 1 | 0.707 | 0.5 | 0.354 | 1.414 | 1 | 0.707 | 2.828 | 2 | 1.414 |
| 2-3 | 1.414 | 1 | 0.707 | 2.828 | 2 | 1.414 | 5.657 | 4 | 2.828 |

Table 3 Other collateral or exposure types

| | 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) |
|---|---|---|---|
| *Main Index* Equities, *Main Index* Convertible Bonds | 28.284 | 20 | 14.142 |
| Other Equities or Convertible Bonds listed on a recognised exchange | 42.426 | 30 | 21.213 |
| Cash and cash assimilated instruments issued by the institution | 0 | 0 | 0 |
| Gold | 28.284 | 20 | 14.142 |

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Table 4 Volatility adjustment for currency mismatch

| 20-day liquidation period (%) | 10-day liquidation period (%) | 5-day liquidation period (%) |
|---|---|---|
| 11.314 | 8 | 5.657 |

2. The calculation of volatility adjustments in accordance with paragraph 1 shall be subject to the following conditions:

   (a) for *secured lending transactions* the liquidation period shall be 20 *business days*;

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(b) for repurchase transactions, except insofar as such transactions involve the transfer of commodities or guaranteed rights relating to title to commodities, and securities lending or borrowing transactions, the liquidation period shall be five *business days*;

(c) for *capital market-driven transactions* for which no liquidation period is set out in point (b), the liquidation period shall be 10 *business days*.

Where an institution has a transaction or netting set which meets the criteria set out in Article 285(2), (3) and (4) of *CRR*, the liquidation period shall be brought in line with the *margin period of risk* that would apply under those paragraphs. Where this results in a liquidation period for which volatility adjustments are not set out in paragraph 1, the institution shall scale up or down, as applicable, the volatility adjustment for such liquidation period using the formula in paragraph 2 of Article 226.

3. In Tables 1 to 4 of paragraph 1 and, in paragraphs 4 to 6, the credit quality step with which a credit assessment of the debt security is associated is the credit quality step with which the credit assessment is associated under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*.

   For the purpose of determining the credit quality step with which a credit assessment of the debt security is associated, as referred to in the first sub-paragraph, paragraph 7 of Article 197 also applies.

4. For non-eligible securities and commodities lent or sold under securities financing transactions, the institution shall apply the same volatility adjustment as it would for equities which are not equities included in a *main index* but are listed on a recognised exchange.

5. For eligible units in CIUs:

   (a) where the institution would be able to apply the look-through approach to a direct exposure to the units under Credit Risk: Standardised Approach (CRR) Part Article 132A, the institution shall apply the weighted average volatility adjustments that would apply, having regard to the liquidation period of the transaction as specified in paragraph 2, to the assets in which the fund has invested;

   (b) in all other cases, the institution shall apply the highest volatility adjustment that would apply to any of the assets in which the fund has the right to invest.

6. For unrated debt securities issued by institutions (or financial institutions exposures to which may be treated as exposures to institutions under Article 119(5) of *CRR*) and satisfying the eligibility criteria in paragraph 4 of Article 197, the institution shall apply the same volatility adjustment as for securities issued by institutions or corporates with an external credit assessment associated with credit quality step 2 or 3.

7. For debt securities issued by central governments or central banks falling within points (b)(ii) or (iii) of paragraph 1 of Article 197, the institution shall apply the volatility adjustment that would apply if the available general issuer credit assessment referred to in those points were a credit assessment of such debt security.

[Note: This rule corresponds to Article 224 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 225**

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[Note: Provision left blank]

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**Article 226 SCALING UP OF VOLATILITY ADJUSTMENT UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

1. An institution using the *Financial Collateral Comprehensive Method* shall apply the volatility adjustments set out in Article 224 where there is daily revaluation. Where the frequency of revaluation is less than daily, the institution shall apply larger volatility adjustments. The institution shall calculate the larger volatility adjustments by scaling up the daily revaluation volatility adjustments, using the following square-root-of-time formula:

$$H = H_m \cdot \sqrt{\frac{N_R + (T_m - 1)}{T_m}}$$

where:

$H$ = the volatility adjustment to be applied;

$H_m$ = the volatility adjustment where there is daily revaluation;

$N_R$ = the actual number of *business days* between revaluations;

$T_m$ = the liquidation period for the type of transaction in question.

2. An institution using the *Financial Collateral Comprehensive Method* that has a transaction or netting set which meets the criteria set out in the second sub-paragraph of paragraph 2 of Article 224 may scale up or down the volatility adjustments set out in Article 224 to reflect the liquidation periods set out in the second sub-paragraph of paragraph 2 of Article 224 (instead of the liquidation periods set out in points (a), (b) or (c) of the first sub-paragraph of paragraph 2 of Article 224, as applicable), for the type of transaction in question, using the following square-root-of-time formula:

$$H_m = H_n \cdot \sqrt{\frac{T_m}{T_n}}$$

where:

$T_m$ = the liquidation period for the type of transaction in question;

$T_n$ = the liquidation period that would apply to the transaction under points (a) to (c) of Article 224(2);

$H_m$ = the volatility adjustment based on the liquidation period $T_m$;

$H_n$ = the volatility adjustment based on the liquidation period $T_n$.

[Note: Paragraph 1 of this rule corresponds to Article 226 and paragraph 2 of this rule corresponds to point (c) of Article 225(2) of *CRR*, in each case as the provision in *CRR* applied immediately before revocation by the *Treasury*]

**Article 227 CONDITIONS FOR APPLYING A 0% VOLATILITY ADJUSTMENT UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

1. In relation to securities financing transactions, where an institution uses the *Financial Collateral Comprehensive Method* and where the conditions set out in points (a) to (i) of paragraph 2 are satisfied, the institution may, instead of applying the volatility adjustments calculated under

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Articles 224 and 226, apply a 0% volatility adjustment. An institution using the *SFT VaR Method* shall not use the treatment set out in this Article.

2. The conditions referred to in paragraph 1 are:

(a) both the exposure and the collateral are cash or debt securities issued by central governments or central banks within the meaning of point (b) of paragraph 1 of Article 197 and eligible for a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part or Article 114(7) of *CRR*;

(b) both the exposure and the collateral are denominated in the same currency;

(c) either the maturity of the transaction is no more than one day or both the exposure and the collateral are subject to daily marking-to-market or daily re-margining;

(d) the time between the last marking-to-market before a failure to re-margin by the counterparty and the liquidation of the collateral is no more than four *business days*;

(e) the transaction is settled in a settlement system proven for that type of transaction;

(f) the documentation covering the agreement or transaction is standard market documentation for securities financing transactions in the securities concerned;

(g) the transaction is governed by documentation specifying that where the counterparty fails to satisfy an obligation to deliver cash or securities or to deliver margin or otherwise defaults, then the transaction is immediately terminable;

(h) the counterparty is a core market participant, as set out in paragraph 3;

(i) upon any default event, including in the event of the bankruptcy or insolvency of the counterparty, the institution has an unfettered, enforceable right immediately to seize and liquidate the collateral for its benefit.

3. The following entities are core market participants:

(a) the entities referred to in point (b) of paragraph 1 of Article 197 where exposures to such entities would be assigned a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part or under Article 114(7) of *CRR*;

(b) institutions;

(ba) financial institutions exposures to which may be treated as exposures to institutions under Article 119(5) of *CRR*;

(c) other financial undertakings that are an insurance undertaking or reinsurance undertaking, an *insurance holding company* or a mixed financial holding company, where:

(i) such financial undertaking has a credit assessment by an ECAI and exposures to it would be assigned a 20% risk weight under the *Standardised Approach*; or

(ii) in the case of exposures where an institution calculates risk-weighted exposure amounts and expected loss amounts using the *IRB Approach*, such financial undertaking is internally rated by the institution using the *IRB Approach* and the internal rating indicates comparable or better credit quality than a credit assessment by an ECAI that would result in the condition in point (i) being met;

(d) regulated CIUs that are subject to capital or leverage requirements;

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(e) regulated pension funds;

(f) recognised clearing organisations.

4. Where an institution is calculating the volatility adjustments to be applied for exposures subject to an eligible *master netting agreement* under Article 220, the institution may apply a 0% volatility adjustment under this Article only if all of the conditions in paragraph 2 are met for all transactions subject to the *master netting agreement*.

[Note: This rule corresponds to Article 227 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 228 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS USING THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

1. An institution using the *Financial Collateral Comprehensive Method* shall use $E^*$ as calculated under paragraph 5 of Article 223 as the exposure value for the purposes of Credit Risk: Standardised Approach (CRR) Part Article 113 and Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 166A to 166C. In the case of off-balance sheet items, the institution shall use $E^*$as the value to which the percentages indicated in paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 111 and in paragraph 1 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 166C, as applicable, shall be applied to arrive at the exposure value.

2. [Note: Provision left blank]

[Note: This rule corresponds to Article 228(1) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 229 VALUATION PRINCIPLES FOR OTHER ELIGIBLE COLLATERAL UNDER THE FOUNDATION COLLATERAL METHOD**

A1. This Article applies to an institution using the *Foundation Collateral Method*.

1. For immovable property collateral, an institution shall ensure the collateral is valued at, or at less than, the market value by a suitably robust statistical method or by an independent valuer who possesses the necessary qualifications, ability and experience to execute a valuation. The institution shall ensure that the market value is documented in a transparent and clear manner.

The value of the collateral shall be the market value reduced as appropriate:

(a) to reflect the results of the monitoring required under paragraph 3 of Article 208;

(b) to take account of any claims on the immovable property with priority over the institution's claim. This shall be done by reducing the value of the property by:

$$\frac{P}{(1 - H_C - H_{fx})}$$

where:

$P$ = total value of all claims ranking higher than the institution's claim;

$H_C$ and $H_{fx}$ are as determined pursuant to Article 230; and

(c) subject to the prior application of point (b), if applicable, if there are other claims ranking equally with the institution's claim, recognising only the proportion of the remaining value that is attributable to the institution.

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Where the calculations under this paragraph 1 result in a negative value, the institution shall assign zero value to the collateral.

2. For receivables, an institution shall use the amount receivable as the value of receivables.

3. For physical collateral other than immovable property, an institution shall ensure the collateral is valued at, or at less than, its market value, by a suitably robust statistical method or by an independent valuer who possesses the necessary qualifications, ability and experience to execute a valuation.

4. For the purposes of this Article, the market value is the estimated amount for which the property would exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction.

[Note: This rule corresponds to Article 229 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 230 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS AND EXPECTED LOSS AMOUNTS FOR ELIGIBLE COLLATERAL UNDER THE FOUNDATION COLLATERAL METHOD**

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A1. This Article applies to an institution using the *Foundation Collateral Method*.

1. Subject to Article 231, an institution shall use the effective LGD ($\mathrm{LGD}^*$) as the *LGD* for the purposes of the Credit Risk: Internal Ratings Based Approach (CRR) Part. The institution shall calculate $\mathrm{LGD}^*$ as follows:

$$\mathrm{LGD}^* = \mathrm{LGD}_\mathrm{U} \cdot \left(\frac{\mathrm{E}_\mathrm{U}}{\mathrm{E} \cdot (1 + \mathrm{H}_\mathrm{E})}\right) + \mathrm{LGD}_\mathrm{S} \cdot \left(\frac{\mathrm{E}_\mathrm{S}}{\mathrm{E} \cdot (1 + \mathrm{H}_\mathrm{E})}\right)$$

where:

$\mathrm{E}$ = the exposure value ($\mathrm{E}$) calculated in accordance with paragraph 3 of Article 223;

$\mathrm{H}_\mathrm{E}$ = the volatility adjustment appropriate to the exposure, as calculated under Articles 224, 226, and 227;

$\mathrm{E}_\mathrm{S}$ = the current value of the collateral received after the application of:

(a) the volatility adjustment applicable for the type of collateral ($\mathrm{H}_\mathrm{C}$), as specified in paragraph 2;

(b) a volatility adjustment for any currency mismatch between the exposure and the collateral ($\mathrm{H}_\mathrm{fx}$) in accordance with Articles 224, 226, and 227;

(c) an adjustment for any maturity mismatch calculated in accordance with Articles 237 to 239.

$\mathrm{E}_\mathrm{S}$ is capped at the value of $\mathrm{E} \cdot (1 + \mathrm{H}_\mathrm{E})$;

$\mathrm{E}_\mathrm{U}$ = $\mathrm{E} \cdot (1 + \mathrm{H}_\mathrm{E}) - \mathrm{E}_\mathrm{S}$;

$\mathrm{LGD}_\mathrm{U}$ = the *LGD* that would be applicable if the exposure were unsecured, as set out in paragraph 1 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 161;

$\mathrm{LGD}_\mathrm{S}$ = the *LGD* applicable to exposures secured by the type of collateral used in the transaction, as specified in paragraph 2.

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2. The values of $LGD_S$ and $H_C$ are set out in the following table:

| **Type of collateral** | $LGD_S$ | $H_C$ |
|---|---|---|
| **Financial collateral** | 0% | Volatility adjustment calculated in accordance with Articles 224, 226, and 227 |
| **Receivables** | 20% | 40% |
| **Immovable property** | 20% | 40% |
| **Other physical collateral** | 25% | 40% |

[Note: This rule corresponds to Articles 228(2) and 230 of *CRR* as they applied immediately before revocation by the *Treasury*]

**Article 231 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS AND EXPECTED LOSS AMOUNTS IN THE CASE OF MIXED POOLS OF COLLATERAL UNDER THE FOUNDATION COLLATERAL METHOD**

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A1. This Article applies to an institution using the *Foundation Collateral Method*.

1. Where an institution has obtained multiple types of collateral for an exposure, it shall calculate $LGD^*$ in accordance with the formula below instead of the formula in paragraph 1 of Article 230:

$$LGD^* = LGD_U \cdot \left(\frac{E_U}{E \cdot (1 + H_E)}\right) + \sum_i LGD_{S_i} \cdot \left(\frac{E_{S_i}}{E \cdot (1 + H_E)}\right)$$

where:

$E$ = the exposure value calculated in accordance with paragraph 3 of Article 223;

$H_E$ = the volatility adjustment appropriate to the exposure, as calculated under Articles 224 to 227;

$E_{S_1} = \min\{C_1, E \cdot (1 + H_E)\}$, $C_1$ is capped at $E \cdot (1 + H_E)$

$$E_{S_i} = \min\left\{C_i, E \cdot (1 + H_E) - \sum_{k=1}^{i-1} E_{S_k}\right\}, \quad \text{for } i \geq 2, \quad \sum_{k=1}^{i-1} E_{S_k} \text{ is capped at } E \cdot (1 + H_E)$$

$C_i$ = the current value of the collateral $i$ received after the application of:

(a) the volatility adjustment applicable for the type of collateral ($H_C$), as specified in paragraph 2 of Article 230;

(b) a volatility adjustment for any currency mismatches between the exposure and the collateral ($H_{fx}$) in accordance with Articles 224, 226, and 227;

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(c) an adjustment for any maturity mismatches calculated in accordance with Articles 237 to 239.

$$E_U = E \cdot (1 + H_E) - \sum_i E_{S_i}$$

$LGD_U$ = the *LGD* that would be applicable if the exposure were unsecured, as set out in paragraph 1 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 161;

$LGD_{S_i}$ = the $LGD_S$ applicable to exposures secured by the type of collateral $i$, as specified in paragraph 2 of Article 230;

$i$ = the index that denotes all separate types of collateral obtained for the exposure. The institution may assign types of collateral to this index in any order;

$k$ = the index that denotes all separate values of the index $i$.

2. For the purposes of paragraph 1,

(a) collateral with a currency mismatch shall be considered a different type of collateral to collateral without a currency mismatch; and

(b) multiple items of collateral of the same type and currency but with differing maturities shall be considered different types of collateral.

[Note: This rule corresponds to Article 231 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 232 OTHER FUNDED CREDIT PROTECTION METHOD**

A1. This Article applies to an institution using the *Other Funded Credit Protection Method*.

1. Where the conditions set out in paragraph 1 of Article 212 are met, an institution may treat cash on deposit with, or cash assimilated instruments issued by the institution and held by, a third party institution in a non-custodial arrangement and pledged to the institution as a guarantee provided by the third party institution, in which case the institution shall take into account the credit protection in the calculation of the effect of credit risk mitigation for the purposes of calculating risk-weighted exposure amounts and, where applicable, expected loss amounts in accordance with Article 235 or 236 as determined in accordance with the decision tree in Part 3 of Appendix 1.

2. Where the conditions set out in paragraph 2 of Article 212 are met, an institution shall determine the collateralised portion of the exposure based on the value of the credit protection set out in the second sub-paragraph. The institution shall subject the portion of the exposure to the following treatment:

(a) where the exposure is subject to the *Standardised Approach*, it shall be assigned a risk weight in accordance with paragraph 3;

(b) where the exposure is subject to the *Foundation IRB Approach*, it shall be assigned an *LGD* of 40%.

The value of the credit protection shall equal the current surrender value of the life insurance policy except that in the event of a currency mismatch, the institution shall reduce the value of the credit protection in accordance with paragraphs 3 and 4 of Article 233.

3. For the purposes of point (a) of paragraph 2, the institution shall assign the following risk weights on the basis of the risk weight assigned to a senior unsecured exposure to the

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undertaking providing the life insurance under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*:

(a) a risk weight of 20%, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 20%;

(b) a risk weight of 35%, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 30% or 50%;

(c) a risk weight of 70%, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 65%, 100% or 135%;

(d) a risk weight of 150%, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 150%.

4. An institution may treat instruments repurchased on request that are eligible under point (c) of paragraph 1 of Article 200 as a guarantee by the issuing institution, in which case the institution shall calculate risk-weighted exposure amounts and, where applicable, expected loss amounts in accordance with Article 235 or 236 as determined in accordance with the decision tree in Part 3 of Appendix 1. The value of the eligible credit protection shall be the following:

(a) where the instrument will be repurchased at its face value, the value of the protection shall be that amount;

(b) where the instrument will be repurchased at market price, the value of the protection shall be the value of the instrument valued in the same way as the debt securities that meet the conditions in paragraph 4 of Article 197.

5. An institution using the *Other Funded Credit Protection Method* shall take into account any maturity mismatch in accordance with the provisions of Articles 237 to 239.

[Note: This rule corresponds to Article 232 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 UNFUNDED CREDIT PROTECTION**

**Article 233 VALUATION UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. For the purpose of calculating the effects of unfunded credit protection in accordance with Sub-section 2 of Section 4, an institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* shall, subject to paragraph 2, use as the value of unfunded credit protection (G) the amount that the protection provider has undertaken to pay in the event of the default or non-payment of the borrower or on the occurrence of other specified credit events.

2. In the case of credit derivatives which do not include as a credit event restructuring of the underlying obligation involving forgiveness or postponement of principal, interest or fees that result in a credit loss event, the institution shall (unless paragraph 3 of Article 216 applies) apply the following:

(a) where the amount that the protection provider has undertaken to pay is not higher than the exposure value, the institution shall reduce the value of the credit protection calculated under paragraph 1 by 40%;

(b) where the amount that the protection provider has undertaken to pay is higher than the exposure value, the institution shall ensure that the value of the credit protection shall be no higher than 60% of the exposure value.

3. The institution shall adjust the amount of credit protection for foreign exchange risk as follows:

$$G^* = G \cdot (1 - H_{fx})$$

where:

$G^*$ = the amount of credit protection adjusted for foreign exchange risk;

$G$ = the value of the credit protection as determined by paragraph 1 and 2;

$H_{fx}$ = the volatility adjustment for any currency mismatch between the credit protection and the underlying obligation determined in accordance with paragraph 4.

Where there is no currency mismatch $H_{fx}$ is equal to zero.

4. The institution shall base the volatility adjustments for any currency mismatch on a 10 *business day* liquidation period, assuming daily revaluation, and shall calculate them using the volatility adjustments as set out in Article 224. The institution shall scale up the volatility adjustments in accordance with paragraph 1 of Article 226 where applicable.

[Note: This rule corresponds to Article 233 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 234 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS AND EXPECTED LOSS AMOUNTS IN THE EVENT OF PARTIAL PROTECTION AND TRANCHING**

1. Where an institution transfers a part of the risk of a loan in one or more tranches, the institution shall comply with the requirements set out in Chapter 5 of Title II of Part Three of *CRR*. An institution shall consider materiality thresholds on payments below which no payment shall be made in the event of loss to be equivalent to retained first loss positions and to give rise to a tranched transfer of risk.

[Note: This rule corresponds to Article 234 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 235 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE RISK-WEIGHT SUBSTITUTION METHOD**

1. For the purposes of point (1) of the definition of *Risk-Weight Substitution Method*, the institution shall separate each exposure into a covered part and an uncovered part, and determine the size of these parts and the risk weights that apply to each part separately as follows:

(a) The covered part shall be the portion of the exposure that is in scope of the unfunded credit protection. The size of this part prior to the application of any applicable conversion factors, $E_g$, shall equal $\min\{G_A, E\}$, where:

$E$ =

(i) for exposures where the institution calculates risk-weighted exposure amounts using the *Standardised Approach*, the exposure value in accordance with Credit Risk: Standardised Approach (CRR) Part Article 111, with the exception that for the purposes of this paragraph the exposure value of an off-balance sheet item shall be 100% of its value;

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(ii) for exposures where the institution calculates risk-weighted exposure amounts using the *IRB Approach*, the exposure value in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 166A to 166D, with the exception that for the purposes of this paragraph the exposure value of an off-balance sheet item shall be 100% of its value;

$G_A$ = the amount of credit protection as calculated under paragraphs 3 and 4 of Article 233 ($G^*$), further adjusted for any maturity mismatch as laid down in Articles 237 to 239.

The risk weight that applies to the covered part shall be:

$r_g$ = the risk weight of a comparable direct exposure to the protection provider as specified under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*.

(b) The uncovered part shall be the remainder of the exposure, and the size of this part prior to the application of any applicable conversion factors, $E_n$, shall be calculated by subtracting the size of the covered part $(E_g)$ from the size of the total exposure $(E)$.

The risk weight that applies to the uncovered part shall be:

$r_n$ = the risk weight of the exposure calculated as if there were no unfunded credit protection.

(c) Having made these calculations, the risk weight that shall apply to such exposure in its entirety is determined by the following formula:

$$\frac{E_n \cdot r_n + E_g \cdot r_g}{E}$$

where $E$, in respect of the entire exposure, is determined as in point (a).

1A. For the purposes of point (2) of the definition of *Risk-Weight Substitution Method*, the institution shall calculate the expected loss separately for the covered and uncovered parts of the exposure as follows:

(a) The expected loss for the uncovered part, $e_n$, shall be the expected loss of the exposure calculated in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 158 as if there were no unfunded credit protection.

(b) The expected loss for the covered part, $e_g$, shall be zero.

(c) Having made these calculations, the expected loss that shall apply to such exposure in its entirety is determined by the following formula:

$$\frac{E_n \cdot e_n}{E}$$

where:

$E$ is determined as in point (a) of paragraph 1; and

$E_n$ is determined as in point (b) of paragraph 1.

2. Where the protected amount $(G_A)$ is less than the exposure $(E)$, the institution may apply the formula specified in paragraphs 1 and 1A only where the protected and unprotected parts of the exposure are of equal seniority.

3. For the purpose of applying paragraph 1, an institution may only apply the treatment set out in paragraph 4 of Credit Risk: Standardised Approach (CRR) Part Article 114 and Article 114(7) of

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*CRR* to exposures or parts of exposures guaranteed by the central government or central bank, where the guarantee is denominated in the domestic currency of that central government or central bank and the exposure is funded in that currency.

[Note: This rule corresponds to Article 235 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 236 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS AND EXPECTED LOSS AMOUNTS UNDER THE PARAMETER SUBSTITUTION METHOD**

1. For the purposes of point (1) of the definition of *Parameter Substitution Method*, the institution shall separate each exposure into a covered part and an uncovered part, and determine the size of these parts and the risk weights that apply to each part separately as follows:

(a) The covered part shall be the portion of the exposure that is in scope of the unfunded credit protection. The size of this part prior to the application of any applicable conversion factors, $E_g$, shall equal $\min\{G_A, E\}$, where:

$E$ = the exposure value in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 166A to 166D, with the exception that for the purposes of this paragraph the exposure value of an off-balance sheet item shall be 100% of its value;

$G_A$ = the amount of credit protection as calculated under paragraphs 3 and 4 of Article 233 ($G^*$) further adjusted for any maturity mismatch as laid down in Articles 237 to 239.

The risk weight that applies to the covered part shall be:

$r_g$ =

(i) where a comparable direct exposure to the protection provider would be assigned to the 'exposures to institutions' or 'exposures to corporates' class in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 147, the risk weight calculated in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 153 where:

$PD$ = the *PD* which would be assigned to a comparable direct exposure to the protection provider calculated in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, after application of the input floor specified in paragraph 1 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 160, and increased as necessary to comply with the obligation in paragraph 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 160;

$LGD$ = the *LGD* of the exposure calculated as if there were no unfunded credit protection calculated in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, after application of the input floor specified in paragraph 5 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 161 in accordance with paragraph 6 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 161. The institution may instead choose to apply the *LGD* that would be applicable to the guarantee under the *Foundation IRB Approach* if it were a direct exposure to the protection provider taking into account the seniority of the guarantee. In either case such *LGD* shall be increased as necessary to comply with the obligation in

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paragraph 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 160 as referred to in paragraph 3 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 161;

M = the maturity of the exposure calculated in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162;

R = the correlation coefficient that would be assigned to a comparable direct exposure to the protection provider;

(ii) where a comparable direct exposure to the protection provider would be assigned to the 'retail exposures' class in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 147, the risk weight calculated in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 154 where:

PD = the *PD* which would be assigned to a comparable direct exposure to the protection provider calculated in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, after application of the input floor specified in paragraph 1 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 163, and increased as necessary to comply with the obligation in paragraph 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 163;

LGD = the *LGD* of the exposure calculated as if there were no unfunded credit protection calculated in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, after application of the input floor specified in paragraph 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 164 in accordance with paragraph 4A of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 164, and increased as necessary to comply with the obligation in paragraph 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 163 as referred to in paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 164;

R = the correlation coefficient that would be assigned to a comparable direct exposure to the protection provider.

(b) The uncovered part shall be the remainder of the exposure, and the size of this part prior to the application of any applicable conversion factors, $E_n$, shall be calculated by subtracting the size of the covered part $(E_g)$ from the size of the total exposure $(E)$ as defined in point (a).

The risk weight that applies to the uncovered part shall be:

$r_n$ = the risk weight of the exposure calculated as if there were no unfunded credit protection.

(c) Having made these calculations, the risk weight that shall apply to such exposure in its entirety is determined by the following formula:

$$\frac{E_n \cdot r_n + E_g \cdot r_g}{E}$$

where $E$, in respect of the entire exposure, is determined as in point (a).

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1A. For the purposes of point (2) of the definition of *Parameter Substitution Method*, the institution shall calculate the expected loss separately for the covered and uncovered parts of the exposure as follows:

(a) The expected loss for the uncovered part, $e_n$, shall be the expected loss of the exposure calculated in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 158 as if there were no unfunded credit protection.

(b) The expected loss for the covered part, $e_g$, shall be $PD \cdot LGD$, where $PD$ and $LGD$ are as defined for the purposes of calculating $r_g$ in point (a) of paragraph 1.

(c) Having made these calculations, the expected loss that shall apply to such exposure in its entirety is determined by the following formula:

$$\frac{E_n \cdot e_n + E_g \cdot e_g}{E}$$

where $E$, in respect of the entire exposure, is determined as in point (a) of paragraph 1.

2. [Note: Provision left blank]

3. [Note: Provision left blank]

[Note: This rule corresponds to Article 236 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 5 MATURITY MISMATCHES

### Article 237 MATURITY MISMATCH

A1. This Article applies to an institution using one of the methods set out in paragraph 1A of Article 238.

1. For the purpose of calculating risk-weighted exposure amounts, a maturity mismatch occurs when the residual maturity of the credit protection is less than that of the protected exposure. Where protection has a residual maturity of less than three *months* and the maturity of the protection is less than the maturity of the underlying exposure an institution shall not use that protection as eligible credit protection.

2. Where there is a maturity mismatch, an institution shall not use the credit protection as eligible credit protection where either of the following conditions is met:

(a) the original maturity of the protection is less than one year;

(b) the exposure is a short-term exposure that is subject to a one-day floor in respect of the maturity value (M) under paragraph 3 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162.

[Note: This rule corresponds to Article 237 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 238 MATURITY OF CREDIT PROTECTION

1. An institution using any of the methods set out in paragraph 1A shall take the effective maturity of the underlying to be the longest possible remaining time before the obligor is scheduled to fulfil its obligations, subject to a maximum of five years. Subject to paragraph 2, the institution shall take the maturity of the credit protection to be the time to the earliest date at which the protection may terminate or be terminated; except that, solely in the case of point (a) of paragraph 1A, this shall be the time to the earlier of (a) the date when the netting agreement

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may terminate or be terminated and (b) the date when the deposit with the institution can be withdrawn or the loan to the institution called.

1A. The methods are:

(a) *on-balance sheet netting*;

(b) the *Financial Collateral Comprehensive Method*, but not where it is used for securities financing transactions with a *master netting agreement*;

(c) the *Foundation Collateral Method*;

(d) the *Other Funded Credit Protection Method*;

(e) the *Risk-Weight Substitution Method*;

(f) the *Parameter Substitution Method*.

2. Where there is an option to terminate the protection which is at the discretion of the protection seller, the institution shall take the maturity of the protection to be the time to the earliest date at which that option may be exercised. Where there is an option to terminate the protection which is at the discretion of the protection buyer:

(a) if the terms of the arrangement at origination of the protection contain a positive incentive for the institution to call the transaction before contractual maturity, the institution shall take the maturity of the protection to be the time to the earliest date at which that option may be exercised;

(b) otherwise the institution may consider that such an option does not affect the maturity of the protection.

3. The institution shall reduce the maturity of protection by the length of the grace period where all of the following conditions are met:

(a) the credit protection is in the form of a credit derivative;

(b) the underlying contract allows a grace period before there is a default as a result of a failure to pay;

(c) the credit derivative is not prevented from terminating prior to expiration of the grace period.

[Note: This rule corresponds to Article 238 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 239 VALUATION OF CREDIT PROTECTION**

1. For transactions subject to funded credit protection where there is a mismatch between the maturity of the exposure and the maturity of the credit protection, an institution using the *Financial Collateral Simple Method* shall not use the collateral as eligible funded credit protection.

2. For transactions subject to an eligible on-balance sheet netting agreement or subject to funded credit protection, an institution using any of the methods set out in points (a) to (d) of paragraph 1A of Article 238 shall reflect the maturity of the credit protection and of the exposure in the adjusted value of the collateral in accordance with the following formula:

$$C_{VAM} = C_{VA} \cdot \frac{(t - t^*)}{(T - t^*)}$$

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where:

$C_{VA}$ = the volatility adjusted value of the collateral as specified in paragraph 2 of Article 223 or the amount of the exposure, whichever is lower;

t = the number of years remaining to the maturity date of the credit protection calculated in accordance with Article 238, or the value of $T$, whichever is lower;

$T$ = the number of years remaining to the maturity date of the exposure calculated in accordance with Article 238, or five years, whichever is lower;

$t^*$ = 0.25.

An institution using the *Financial Collateral Comprehensive Method* shall use $C_{VAM}$ as $C_{VA}$ further adjusted for maturity mismatch in the formula for the calculation of the fully adjusted value of the exposure ($E^*$) set out in paragraph 5 of Article 223.

3. For transactions subject to unfunded credit protection, an institution using either of the methods set out in point (e) or (f) of paragraph 1A of Article 238 shall reflect the maturity of the credit protection and of the exposure in the adjusted value of the credit protection in accordance with the following formula:

$$G_A = G^* \cdot \frac{(t - t^*)}{(T - t^*)}$$

where:

$G_A$ = $G^*$ adjusted for any maturity mismatch;

$G^*$ = the amount of the credit protection adjusted for any currency mismatch;

t = the number of years remaining to the maturity date of the credit protection calculated in accordance with Article 238, or the value of $T$, whichever is lower;

$T$ = the number of years remaining to the maturity date of the exposure calculated in accordance with Article 238, or five years, whichever is lower;

$t^*$ = 0.25.

The institution shall use $G_A$ as the amount of credit protection further adjusted for maturity mismatch for the purposes of Article 235 and 236.

[Note: This rule corresponds to Article 239 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SECTION 6 BASKET CRM TECHNIQUES**

**Article 240**

[Note: Provision left blank]

**Article 241**

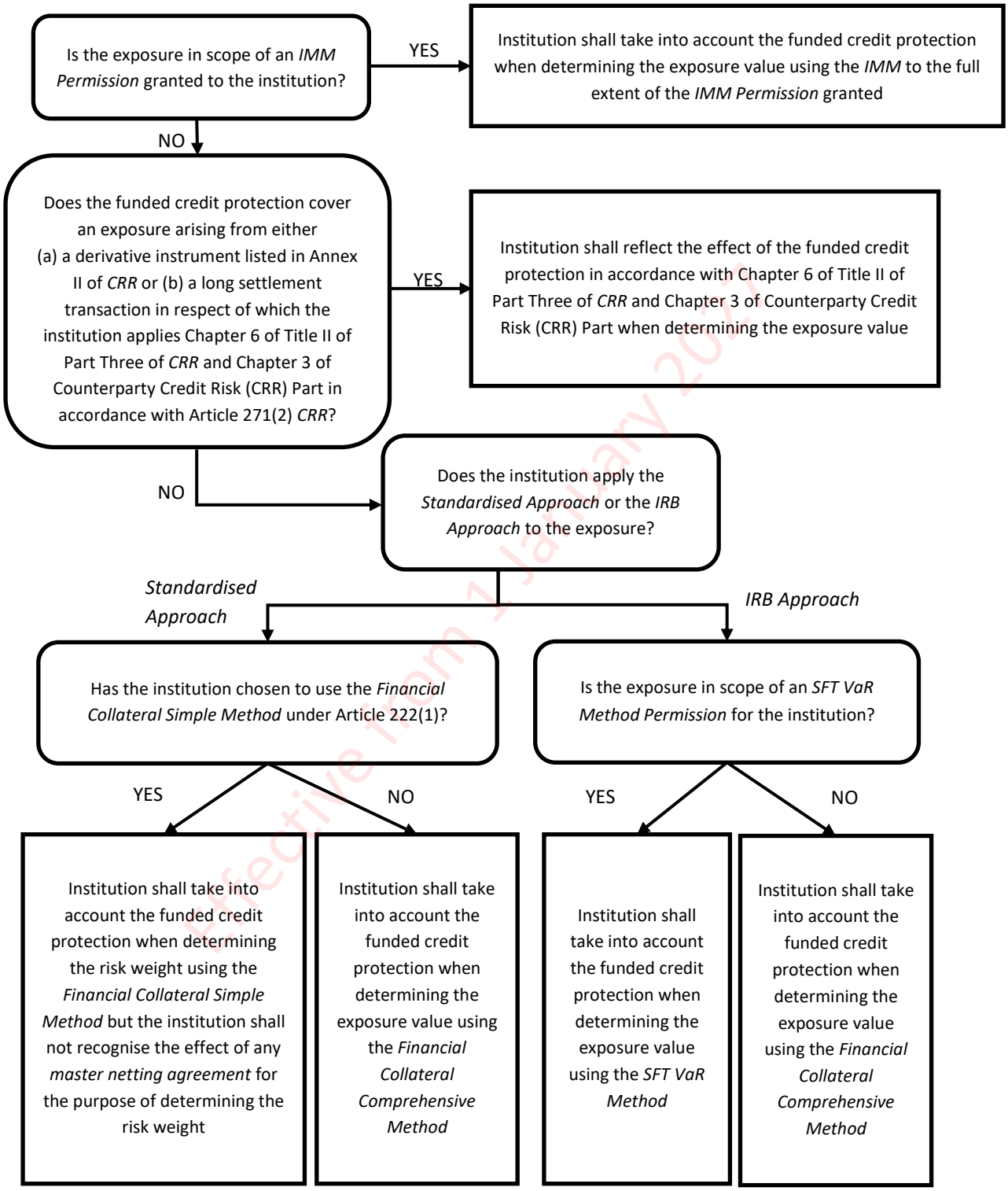
[Note: Provision left blank]

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## Appendix 1 PART ONE: FUNDED CREDIT PROTECTION COVERING AN EXPOSURE THAT GIVES RISE TO COUNTERPARTY CREDIT RISK

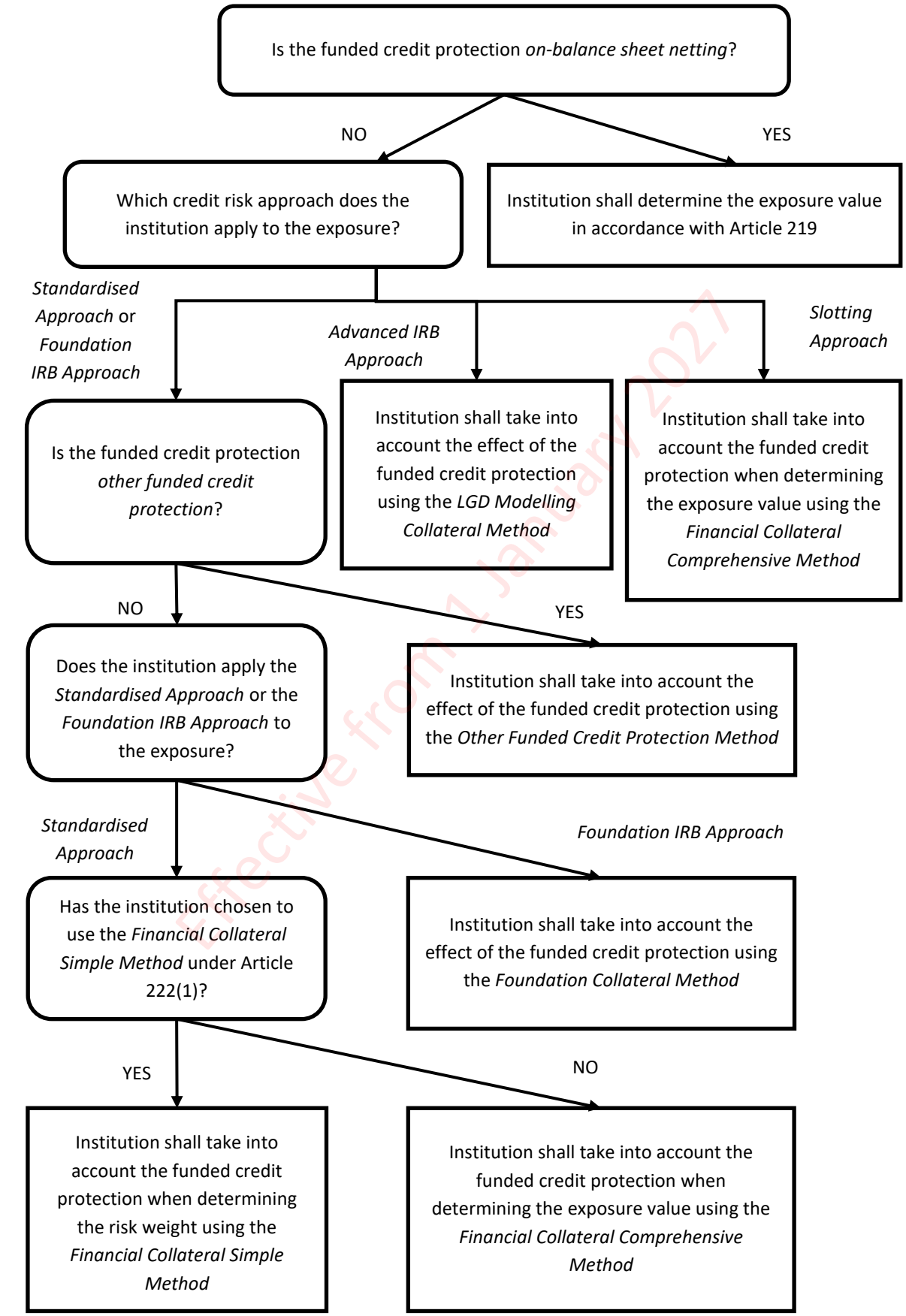



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## Appendix 1 PART TWO: FUNDED CREDIT PROTECTION COVERING AN EXPOSURE THAT DOES NOT GIVE RISE TO COUNTERPARTY CREDIT RISK

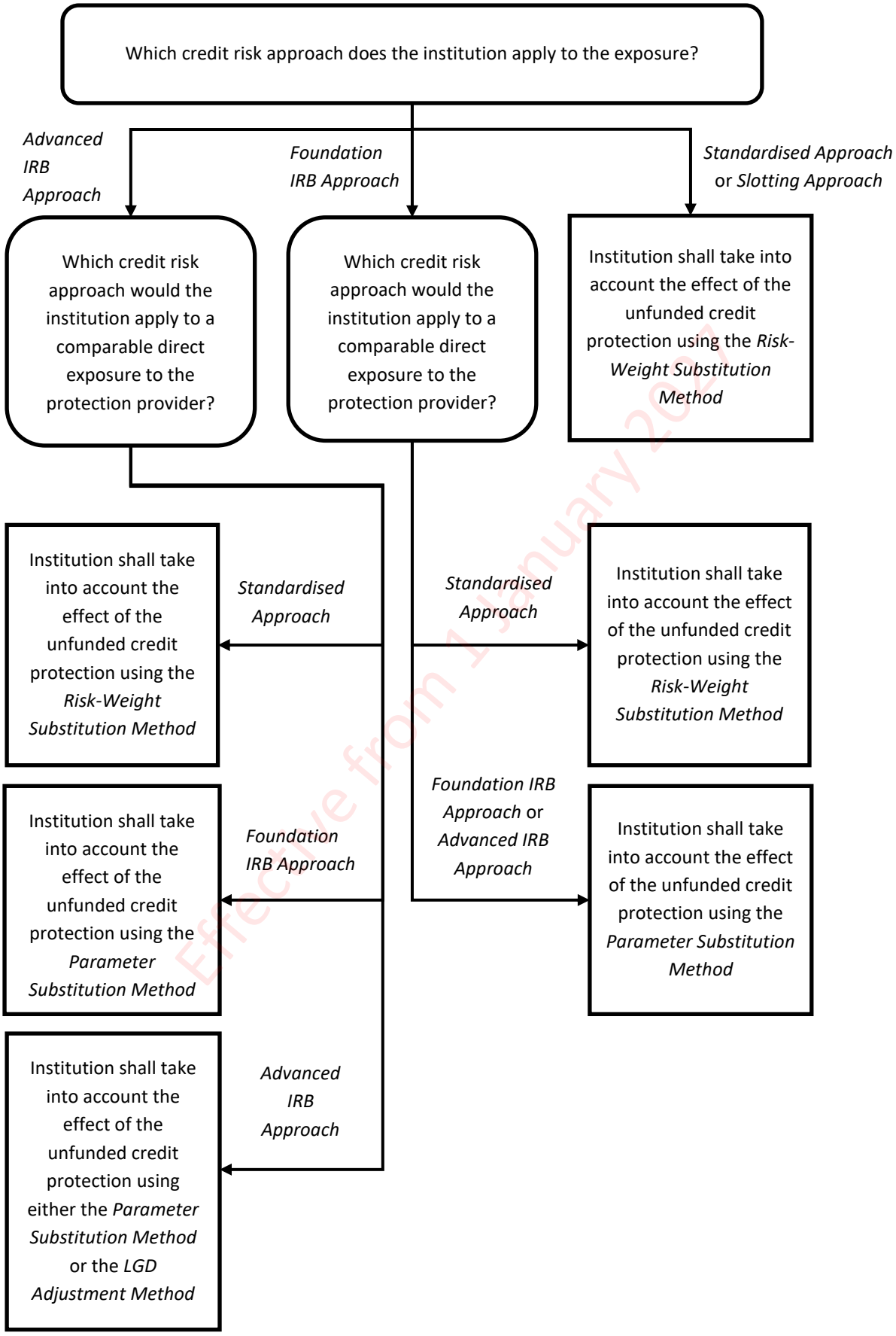



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## Appendix 1 PART THREE: UNFUNDED CREDIT PROTECTION COVERING AN EXPOSURE

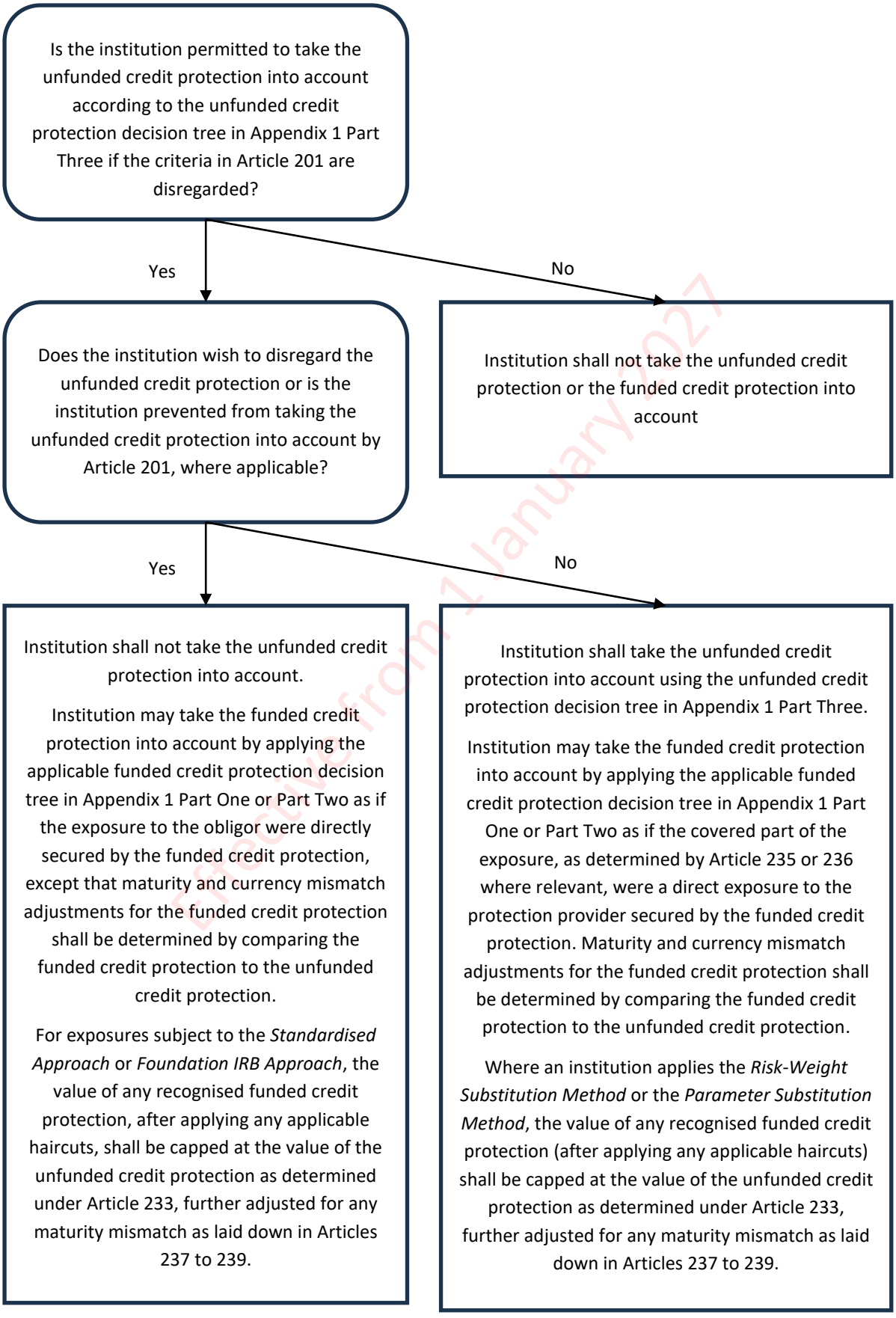



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## Appendix 1 PART FOUR: EXPOSURE COVERED BY UNFUNDED CREDIT PROTECTION WHICH IS COVERED BY FUNDED CREDIT PROTECTION




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**Annex G**

**Market Risk: General Provisions (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# MARKET RISK: GENERAL PROVISIONS (CRR)

**Chapter content**

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. GENERAL PROVISIONS (CHAPTER 1 OF TITLE IV OF PART THREE OF CRR)

| | |
|---|---|
| ARTICLE 325 | APPROACHES FOR CALCULATING THE OWN FUNDS REQUIREMENTS FOR MARKET RISK |
| ARTICLE 325a1 | TREATMENT OF NON-TRADING BOOK POSITIONS SUBJECT TO FOREIGN EXCHANGE RISK OR COMMODITY RISK |
| ARTICLE 325a | CRITERIA FOR USING THE SIMPLIFIED STANDARDISED APPROACH |
| ARTICLE 325b1 | INSTRUMENTS FOR WHICH NO TREATMENT SPECIFIED |
| ARTICLE 325b | PERMISSION FOR CONSOLIDATED REQUIREMENTS |

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definition shall apply:

*non-trading book position*

means a position which is held by an institution and which is not held in the trading book.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: This rule sets out Article 11(6) of *CRR* that it applies to this Part]

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

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3.2 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 2.8 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 4 GENERAL PROVISIONS (CHAPTER 1 OF TITLE IV OF PART THREE OF CRR)

### Article 325 APPROACHES FOR CALCULATING THE OWN FUNDS REQUIREMENTS FOR MARKET RISK

**General Approach**

1. An institution shall calculate the own funds requirements for market risk of all trading book positions and in relation to *non-trading book positions* that are subject to foreign exchange risk or commodity risk in accordance with the following approaches:

   (a) the advanced standardised approach set out in the Market Risk: Advanced Standardised Approach (CRR) Part;

   (b) the simplified standardised approach referred to in paragraph 2, if it meets the conditions set out in Article 325a; or

   (c) (i) during the *IMA transitional period*, the internal model approach set out in the Market Risk: Internal Model Approach (CRR) Part 4.2 where the institution has an *IMA transitional permission*; or

   (ii) after the end of the *IMA transitional period*, the internal model approach set out in the Market Risk: Internal Model Approach (CRR) Part 1.1, subject to the prior permission of the *PRA* in accordance with Market Risk: Internal Model Approach (CRR) Part Article 325az.

   By way of derogation from the first subparagraph, an institution shall not calculate own funds requirements for foreign exchange risk for trading book positions and non-trading book positions that are subject to foreign exchange risk where those positions are deducted from the institution's own funds. The institution shall document its use of the derogation set out in this subparagraph, including its impact and materiality, and make the information available, upon request, to the PRA.

2. The own funds requirements for market risk calculated in accordance with the simplified standardised approach referred to in point (b) of paragraph 1 shall mean the sum of the following own funds requirements, as applicable:

   (a) the own funds requirements for position risk referred to in the Market Risk: Simplified Standardised Approach (CRR) Part, multiplied by:

   (i) 1.3 for own funds requirements relating to general and specific risk of positions in debt instruments as calculated in accordance with Market Risk: Simplified Standardised Approach (CRR) Part Articles 334 to 340;

   (ii) 3.5 for own funds requirements relating to the general and specific risks of positions in equity instruments, as calculated in accordance with Market Risk: Simplified Standardised Approach (CRR) Part Articles 341 to 344, 346 and 347; and

   (iii) 3.5 for own funds requirements calculated in accordance with Market Risk: Simplified Standardised Approach (CRR) Part Article 348 for CIUs;

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(b) the own funds requirements for foreign exchange risk referred to in Market Risk: Simplified Standardised Approach (CRR) Part Articles 351 to 354, multiplied by 1.2; and

(c) the own funds requirements for commodity risk referred to in Market Risk: Simplified Standardised Approach (CRR) Part Articles 355 to 361, multiplied by 1.9.

3. [Note: Provision left blank]

4. An institution may use in combination the approaches set out in points (a) and (c)(i) or (ii) of paragraph 1 on a permanent basis within a group.

5. An institution shall not use the approach set out in point (c)(ii) of paragraph 1 for instruments in their trading book that are securitisation positions or positions included in the *ACTP* as set out in paragraphs 6, 7 and 8.

**ACTP**

6. An institution shall include securitisation positions and nth-to-default credit derivatives that meet all the following criteria in the *ACTP*:

(a) the positions are neither re-securitisation positions, nor options on a securitisation tranche, nor any other derivatives of securitisation exposures that do not provide a pro-rata share in the proceeds of a securitisation tranche; and

(b) all their underlying instruments are:

(i) single-name instruments, including single-name credit derivatives, for which a liquid two-way market exists; and

(ii) commonly-traded indices based on the instruments referred to in point (i).

A two-way market is considered to exist where there are independent bona fide offers to buy and sell, so that a price that is reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one day and settled at that price within a relatively short time conforming to trade custom.

7. An institution shall not include positions with any of the following underlying instruments in the *ACTP*:

(a) underlying instruments that are assigned to the exposure classes referred to in point (h) or (i) of paragraph 1 of Credit Risk: Standardised Approach (CRR) Part Article 112; and/or

(b) a claim on a special purpose entity, collateralised, directly or indirectly, by a position that, in accordance with paragraph 6, would itself not be eligible for inclusion in the *ACTP*.

8. An institution may include in the *ACTP* positions that are neither securitisation positions nor nth-to-default credit derivatives but that hedge other positions in that portfolio, provided that a liquid two-way market as described in paragraph 6 exists for the instrument or its underlying instruments.

**Structural FX**

9. Any risk positions which an institution uses to hedge against the adverse effect of foreign exchange rates on any of its capital ratios in accordance with Required Level of Own Funds (CRR) Part Article 92 may be excluded by an institution from the calculation of own funds requirements for foreign exchange risk set out in paragraph 1, with the prior permission of the *PRA* to the extent and subject to any modifications set out in the permission if, on applying for such permission, an institution is able to demonstrate to the satisfaction of the *PRA*:

(a) the risk positions are deliberately taken or maintained for the purpose of hedging partially or totally against the potential that changes in foreign exchange rates could have an adverse effect on its capital ratios;

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(b) the risk positions are of a non-dealing or structural nature;

(c) the amount of the risk position excluded is limited to the amount that neutralises the sensitivity of the capital ratio to movements in foreign exchange rates;

(d) the risk positions are excluded from the calculation of own funds requirements for at least six *months*;

(e) the risk positions excluded are established and managed in accordance with a clear risk management policy that the *PRA* has approved;

(f) the risk positions excluded are documented and can be made available for the *PRA*; and

(g) trading books and non-trading books containing the risk positions excluded are segregated from all other trading activities.

An institution that has been granted the permission set out in the first sub-paragraph shall comply with the requirements set out in that first sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

9A. In its calculation of own funds requirements for foreign exchange risk under paragraph 1, an institution shall not include any item which meets all of the following conditions:

(a) the item is not measured at fair value; and

(b) the item's accounting value is not updated at each of the institution's reporting dates to reflect the changes in the exchange rate between the foreign currency and the reporting currency of the institution recognising the item in its financial statement.

**Approach to CIUs in the trading book**

10. An institution shall not use the approach set out in point (c)(ii) of paragraph 1 of Article 325 for CIU*s* in their trading book that cannot be looked through.

[Note: Paragraphs 1(a) to (c), 2 to 5 and 7 to 8 of this rule correspond to Article 325(1) to (5) and (7) to (8) of *CRR*, paragraph 6 of this rule corresponds to Article 325(6) and 338(1) of *CRR*, and paragraph 9 of this rule corresponds to Article 352(2) of *CRR*, in each case as the provision of *CRR* applied immediately before revocation by the *Treasury*]

## Article 325a1 TREATMENT OF NON-TRADING BOOK POSITIONS SUBJECT TO FOREIGN EXCHANGE RISK OR COMMODITY RISK

**Calculation of the own funds requirements under the advanced standardised approach for non-trading book positions subject to foreign exchange risk**

1. Where calculating the own funds requirement for *non-trading book positions* subject to foreign exchange risk under the sensitivities-based method in accordance with Market Risk: Advanced Standardised Approach (CRR) Part Articles 325d to 325j, with the exception of those positions subject to commodity risk as detailed in paragraph 5, an institution shall use the last available accounting value of a *non-trading book position* that is subject to foreign exchange risk as a basis.

2. By way of derogation from paragraph 1, an institution may use the last available fair value of a *non-trading book position* that is subject to foreign exchange risk, provided that the fair value of all *non-trading book positions* is calculated at least on a quarterly basis. Where an institution applies this paragraph, it shall apply it consistently to all *non-trading book positions* subject to foreign exchange risk.

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3. An institution shall update the last available value that is used as a basis for computing the own funds for foreign exchange risk in accordance with paragraphs 1 and 2 at least on a *monthly* basis in order to reflect changes in the value of the foreign exchange risk factors.

4. Where an institution computes the own funds requirements for market risk on a consolidated basis, the institution shall identify the currency of denomination of an item as the reporting currency of the institution which recognises that item in its individual financial statement, where all of the following conditions are met:

   (a) the item is not measured at fair value;

   (b) the item is subject to the risk of impairment due to foreign exchange risk;

   (c) the institution's reporting currency or base currency differs from the reporting currency of the institution that recognises the item in its individual financial statement; and

   (d) the item's accounting value is not updated at each reporting date to reflect the changes in the exchange rate between the foreign currency and the reporting currency of the institution recognising the item in its individual financial statement.

**Calculation of the own funds requirements under the advanced standardised approach for non-trading book positions subject to commodity risk**

5. Where calculating the own funds requirement for *non-trading book positions* subject to commodity risk under the sensitivities-based method in accordance with Market Risk: Advanced Standardised Approach (CRR) Part Articles 325d to 325j, an institution shall use the latest available fair value of those positions as a basis. An institution shall fair value those positions at least on a *monthly* basis.

**Calculation of the own funds requirements under the internal model approach for non-trading book positions subject to foreign exchange risk and not to commodity risk**

6. Where calculating the own funds requirements for *non-trading book positions* subject to foreign exchange risk and not to commodity risk assigned to trading desks in accordance with the internal model approach as set out in Market Risk: Internal Model Approach (CRR) Part 1.1, an institution shall use the last available accounting value of a *non-trading book position* that is subject to foreign exchange risk as a basis.

7. By way of derogation from paragraph 6, an institution may use the last available fair value of a *non-trading book position* as referred to in paragraph 6 as a basis for calculating the own funds requirements, provided that the fair value of all *non-trading book positions* is calculated at least on a quarterly basis. Where an institution applies this paragraph, it shall apply it consistently to all *non-trading book positions* referred to in paragraph 6.

8. An institution shall update the last available value that is used as a basis for computing the own funds for foreign exchange risk in accordance with paragraphs 6 and 7 on a daily basis in order to reflect changes in the value of the foreign exchange risk factors.

9. By way of derogation from paragraph 8, when updating the last available value of a *non-trading book position* on a daily basis, an institution shall reflect changes in the value of all risk factors for a position for which it used the derogation referred to in paragraph 15.

10. For the purposes of calculating the expected shortfall risk measure referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bb and the stress scenario risk measure referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bk in relation to *non-trading book positions* subject to foreign exchange risk and not to commodity risk, an institution shall apply scenarios of future shock only to risk factors that belong to the foreign exchange broad risk factor category.

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**Calculation of the own funds requirements under the internal model approach for non-trading book positions subject to commodity risk**

11. Where calculating the own funds requirements for *non-trading book positions* subject either to commodity risk or both to commodity and foreign exchange risk assigned to trading desks in accordance with the internal model approach as set out in Market Risk: Internal Model Approach (CRR) Part 1.1, an institution shall use the last available fair value of those positions. An institution shall fair value those positions on a daily basis.

12. In relation to *non-trading book positions* subject to commodity risk and not to foreign exchange risk, an institution shall apply scenarios of future shock, for the purposes of calculating the expected shortfall risk measure referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bb or the stress scenario risk measure referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bk, only to risk factors that belong to the commodity broad risk factor category.

13. In relation to *non-trading book positions* subject to commodity risk and foreign exchange risk, an institution shall apply scenarios of future shock for the purpose of calculating the expected shortfall risk measure referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bb or the stress scenario risk measure referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bk, only to risk factors that belong to the commodity or foreign exchange broad risk factor category.

**Computation of the hypothetical and actual changes related to non-trading book positions subject to foreign exchange risk or commodity risk under Market Risk: Internal Model Approach (CRR) Part Articles 325bf and 325bg**

14. By way of derogation from paragraphs 9 to 14 of Market Risk: Internal Model Approach (CRR) Part Article 325bf, an institution computing the hypothetical and the actual changes in the portfolio's value referred to in Market Risk: Internal Model Approach (CRR) Part Articles 325bf and 325bg in relation to a *non-trading book position* which is subject to foreign exchange risk and not to commodity risk shall calculate the value of that *non-trading book position* at the end of the day following the computation of the value-at-risk number referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bf using the value of that *non-trading book position* at the end of the previous day and updating its component reflecting the foreign exchange risk.

15. Where the value of a *non-trading book position* does not change linearly with movements in an exchange rate to which it is subject, an institution may, in derogation from paragraph 14, calculate the value of that *non-trading book position* at the end of the day following the computation of the value-at-risk number by using the value of that *non-trading book position* at the end of the previous day and updating all the components the institution uses to value that *non-trading book position*, including those components not pertaining to the foreign exchange risk broad risk factor category.

    An institution shall apply the first sub-paragraph consistently to all positions in the trading desk that do not change linearly with movements in an exchange rate to which they are subject.

16. By way of derogation from paragraphs 9 to 14 of Market Risk: Internal Model Approach (CRR) Part Article 325bf, an institution computing the hypothetical and the actual changes in the portfolio's value referred to in Market Risk: Internal Model Approach (CRR) Part Articles 325bf and 325bg in relation to a *non-trading book position* which is subject to commodity risk shall calculate the value of that *non-trading book position* at the end of the day following the computation of the value-at-risk number referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bf in accordance with either of the following, provided that they use it consistently for all *non-trading book positions* subject to commodity risk in the trading desk:

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(a) an institution shall use the value of that *non-trading book position* at the end of the previous day and update only the components reflecting the foreign exchange and commodity risk; or

(b) an institution shall use the value of that *non-trading book position* at the end of the previous day and update all the components the institution uses to value that *non-trading book position*, including those not pertaining to the foreign exchange or commodity risk broad risk factor categories.

17. An institution shall apply paragraphs 14 to 16 only to *non-trading book positions* that are included both in the portfolio on the day of the computation of the Value-At-Risk number referred to in Market Risk: Internal Model Approach (CRR) Part Article 325bf, and in the portfolio on the day following the computation of that Value-At-Risk number.

## Article 325a CRITERIA FOR USING THE SIMPLIFIED STANDARDISED APPROACH

1. An institution shall be eligible to use the approach set out in point (b) of paragraph 1 of Article 325 to calculate the own funds requirements for market risk of all trading book positions and *non-trading book positions* that are subject to foreign exchange risk or commodity risk, provided that the size of the institution's on- and off-balance-sheet business that is subject to market risk is equal to or less than each of the following thresholds, on the basis of an assessment carried out on a *monthly* basis using data as of the last day of the *month*:

   (a) 10% of the institution's *total assets*; and

   (b) GBP 440 million.

2. An institution shall calculate the size of its on- and off-balance-sheet business that is subject to market risk using data as of the last day of each *month* in accordance with the following requirements:

   (a) all the positions assigned to the trading book shall be included, except credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures and the credit derivative transactions that perfectly offset the market risk of the internal hedges as referred to in paragraph 3 of Trading Book (CRR) Part Article 106;

   (b) all *non-trading book positions* that are subject to foreign exchange risk or commodity risk shall be included;

   (c) all positions shall be valued at their *market values* on that date, except for:

      (i) positions referred to in point (b);

      (ii) where the *market value* of a trading book position is not available on a given date, an institution shall take a fair value for the trading book position on that date;

      (iii) where the fair value and *market value* of a trading book position are not available on a given date, an institution shall take the most recent *market value* or fair value for that position;

   (d) all *non-trading book positions* that are subject to foreign exchange risk shall be considered as an overall net foreign exchange position and valued in accordance with Market Risk: Simplified Standardised Approach (CRR) Part Article 352;

   (e) all the *non-trading book positions* that are subject to commodity risk shall be valued in accordance with Market Risk: Simplified Standardised Approach (CRR) Part Articles 357 and 358;

   (f) the absolute value of long positions shall be added to the absolute value of short positions.

3. An institution shall immediately notify the *PRA* when they:

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(a) are both eligible to calculate and elect to calculate; or

(b) cease being eligible to calculate,

their own funds requirements for market risk in accordance with this Article.

4. An institution that no longer meets one or more of the conditions set out in paragraph 1 shall immediately notify the *PRA* thereof.

5. An institution shall cease to be eligible to use the simplified standardised approach referred to in point (b) of paragraph 1 of Article 325 to calculate the own funds requirements for market risk of all trading book positions and *non-trading book positions* that are subject to foreign exchange risk or commodity risk on the date falling three *months* after the occurrence of either of the following cases:

(a) the institution does not meet the condition set out in point (a) or (b) of paragraph 1 for three consecutive *months*; or

(b) the institution does not meet the condition set out in point (a) or (b) of paragraph 1 during more than 6 out of the last 12 *months*.

6. Where an institution ceases to be eligible to use the approach set out in point (b) of paragraph 1 of Article 325 to calculate the own funds requirements for market risk of all trading book positions and *non-trading book positions* that are subject to foreign exchange risk or commodity risk in accordance with paragraph 5, the institution must notify the *PRA* that all the conditions set out in paragraph 1 have been met for an uninterrupted 12-*month* period prior to recommencing use of that approach.

7. An institution shall not enter into, buy or sell a position only for the purpose of complying with any of the conditions set out in paragraph 1 during the *monthly* assessment.

8. An institution that is eligible for the treatment set out in Trading Book (CRR) Part Article 94 shall be eligible use the approach set out in point (b) of paragraph 1 of Article 325 to calculate the own funds requirements for market risk of *non-trading book positions* that are subject to foreign exchange risk or commodity risk.

[Note: This rule corresponds to Article 325a of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325b1 INSTRUMENTS FOR WHICH NO TREATMENT SPECIFIED**

1. Where an institution has a position in a financial instrument for which no treatment has been specified in *CRR* or *CRR rules*, it must calculate its own funds requirement for that position by applying the most appropriate rules relating to positions that are specified in *CRR* or *CRR rules*, if doing so is prudent and appropriate, and if the position is sufficiently similar to those covered by the relevant rules.

2. An institution must document its policies and procedures for calculating own funds for such positions in its trading book policy statement.

3. If there are no appropriate treatments the institution must calculate an own funds requirement of an appropriate percentage of the current value of the position. An appropriate percentage is either 100%, or a percentage that takes into account the characteristics of the position.

4. For the purposes of paragraph 2, trading book policy statement means the statement of policies and procedures relating to the trading book.

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**Article 325b PERMISSION FOR CONSOLIDATED REQUIREMENTS**

1. Subject to paragraph 2, and only for the purpose of calculating net positions and own funds requirements for market risk on a consolidated basis, institutions may use positions in one institution or *undertaking* to offset positions in another institution or *undertaking*.

2. An institution may only apply paragraph 1 with the prior permission of the *PRA* to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA*:

   (a) there is a satisfactory allocation of own funds within the group; and

   (b) the regulatory, legal or contractual framework in which the institution operates guarantees mutual financial support within the group.

   An institution that has been granted the permission set out in the first sub-paragraph shall comply with the requirements set out in that first sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

3. Where there are *undertakings* located in *third countries*, all the following conditions shall be met in addition to those set out in paragraph 2:

   (a) such *undertakings* have been authorised in a *third country* and either satisfy the definition of a credit institution or are *third country investment firms*;

   (b) on an individual basis, such *undertakings* comply with own funds requirements equivalent to those laid down in *CRR* and *CRR rules*; and

   (c) no regulations exist in the *third countries* in question which might significantly affect the transfer of funds within the group.

4. Where the *PRA* has granted the permission in paragraph 2, an institution shall calculate the own funds requirements for market risk on a consolidated basis for all institutions and *undertakings* which have been granted such permission as the sum of:

   (a) the own funds requirements for market risk for all the positions that have been allocated to a dedicated general interest rate internal hedge portfolio in accordance with paragraph 9 of Trading Book (CRR) Part Article 106; and

   (b) the own funds requirements for market risk for all the positions that have not been allocated to a dedicated general interest rate internal hedge portfolio in accordance with paragraph 9 of Trading Book (CRR) Part Article 106.

5. Where the *PRA* has not granted the permission in paragraph 2 for all institutions or *undertakings* in a group, an institution shall calculate the own funds requirements for market risk for that group as the sum of:

   (a) the own funds requirements calculated in accordance with paragraph 4; and

   (b) the sum of own funds requirements for each institution or *undertaking* that has not been granted the permission in paragraph 2, each calculated on an individual basis and in accordance with points (a) and (b) of paragraph 4.

[Note: This rule corresponds to Article 325b of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Annex H**

**Market Risk: Internal Model Approach (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# MARKET RISK: INTERNAL MODEL APPROACH (CRR)

**Chapter content**

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3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
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**ANNEX 2** MATERIAL CHANGES AND EXTENSIONS TO INTERNAL MODELS

**ANNEX 3** IMA TRANSITIONAL PERMISSIONS

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## 1 APPLICATION AND DEFINITIONS

1.1 Subject to 1.2 and 4.2, this Part applies to

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*,

which for the purposes of calculating own funds for requirements for market risk for a portfolio of all positions (other than *ineligible positions*) assigned to a trading desk in respect of those positions has a permission from the *PRA* (an *IMA permission*) to:

(a) except as otherwise provided in this Part, disapply the provisions of the:

(i) Market Risk: Simplified Standardised Approach (CRR) Part; and

(ii) Market Risk: Advanced Standardised Approach (CRR) Part; and

(b) apply the requirements of this Part, to the extent, and subject to any modifications, set out in the permission.

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

[Note: This rule corresponds to Article 325az(2) of *CRR* as it applied immediately before revocation by the *Treasury*]

1.2. In this Part, Article 325az(A1) applies to an institution which is applying for an *IMA permission*.

1.3 In this Part, the following definitions shall apply:

*back-testing requirements*

means the requirements in respect of back-testing set out in Article 325bf(3).

*IMA permission*

means the permission granted by the *PRA* referred to in 1.1.

*IMA standards*

means the standards set out in Annex 1.

*ineligible position*

means a position which is:

(1) a securitisation or re-securitisation position or a position that is included in the *ACTP*; or

(2) a CIU position (other than a CIU position of the type specified out in Article 325az(9)) for which the institution is unable to look through to the underlying positions of the CIU.

*internal default risk model*

means an internal default risk model for which the institution has been granted a permission to use by the *PRA* as part of its *IMA permission* and as further specified in Section 3 of this Part.

*Kolmogorov-Smirnov test metric*

has the meaning set out in paragraphs 4 and 6 of Article 325bg.

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*multilateral systems*

means any system or facility in which multiple third-party buying and selling trading interests in *financial instruments* are able to interact in the system.

*non-trading book position*

means a position which is held by an institution and which is not held in the trading book.

*P&L attribution requirements*

means the profit and loss attribution requirements for a trading desk set out in Article 325bg.

*quarterly reporting reference date*

means 31 March, 30 June, 30 September and 31 December.

*risk measurement model*

means the risk measurement model used for the purpose of calculating the partial expected shortfall calculations referred to in Article 325bc of this Part.

*Spearman correlation coefficient*

has the meaning set out in paragraphs 4 and 5 of Article 325bg.

*third-party vendor*

means an undertaking that provides data on transactions or quotations to institutions for the purpose of Article 1, including data reporting service providers as defined in the Data Reporting Service Regulations 2017 and *multilateral systems*.

1.4 Except as otherwise provided in this Part, references to a trading desk shall include a notional trading desk as referred to in paragraphs 3 and 4 of Trading Book (CRR) Part Article 104b.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

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2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: Rule 2.6 sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

3.2 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 4 TRANSITIONALS

4.1 For a period of one year beginning with the day after the end of the *IMA transitional period*, an institution:

(1) shall apply this Part for the purposes of calculating its own funds requirement for market risk under Article 325ba on the basis that, throughout that period, every trading desk for which the institution has an *IMA permission* is classified as a green desk in accordance with Article 325bg; and

(2) shall not be required to demonstrate compliance with paragraph 6(a) of the *IMA standards* for the purposes of an application for an *IMA permission*.

4.2 During the *IMA transitional period* Chapters 1 to 3 and Annex 3 shall apply to a *CRR firm* with an *IMA transitional permission* or a *CRR consolidation entity* with an *IMA transitional permission*.

## 5 CAPITAL REQUIREMENTS FOR MARKET RISK INTERNAL MODEL APPROACH (CRR)

### SECTION 1 PERMISSION AND OWN FUND REQUIREMENTS

### Article 325az PERMISSION TO USE INTERNAL MODELS

A1. An institution which applies for an *IMA permission* in respect of a trading desk must provide, as part of its application, documentation which explains, to the satisfaction of the *PRA*, how the institution meets the *IMA standards*.

1. An institution must:

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(a) calculate its own funds requirements for the portfolio of all positions assigned to a trading desk by using its internal models in accordance with Article 325ba, except as provided otherwise in this Part; and

(b) ensure at all times that:

(i) the trading desk (other than a notional trading desk) at all times meets the requirements of paragraph 2 of Trading Book (CRR) Part Article 104b;

(ii) its rationale for the inclusion of the trading desk in the scope of the internal model approach continues to apply; and

(iii) any *ineligible positions* assigned to the trading desk are treated separately for the purposes of calculating own funds requirements for market risk in respect of those *ineligible positions* as if they were assigned to a trading desk for which the institution has not been granted an *IMA permission*.

2. An institution shall immediately notify the *PRA* when a trading desk that is subject to the permission no longer meets at least one of the requirements set out in paragraph 1. From the date of that notification, the institution:

(a) shall not use internal models in accordance with this Part in relation to any of the positions assigned to that trading desk; and

(b) shall apply the Market Risk: Advanced Standardised Approach (CRR) Part to calculate the own funds requirements for market risk for all the positions assigned to that trading desk from the next earliest reporting date.

The institution may resume the use of internal models in accordance with this Part to calculate own funds requirements for market risk for the positions of that trading desk if it provides to the *PRA* a reasoned confirmation that the trading desk is compliant with the requirements in paragraph 1.

3. By way of derogation from paragraph 2, in exceptional circumstances, an institution may be granted permission by the *PRA* to continue using its internal models for the purpose of calculating the own funds requirements for the market risk of a trading desk that has ceased to meet either:

(a) the requirements set out in Article 325bf(3) for the preceding 12 *months*; or

(b) the requirements set out in in Article 325bg(1).

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

4. An institution shall identify and measure deficiencies in risk capture in its internal models used in accordance with Article 325ba. An institution that identifies material deficiencies in risk capture shall calculate and fulfil an additional own funds requirement within its internal model approach which is adequate to mitigate such material risk deficiencies in addition to the own funds requirements calculated under Article 325ba.

5. An institution which is required to use the Market Risk: Advanced Standardised Approach (CRR) Part in the calculation of own funds requirements for market risk for all positions assigned to a trading desk in accordance with paragraph 2 shall also to continue to fulfil the additional own funds requirement calculated for those positions in accordance with paragraph 4.

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6. For positions assigned to a trading desk for which an institution has not been granted an *IMA permission*, the institution shall calculate the own funds requirements for market risk in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part.

7. Where *ineligible positions* are assigned to a trading desk for which an institution has been granted an *IMA permission*, the institution shall calculate the own funds requirements for market risk for those *ineligible positions* in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part.

8. For the purposes of the calculations in paragraphs 6 and 7 the institution shall include all those positions in the calculation of *CU* as defined in Article 325ba(3).

9. For the purposes of this Part, an institution shall treat a position in a CIU which is a closed-ended investment fund as an equity position in accordance with this Part. For the purposes of this paragraph, the term 'closed-ended investment fund' shall have the meaning given to the term in the *FCA Handbook*.

[Note: Paragraphs 1, 2, 3 and 6 of this rule correspond to Article 325az (2), (4), (5) and (6) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325azx MATERIAL CHANGES AND EXTENSIONS TO PERMISSION**

1. An institution which has an *IMA permission* to use internal models may with the permission of the *PRA* make:

   (a) a material change to the use of those internal models;

   (b) a material extension of the use of those internal models; and

   (c) a material change to the institution's choice of the subset of the modellable risk factors referred to in Article 325bc(2).

   From the date specified in such permission, the institution shall calculate the own funds requirements using its internal models in accordance with and incorporating the permitted change or extension.

   For the purpose of this paragraph, a change or extension to the use of internal models shall be considered material, if it fulfils any of the conditions set out in Part A of Annex 2.

   When making an application for the permission referred to in this paragraph, an institution shall provide the *PRA* with the documentation specified in paragraph 1 of Part C of Annex 2.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. Where an institution has been granted permission by the *PRA* for a change or extension:

   (a) in the case of delay of the implementation of that permitted change or extension, the institution shall promptly notify the *PRA* and present to the *PRA* a plan for a timely implementation of the permitted change or extension; or

   (b) an institution which fails to implement that permitted change or extension on the date specified in that permission, and which has not notified the *PRA* in accordance with point (a) of this paragraph must not implement the change or extension and may do so only with the further permission of the *PRA*, as referred to in paragraph 1.

3. An institution must assign changes and extensions to the category of the highest potential materiality for the purpose of determining whether one or more of the materiality thresholds in

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Part A of Annex 2 is met. An institution must not split an extension or change into several changes or extensions of lower materiality.

4. An institution shall notify the *PRA* of all changes and extensions to the use of the internal models other than those that are material for the purpose of paragraph 1:

   (a) in the case of a change or extension set out in Part B of Annex 2, at least two weeks before implementation; and

   (b) in all other cases, at least annually.

   When making a notification in accordance with point (a) of this paragraph, an institution shall provide the *PRA* with the documentation specified in paragraph 2 of Part C of Annex 2. An institution shall notify the *PRA* promptly if, having notified the *PRA* of a change or extension in accordance with point (a) of this paragraph, it decides not to implement the extension or change.

[Note: Paragraph 1 of this rule corresponds to Article 325az(7) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ba** **OWN FUNDS REQUIREMENTS WHEN USING INTERNAL MODELS**

1. An institution using an internal model shall calculate the own funds requirements for the portfolio of all positions assigned to the trading desks for which the institution has been granted an *IMA permission* as the higher of:

   (a) the sum of the following values:

      (i) the institution's previous day's expected shortfall risk measure, calculated in accordance with Article 325bb ($ES_{t-1}$); and

      (ii) the institution's previous day's stress scenario risk measure, calculated in accordance with Article 325bk ($SS_{t-1}$); or

   (b) the sum of the following values:

      (i) the average of the institution's daily expected shortfall risk measure, calculated in accordance with Article 325bb for each of the preceding 60 *business days* ($ESavg$), multiplied by the multiplication factor ($m_c$); and

      (ii) the average of the institution's daily stress scenario risk measure, calculated in accordance with Article 325bk for each of the preceding 60 *business days* ($SSavg$).

2. An institution which holds positions in traded debt and equity instruments that are included in the scope of the *internal default risk model* and assigned to the trading desks referred to in paragraph 1 shall fulfil an additional own funds requirement, expressed as the higher of the following values:

   (a) the most recent own funds requirement for default risk, calculated in accordance with Section 3 of this Part; or

   (b) the average of the amount referred to in point (a) over the preceding 12 weeks.

3. For the purpose of point (a) of paragraph 1, and in accordance with the *back-testing requirements* and *P&L attribution requirements*, an institution shall calculate the total own funds requirements for all its trading book positions and all its *non-trading book positions* generating foreign exchange or commodity risks as the sum of the results of formulas (a) and (b) as follows:

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(a) min ($IMA_{g\&y}$+*Capital surcharge* + $C_U$;$SA_{all\ desks}$)

(b) max ($IMA_{g\&y}$ - $SA_{g\&y}$;*0*)

Where:

$IMA_{g\&y}$= the own funds requirements calculated in accordance with this Article for the portfolio of all positions assigned to trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as green or yellow desks among those in accordance with Article 325bg and for which the institution calculates the own funds requirements in accordance with this Part;

$SA_{g\&y}$= the own funds requirements calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of all positions assigned to trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as green zone or yellow zone trading desks among those in accordance with Article 325bg and for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part;

*Capital surcharge*= the capital surcharge calculated in accordance with paragraph 4;

$C_U$= the own funds requirements calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of positions not assigned to trading desks for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part, including the positions that are assigned to red zone or orange zone trading desks as specified in Paragraph 7 of Article 325bg or to trading desks that cease to meet the requirements set out in Article 325bf(3) for the preceding 12 *months*;

$SA_{(all\ desks)}$= the own funds requirements of all trading book positions and all *non-trading book positions* generating foreign exchange or commodity risks in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part.

4. An institution which calculates the own funds requirements in accordance with this Part for positions assigned to trading desks that have been classified as yellow zone desks in accordance with Article 325bg shall compute, in relation to those positions, a capital surcharge in accordance with the following formula:

$$Capital\ surcharge = k \times \max(SA_{g\&y} - IMA_{g\&y}; 0)$$

Where:

$k$= as specified in paragraph 5;

$IMA_{g\&y}$= as specified in paragraph 3;

$SA_{g\&y}$= as specified in paragraph 3.

5. For the purpose of paragraph 4, the coefficient $k$ shall be calculated on the basis of the following formula:

$$k = 0.5 \times \frac{\sum_{i \in y} SA_i}{\sum_{i \in g\&y} SA_i}$$

Where:

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$SA_i$= the own funds requirements capital charge calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for all the positions attributed to trading desk *i*;

$i \in y$= the indices of all trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as yellow zone desks among those in accordance with Article 325bg and for which the institution has an *IMA permission* to calculate the own funds requirements using internal models in accordance with this Part;

$i \in g\&y$= the indices of all trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as green zone or yellow zone desks among those in accordance with Article 325bg and for which the institution has *an IMA permission* to calculate the own funds requirements using internal models in accordance with this Part.

6. An institution shall deem a trading desk that has been classified as a red zone or orange zone desk in accordance with Article 325bg as a trading desk that is not meeting the *P&L attribution requirements*. The institution must notify the *PRA* promptly on making this determination. As from the day on which the institution determines such classification, the institution shall not use internal models in accordance with this Part in relation to any of the positions assigned to that trading desk; and shall apply the Market Risk: Advanced Standardised Approach (CRR) Part to calculate the own funds requirements for market risk for all the positions assigned to that trading desk. If the institution provides to the *PRA* a reasoned confirmation that the trading desk meets the conditions for classification as a green zone desk, the institution may resume the use of internal models in accordance with this Part to calculate own funds requirements for market risk for the positions of those trading desks.

[Note: Paragraphs 1 and 2 of this rule correspond to Article 325ba(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 2 GENERAL REQUIREMENTS

### Article 325bb EXPECTED SHORTFALL RISK MEASURE

1. An institution shall calculate the expected shortfall risk measure referred to in point (a) of Article 325ba(1) for any given date *'t'* and for any given portfolio of trading book positions and *non-trading book positions* that are subject to foreign exchange or commodity risk as follows:

$$ES_t = \rho.(UES_t) + (1-\rho).\sum_i UES_t^i$$

Where:

$ES_t$ = the expected shortfall risk measure;

$UES_t$= the unconstrained expected shortfall measure and calculated as follows:

$$UES_t = PES_t^{RS} \cdot \max\left(\frac{PES_t^{FC}}{PES_t^{RC}}, 1\right)$$

$i$= the index that denotes the five broad categories of risk factors listed in the first column of Table 2 of Article 325bd;

$UES_t^i$= the unconstrained expected shortfall measure for broad risk factor category *i* and calculated as follows:

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$$UES_t^i = PES_t^{RS,i} \cdot \max\left(\frac{PES_t^{FC,i}}{PES_t^{RC,i}}, 1\right)$$

ρ= the supervisory correlation factor across broad categories of risk; ρ = 50%;

$PES_t^{RS}$= the partial expected shortfall measure that shall be calculated for all the positions in the portfolio in accordance with Article 325bc(2);

$PES_t^{RC}$= the partial expected shortfall measure that shall be calculated for all the positions in the portfolio in accordance with Article 325bc(3);

$PES_t^{FC}$= the partial expected shortfall measure that shall be calculated for all the positions in the portfolio in accordance with Article 325bc(4);

$PES_t^{RS,i}$= the partial expected shortfall measure for broad risk factor category *i* that shall be calculated for all the positions in the portfolio in accordance with Article 325bc(2);

$PES_t^{RC,i}$= the partial expected shortfall measure for broad risk factor category *i* that shall be calculated for all the positions in the portfolio in accordance with Article 325bc(3); and

$PES_t^{FC,i}$= the partial expected shortfall measure for broad risk factor category *i* that shall be calculated for all the positions in the portfolio in accordance with of Article 325bc(4).

2. An institution shall only apply scenarios of future shocks to the specific set of modellable risk factors applicable to each partial expected shortfall measure, as set out in Article 325bc, when determining each partial expected shortfall measure for the calculation of the expected shortfall risk measure in accordance with paragraph 1.

3. Where at least one transaction of the portfolio has at least one modellable risk factor which has been mapped to the broad risk factor category *i* in accordance with Article 325bd, an institution shall calculate the unconstrained expected shortfall measure for the broad risk factor category *i*, and include it in the formula for the expected shortfall risk measure referred to in paragraph 1.

4. By way of derogation from paragraph 1, if so specified in the *IMA permission*, an institution may reduce the frequency of the calculation of the ratio of undiversified unconstrained expected shortfall measures to diversified unconstrained expected shortfall measures:

$$\frac{\sum_i UES_t^i}{UES_t}$$

from daily to weekly, provided that both of the following conditions are met:

(a) the institution is able to demonstrate that weekly calculation of the ratio of undiversified unconstrained expected shortfall measures to diversified unconstrained expected shortfall measures:

$$\frac{\sum_i UES_t^i}{UES_t}$$

does not underestimate the market risk of the relevant trading book positions relative to a daily calculation; and

(b) the institution is able to increase the frequency of calculation of:

$$UES_t^i$$

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$$PES_t^{RS,i}$$

$$PES_t^{RC,i}$$

and

$$PES_t^{FC,i}$$

from weekly to daily if required by the *PRA*.

[Note: This rule corresponds to Article 325bb of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bc PARTIAL EXPECTED SHORTFALL CALCULATIONS**

1. An institution shall calculate all the partial expected shortfall measures referred to in Article 325bb(1) as follows:

   (a) daily calculations of the partial expected shortfall measures;

   (b) at 97.5th percentile, one tailed confidence interval; and

   (c) for a given portfolio of trading book positions and *non-trading book positions* that are subject to foreign exchange or commodity risk, an institution shall calculate the partial expected shortfall measure at time '*t*' in accordance with the following formula:

$$PES_t = \sqrt{(PES_t(T))^2 + \sum_{j\geq 2}\left(PES_t(T,j)\cdot\sqrt{\frac{(LH_j - LH_{j-1})}{10}}\right)^2}$$

where:

$PESt=$ the partial expected shortfall measure at time *t*;

J= the index that denotes the five liquidity horizons listed in the first column of Table 1;

$LHj=$ the length of liquidity horizons *j* as expressed in days in Table 1;

$T=$ the base time horizon, where *T* = 10 days;

$PESt(T)=$ the partial expected shortfall measure that is determined by applying scenarios of future shocks with a 10-day time horizon only to the specific set of modellable risk factors of the positions in the portfolio set out in paragraphs 2, 3 and 4 for each partial expected shortfall measure referred to in Article 325bb(1); and

$PESt(T,j)=$ the partial expected shortfall measure that is determined by applying scenarios of future shocks with a 10-day time horizon only to the specific set of modellable risk factors of the positions in the portfolio set out in paragraphs 2, 3 and 4 for each partial expected shortfall measure referred to in Article 325bb(1) and of which the effective liquidity horizon, as determined in accordance with Article 325bd(2), is equal or longer than $LHj$.

Table 1

| **Liquidity horizon *j*** | **Length of liquidity horizon *j* (in days)** |
|---|---|
| 1 | 10 |

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| | |
|---|---|
| 2 | 20 |
| 3 | 40 |
| 4 | 60 |
| 5 | 120 |

2. For the purpose of calculating the partial expected shortfall measures:

$$PES_t^{RS}$$

and

$$PES_t^{RS,i}$$

referred to in Article 325bb(1), in addition to the requirements set out in paragraph 1, an institution shall meet the following requirements:

(a) in calculating:

$$PES_t^{RS}$$

an institution shall only apply scenarios of future shocks to a subset of the modellable risk factors of the positions in the portfolio as specified in the institution's *IMA permission* so that the following requirement is met with the sum taken over from the preceding 60 *business days*:

$$\frac{1}{60} \cdot \sum_{k-0}^{59} \frac{PES_{t-k}^{RC}}{PES_{t-k}^{FC}} \geq 75\%$$

Where an institution no longer meets the requirement referred to in the first sub-paragraph of point (a) of this paragraph 2 the institution shall immediately notify the *PRA* thereof and, in order to meet that requirement, shall update the subset of the modellable risk factors within one *month*. If, after one *month*, that institution continues to fail to meet that requirement, the institution:

(i) shall cease use of internal models in accordance with this Part in relation to the positions assigned to the number of trading desks which it is necessary to exclude from the calculation in paragraph 1 in order for the institution to meet the requirements; and

(ii) shall apply the Market Risk: Advanced Standardised Approach (CRR) Part to calculate the own funds requirements for market risk for all the positions assigned to those trading desks.

If the institution provides to the *PRA* a reasoned confirmation that the institution is compliant with the requirements referred to in the first sub-paragraph of point (a) of this paragraph 2, it may resume the use of internal models in accordance with this Part to calculate own funds requirements for market risk for the positions assigned to those trading desks;

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(b) in calculating:

$$PES_t^{RS,i}$$

an institution shall only apply scenarios of future shocks to the subset of the modellable risk factors of the positions in the portfolio chosen by the institution for the purposes of point (a) of this paragraph and which have been mapped to the broad risk factor category '*i*' in accordance with Article 325bd;

(c) the data inputs used to determine the scenarios of future shocks applied to the modellable risk factors referred to in points (a) and (b) shall be calibrated to historical data from a continuous 12-*month* period of financial stress that shall be identified by the institution in order to maximise the value of:

$$PES_t^{RS}$$

and for the purpose of identifying that stress period, an institution shall use an appropriate observation period starting at least from 1 January 2007. The institution shall assess the appropriateness of the stress period at each *quarterly reporting reference date* and shall adjust the stress period as necessary; and

(d) the data inputs of:

$$PES_t^{RS,i}$$

shall be calibrated to the 12-*month* stress period that has been identified by the institution for the purposes of point (c).

3. For the purpose of calculating the partial expected shortfall measures:

$$PES_t^{RC}$$

and

$$PES_t^{RC,i}$$

referred to in Article 325bb(1), an institution shall, in addition to the requirements set out in paragraph 1, meet the following requirements:

(a) in calculating:

$$PES_t^{RC}$$

an institution shall only apply scenarios of future shocks to the subset of the modellable risk factors of the positions in the portfolio referred to in point (a) of paragraph 2;

(b) in calculating:

$$PES_t^{RC,i}$$

an institution shall only apply scenarios of future shocks to the subset of the modellable risk factors of the positions in the portfolio referred to in point (b) of paragraph 2;

(c) the data inputs used to determine the scenarios of future shocks applied to the modellable risk factors referred to in points (a) and (b) of this paragraph shall be calibrated to historical

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data referred to in point (c) of paragraph 4; that data shall be updated on at least a *monthly* basis.

4. For the purpose of calculating the partial expected shortfall measures:

$$PES_t^{FC}$$

and

$$PES_t^{FC,i}$$

referred to in Article 325bb(1), an institution shall, in addition to the requirements set out in paragraph 1, meet the following requirements:

(a) in calculating:

$$PES_t^{FC}$$

an institution shall apply scenarios of future shocks to all the modellable risk factors of the positions in the portfolio;

(b) in calculating:

$$PES_t^{FC,i}$$

an institution shall apply scenarios of future shocks to all the modellable risk factors of the positions in the portfolio which have been mapped to the broad risk factor category $i$ in accordance with Article 325bd; and

(c) the data inputs used to determine the scenarios of future shocks applied to the modellable risk factors referred to in points (a) and (b) shall be calibrated to historical data from the preceding 12-*month* period; provided that where there is a significant upsurge in the price volatility of a material number of modellable risks factors of an institution's portfolio which are not in the subset of the risk factors referred to in point (a) of paragraph 2, the institution must use historical data for a period shorter than the preceding 12 *months*, but of at least the preceding six *months*.

5. In calculating a given partial expected shortfall measure as referred to in Article 325bb(1), an institution shall maintain the values of the modellable risks factors for which they have not been required to apply scenarios of future shocks for that partial expected shortfall measure under paragraphs 2, 3 and 4.

[Note: This rule corresponds to Article 325bc of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bd LIQUIDITY HORIZONS**

1. An institution shall, in accordance with the methodologies set out in this Article and in Article 325bdx, map each risk factor of positions assigned to the trading desks for which it has been granted an *IMA permission*, to one of the broad categories of risk factors listed in Table 2 and to one of the broad sub-categories of risk factors listed in that Table.

2. For the purposes of paragraph 1, the liquidity horizon of a risk factor shall be the liquidity horizon of the corresponding broad sub-category of risk factors to which it has been mapped.

3. By way of derogation from paragraph 1, for a given trading desk, an institution may decide to replace the liquidity horizon of a broad sub-category of risk factors listed in Table 2 of this Article with one of the longer liquidity horizons listed in Table 1 of Article 325bc. Where an

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institution takes such a decision, the longer liquidity horizon shall apply to all the modellable risk factors of the positions assigned to that trading desk that have been mapped to that broad sub-category of risk factors for the purpose of calculating the partial expected shortfall measures in accordance with point (c) of Article 325bc(1).

An institution shall notify the *PRA* of the trading desks and the broad sub-categories of risk factors to which it decides to apply the treatment referred to in this paragraph.

4. For the purpose of calculating the partial expected shortfall measures in accordance with point (c) of Article 325bc(1), an institution shall calculate the effective liquidity horizon of a given modellable risk factor of a given trading book position and of a *non-trading book position* that is subject to foreign exchange or commodity risk as follows:

| | |
|---|---|
| $EffectiveLH$ = | $SubCatLH$ if $Mat > LH5$ |
| | min ($SubCatLH$, $min_j\{LHj/LHj \geq Mat\}$) if $LH1 \leq Mat \leq LH5$ |
| | $LH1\ if\ Mat < LH1$ |

where:

$EffectiveLH$= the effective liquidity horizon;

$Mat$= the maturity of the trading book position;

$SubCatLH$= the length of liquidity horizon of the modellable risk factor determined in accordance with paragraph 1; and

$min_j\{LHj/LHj \geq Mat\}$= the length of one of the liquidity horizons listed in Table 1 of Article 325bc which is the nearest liquidity horizon above the maturity of the trading book position.

5. [Note: Provision left blank]

6. An institution shall verify the appropriateness of the mapping referred to in paragraph 1 on at least a quarterly basis.

7. An institution shall map risk factors of positions referred to in paragraph 1 to the broad risk factor categories and broad risk factor subcategories of Table 2 in accordance with Article 325bdx.

Table 2

| **Broad categories of risk factors** | **Broad sub-categories of risk factors** | **Liquidity horizons** | **Length of the liquidity horizon (in days)** |
|---|---|---|---|
| Interest rate | Most liquid currencies and domestic currency | 1 | 10 |
| | Other currencies (excluding most liquid currencies) | 2 | 20 |
| | Volatility | 4 | 60 |
| | Other types | 4 | 60 |

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| | | | |
|---|---|---|---|
| Credit spread | Sovereign (Investment grade) | 2 | 20 |
| | Sovereign (High yield) | 3 | 40 |
| | Corporate (Investment grade) | 3 | 40 |
| | Corporate (High yield) | 4 | 60 |
| | Volatility | 5 | 120 |
| | Other types | 5 | 120 |
| Equity | Equity price (Large market capitalisation) | 1 | 10 |
| | Equity price (Small market capitalisation) | 2 | 20 |
| | Volatility (Large market capitalisation) | 2 | 20 |
| | Volatility (Small market capitalisation) | 4 | 60 |
| | Other types | 4 | 60 |
| Foreign exchange | Most liquid currency pairs | 1 | 10 |
| | Other currency pairs (excluding most liquid currency pairs) | 2 | 20 |
| | Volatility | 3 | 40 |
| | Other types | 3 | 40 |
| Commodity | Energy price and carbon emissions price | 2 | 20 |
| | Precious metal price and non-ferrous metal price | 2 | 20 |
| | Other commodity prices (excluding energy price, carbon emissions price, precious metal price and non-ferrous | 4 | 60 |

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| | | | |
|---|---|---|---|
| | metal price) | | |
| | Energy volatility and carbon emissions volatility | 4 | 60 |
| | Precious metal volatility and non-ferrous metal volatility | 4 | 60 |
| | Other commodity volatilities (excluding energy volatility, carbon emissions volatility, precious metal volatility and non-ferrous metal volatility) | 5 | 120 |
| | Other types | 5 | 120 |

8. For the purpose of this Article:

   (a) the currencies that constitute the most liquid currencies for the purposes of the relevant subcategory in the interest rate broad risk factor sub-category of Table 2 shall be, in addition to the domestic currency mentioned in that Table, the following currencies: Australian dollar (AUD); Canadian dollar (CAD); Euro (EUR); Pound sterling (GBP); Japanese yen (JPY); Swedish kroner (SEK); United States dollar (USD); and

   (b) the currency pairs that constitute the most liquid currency pairs subcategory in the foreign exchange broad risk factor category of Table 2 shall be any currency pairs formed from any two of the following currencies: Australian dollar (AUD); Brazilian lire (BRL); Canadian dollar (CAD); Swiss franc (CHF); Chinese yuan (CNY); Euro (EUR); Pound sterling (GBP); Hong Kong dollar (HKD); Indian rupee (INR); Japanese Yen (JPY); South Korean won (KRW); Mexican peso (MXN); Norwegian kroner (NOK); New Zealand dollar (NZD); Russian rouble (RUB); Swiss kroner (SEK); Singapore dollar (SGD); Turkish lira (TRY); United States dollar (USD); and South African rand (ZAR).

9. For the purpose of this Article, an equity shall be considered as an equity with large capitalisation where its market capitalisation is greater than GBP 1.60 billion. All other equities shall be considered as equities with small capitalisation.

[Note: Paragraphs 1 to 6 of this rule correspond to Article 325bd(1) to (6) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bdx MAPPING OF RISK FACTORS**

1. An institution shall map risk factors of positions referred to in paragraph 1 of Article 325bd to the broad risk factor categories and broad risk factor subcategories of Table 2 of Article 325bd in accordance with the following:

   (a) it shall map the risk factor to the most appropriate broad risk factor category, having regard to the nature of the risk captured by the risk factor and the data used as inputs for the risk factor in the *risk measurement model*;

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(b) it shall map the risk factor to the most appropriate broad risk factor subcategory under the broad risk factor category identified in accordance with point (a), having regard to the nature of the risk captured by the risk factor and the data used as inputs for the risk factor in the *risk measurement model*.

2. Where the nature of the risk factor does not correspond to any broad risk factor category, the institution shall map that risk factor to the broad risk factor category 'commodity' and to the broad risk factor subcategory 'other types' under the 'commodity' broad risk factor category.

3. Where the nature of the risk captured by the risk factor and the data used as inputs for that risk factor correspond to risk factors that could fall under more than one broad risk factor category or broad risk factor subcategory, the institution shall apply the following steps in sequence:

(a) it shall first identify the broad risk factor categories and the corresponding broad risk factor subcategories that could be identified for that risk factor on the basis of its nature and the data used as inputs;

(b) among the broad risk factor categories and the corresponding broad risk factor subcategories identified in accordance with point (a), it shall map the risk factor to the broad risk factor category and the corresponding broad risk factor subcategory that results in the longest liquidity horizon; and

(c) where, based on the process referred to in point (b), more than one broad risk factor category and corresponding broad risk factor subcategory would result in the longest liquidity horizon, it may map the risk factor to any of those broad risk factor categories and their corresponding broad risk factor subcategories.

**Mapping methodology for index instruments**

4. By way of derogation from paragraph 1, where a single risk factor is used to model a homogeneous index instrument, an institution may apply instead the following steps in sequence:

(a) it shall map the risk factor to the broad risk factor category corresponding to the risk embedded in the homogenous index. Where the risk factor is the price of a homogenous index made of bonds and indices composed by bonds only, it shall map that risk factor to the credit spread broad risk factor category;

(b) it shall apply paragraph 1 to 3 to each of the constituents of the index to obtain the liquidity horizons of each constituent;

(c) it shall compute the weighted average of the liquidity horizons obtained pursuant to point (b) and rounded to the nearest integer, by first multiplying the liquidity horizon of each individual constituent of the index by its weight in the index and then by summing the weighted liquidity horizons for all constituents of the index; and

(d) it shall map the risk factor to that subcategory of Table 2 of Article 325bd, among those belonging to the broad risk factor category identified in accordance with point (a), that has the shortest liquidity horizon which is greater or equal to the liquidity horizon identified in accordance with point (c).

For the purposes of this paragraph, 'homogeneous index' shall refer to an index that has one of the following compositions:

(i) equities and indices composed by equities only;

(ii) bonds and indices composed by bonds only;

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(iii) credit default swaps and indices composed of credit default swaps only; or

(iv) commodities and indices composed of commodities only.

**Mapping of inflation, mono-currency and cross-currency basis risk factors**

5. An institution shall map the following risk factors as follows:

(a) inflation risk factors for a given currency shall be mapped to the interest rate broad risk category and to the broad risk factor subcategory of that currency;

(b) mono-currency basis risk and cross-currency basis risk factors shall be mapped to the interest rate broad risk factor category and to the broad factor subcategory of the currency denominating the basis;

(c) equity repo rates and dividend risk factors shall be mapped to the equity broad risk factor category; and

(d) for the purpose of determining the broad risk factor subcategory, equity repo rates and dividend risk factors for a given equity shall be treated as risk factors corresponding to the volatility of that equity.

**Article 325be ASSESSMENT OF THE MODELLABILITY OF RISK FACTORS**

1. An institution shall assess the modellability of all the risk factors of the positions assigned to the trading desks for which it has been granted an *IMA permission*.

2. As part of the assessment referred to in paragraph 1, an institution shall calculate the own funds requirements for market risk in accordance with Article 325bk for those risk factors that are not modellable.

3. With the exception of the cases referred to in paragraphs 8 to 10, an institution shall consider a risk factor subject to the assessment referred to in paragraph 1 to be modellable where, over an observation period of 12 *months* ending at the preceding *quarterly reporting reference date* an institution has identified for that risk factor either of the following:

(a) a minimum of 24 prices which are verifiable in accordance with paragraphs 5 and 6 with distinct observation dates, which are representative of the risk factor in accordance with paragraph 7 and for which there are no 90-day periods with less than four of those verifiable prices; and

(b) a minimum of 100 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates and which are representative of the risk factor in accordance with paragraph 7.

4. An institution may replace the 12-*month* period referred to in paragraph 3 by a 12-*month* period that is ending no earlier than one *month* before the preceding *quarterly reporting reference date* where all of the following conditions are met:

(a) the institution applies the shifted 12-*month* period consistently across all risk factors of the same type as that risk factor;

(b) the institution applies the shifted 12-*month* period consistently across time; and

(c) the institution documents the use of a 12-*month* period in accordance with this paragraph.

**Verifiable prices**

5. For the purposes of this Article:

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(a) an institution shall consider a price to be verifiable where any of the following conditions and the requirements of paragraph 6 are met:

(i) the price is obtained from an actual transaction to which the institution was one of the parties and which was entered into at arm's length;

(ii) the price is obtained from an actual transaction which was entered into by third parties at arm's length; or

(iii) the institution has identified, on a given observation date, an actual bona fide competitive bid and offer quotations provided at arm's length by the institution itself or by third parties, at which, conforming to trade custom, the institution or the third parties have committed to execute a transaction.

(b) an institution shall not consider a price to be verifiable where any of the following conditions are met:

(i) the price is obtained from a transaction or quotation between two entities of the same group;

(ii) the price is obtained from a transaction or quotation of a negligible volume as compared to usual volume of transactions or quotes, reflective of current market conditions; or

(iii) the price is obtained from a quotation that is substantially further off mid-market than the institution identified on a given observation date actual bona fide competitive bid and offer quotations, with a bid–offer spread deviating substantially from bid–offer spreads reflective of current market conditions;

(c) transactions shall not be conducted and quotations shall not be committed with the sole purpose of identifying a sufficient number of verifiable prices to meet the criteria specified in points (a) and (b) of paragraph 3; or

(d) the observation date of a verifiable price shall correspond to the day of execution for transactions and to the day on which the quotation was committed for quotations. The observation date of verifiable prices shall be recorded based on a consistent single time zone across all data sources.

6. An institution shall use a transaction or a quotation for the purpose of points (a)(ii) and (a)(iii) of paragraph 5 only if all the following conditions are met:

(a) the transaction or quotation has been processed through, or collected by, a *third-party vendor*;

(b) the *third-party vendor* or the institution has agreed to provide evidence of the transaction or quotation and evidence of the verifiability of its price to the *PRA* upon request;

(c) the *third-party vendor* has provided to the institution the observation date and a minimum set of information about the transaction or quotation on the basis of which the institution is able to map the verifiable price to its risk factors for which it is representative in accordance with paragraph 7;

(d) the institution has verified that the *third-party vendor* is subject, at least annually, to an independent audit by a third-party undertaking, within the meaning of Article 325bi(1)(i), regarding the validity of its price information, governance and processes, and has access to audit results and reports, in case these are requested by the *PRA*.

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For the purpose of point (d), the independent audit by a third-party undertaking shall include, at a minimum, all of the following elements:

(i) that the *third-party vendor* possesses the information necessary to verify that a price is verifiable in accordance with paragraph 5, as well as the information necessary to map the verifiable prices to the risk factors for which they are representative in accordance with paragraph 7;

(ii) that the *third-party vendor* is able to demonstrate the integrity of the information referred to in point (a);

(iii) that the *third-party vendor* has in place internal processes and a sufficient number of staff with a level of skills appropriate for the management of the information referred to in point (a); and

(iv) that, where a *third-party vendor* does not provide the institution with the information to verify that a price is verifiable in accordance with paragraph 5, the *third-party vendor* is contractually obliged to verify itself that the price is verifiable in accordance with this Article; and

(e) where a *third-party vendor* does not provide the institution with the information to verify that a price is verifiable in accordance with paragraph 5, the institution must ensure that the *third-party vendor* is contractually obliged to verify itself that a price is verifiable in accordance with paragraph 5.

**Representativeness of verifiable prices for risk factors**

7. In relation to the representativeness of risk factors, an institution:

(a) shall consider a verifiable price to be representative of a risk factor at its observation date only where both the following conditions are met:

(i) there is a close relationship between the risk factor and the verifiable price; and

(ii) the institution has a specific conceptually sound methodology to extract the value of the risk factor from the verifiable price. Any input data or risk factor used in that methodology other than that verifiable price shall be based on objective data;

(b) may count a verifiable price for the purpose of this Article for more than one risk factor for which it is representative in accordance with paragraph 1. An institution shall document and validate all instances where a verifiable price is counted for more than one risk factor, and shall notify the *PRA* of the justification for this; and

(c) where it uses a systematic credit or equity risk factor to capture market-wide movements for given attributes of a pool of *issuers*, such as the country, region or sector of those *issuers*, verifiable prices of market indices or instruments of individual *issuers* shall be considered representative for that systematic risk factor only where they share the same attributes as that systematic risk factor.

**Criteria for the modellability of risk factors belonging to curves, surfaces and cubes**

8. In relation to the modellability of risk factors belonging to curves, surfaces and cubes, an institution shall comply with the following:

(a) where an institution defines one or more points of a curve, a surface or a cube as the risk factors in its *risk measurement model*, the institution shall assess the modellability of those risk factors by applying the following steps in sequence:

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(i) for each curve, surface or cube, it shall determine relevant buckets of risk factors in accordance with paragraph 9;

(ii) it shall determine the modellability of the buckets determined pursuant to point (i) in accordance with point (b) of paragraph 8; and

(iii) it shall consider as modellable risk factor any risk factor that belongs to a bucket that has been considered modellable pursuant to point (a)(ii) of paragraph 8;

(b) an institution shall consider a bucket modellable where, over an observation period of 12 *months* ending at the preceding *quarterly reporting reference date*, the institution has identified, for that bucket, either of the following:

(i) a minimum of 24 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates, which are allocated to that bucket and for which there shall be no 90-day period with less than four of those verifiable prices; or

(ii) a minimum of 100 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates and which are allocated to that bucket;

(c) an institution may replace the 12-*month* period referred to in this paragraph by a 12-*month* period that is ending no earlier than one *month* before the preceding *quarterly reporting reference date* where all of the following conditions are met:

(i) the institution applies the shifted 12-*month* period consistently across all the buckets of a curve, a surface or a cube;

(ii) the institution applies the shifted 12-*month* period consistently across time; and

(iii) the institution documents the use of a 12-*month* period in accordance with this paragraph.

An institution shall allocate a verifiable price to a bucket where it is representative in accordance with paragraph 7 for a risk factor that belongs to that bucket. For this purpose, the institution may consider as a risk factor any point of the curve, surface or cube belonging to the bucket, regardless of whether such point is a risk factor included in the *risk measurement model*.

**Bucketing approaches for risk factors belonging to curves, surfaces or cubes**

9. In relation to each given curve, surface or cube to which a risk factor belongs:

(a) an institution shall determine the buckets of that curve, surface or cube using the standard pre-defined buckets in point (b), unless it meets the requirements for the derogation in point (c), in which case it may either define those buckets itself or define them using a combination of its own definitions and the standard pre-defined buckets in point (b), provided that only one method may be used within each dimension;

(b) The standard, pre-defined buckets are:

(i) the nine buckets defined in row i. of Table 1 of this paragraph for risk factors with one maturity dimension $t$, expressed in years, which have been assigned to the following broad risk factor categories:

(1) Interest rate, except those risk factors assigned to the broad risk factor subcategory Volatility;

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(2) Foreign Exchange, except those risk factors assigned to the broad risk factor subcategory Volatility; or

(3) Commodity, except those risk factors assigned to the broad risk factor subcategories Energy volatility and carbon emissions volatility, Precious metal volatility and nonferrous metal volatility and Other commodity volatilities;

(ii) the six buckets defined in row ii. of Table 1 for each maturity dimension *'t'* of risk factors with more than one maturity dimension, expressed in years, which have been assigned to the following broad risk factor categories:

(1) Interest rate, except those risk factors assigned to the broad risk factor subcategory Volatility;

(2) Foreign Exchange, except those risk factors assigned to the broad risk factor subcategory Volatility; or

(3) Commodity, except those risk factors assigned to the broad risk factor subcategories Energy volatility and carbon emissions volatility, Precious metal volatility and nonferrous metal volatility and Other commodity volatilities;

(iii) the five buckets defined in row iii. of Table 1 for each maturity dimension '*t*' for risk factors with one or several maturity dimensions, expressed in years, which have been assigned to the following broad risk factor categories:

(1) Credit spread, except those risk factors assigned to the broad risk factor subcategory Volatility; or

(2) Equity, except those risk factors assigned to the broad risk factor subcategories Volatility (Large capitalisation) and Volatility (Small capitalisation);

(iv) the five buckets defined in row iv. of Table 1 for any risk factors with one or several moneyness dimensions, as expressed using the delta ('$\delta$') convention. For option markets where alternative definitions of moneyness are standard, an institution shall convert the buckets defined in row iv. of Table 1 to the market-standard convention using formulae which are consistent with their own documented and independently reviewed pricing models;

(v) the five buckets defined in row iii. and the five buckets defined in row iv. of Table 1 for risk factors assigned to the following broad risk factor categories:

(1) Foreign Exchange, exclusively those risk factors assigned to the broad risk factor subcategory Volatility;

(2) Credit spread, exclusively those risk factors assigned to the broad risk factor subcategory Volatility;

(3) Equity, exclusively those risk factors assigned to the broad risk factor subcategories Volatility (Large capitalisation) and Volatility (Small capitalisation); or

(4) Commodity, exclusively those risk factors assigned to the broad risk factor subcategories Energy volatility and carbon emissions volatility, Precious metal volatility and non-ferrous metal volatility and Other commodity volatilities;

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(vi) the six buckets defined in row ii., the five buckets defined in row iii. and the five buckets defined in row iv. of Table 1 for risk factors assigned to the broad risk factor category Interest rate and to the broad risk factor subcategory Volatility with a maturity, expiry and moneyness dimension;

Table 1

| **Bucket No.** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
|---|---|---|---|---|---|---|---|---|---|
| **i.** | $0 \leq t < 0.75$ | $0.75 \leq t < 1.5$ | $1.5 \leq t < 4$ | $4 \leq t < 7$ | $7 \leq t < 12$ | $12 \leq t < 18$ | $18 \leq t < 25$ | $25 \leq t < 35$ | $35 \leq t$ |
| **ii.** | $0 \leq t < 0.75$ | $0.75 \leq t < 4$ | $4 \leq t < 10$ | $10 \leq t < 18$ | $18 \leq t < 30$ | $30 \leq t$ | | | |
| **iii.** | $0 \leq t < 1.5$ | $1.5 \leq t < 3.5$ | $3.5 \leq t < 7.5$ | $7.5 \leq t < 15$ | $15 \leq t$ | | | | |
| **iv.** | $0 \leq \delta < 0.05$ | $0.05 \leq \delta < 0.3$ | $0.3 \leq \delta < 0.7$ | $0.7 \leq \delta < 0.95$ | $0.95 \leq \delta \leq 1$ | | | | |

A given standard bucket may be subdivided in smaller buckets.

(c) By way of derogation from point (a) only where all the following conditions are met, an institution may either define the buckets of a curve, surface or cube themselves or define them using a combination of their own definitions and the standard pre-defined buckets in point (b), provided that only one method may be used within each dimension:

(i) the buckets cover the whole curve, surface or cube;

(ii) the buckets are non-overlapping; and

(iii) each bucket includes exactly one risk factor that is part of the calculation of the theoretical changes in the trading desk portfolios' values of the institution for the purposes of assessing the compliance with the profit and loss attribution requirements in accordance with Article 325bg;

(d) For the assessment of the modellability of risk factors of the broad risk factor category Credit spread belonging to a certain maturity bucket, an institution may reallocate the verifiable prices of a bucket to the adjacent bucket related to shorter maturities only where all the following conditions are met:

(i) the institution does not have exposure to any risk factor belonging to the bucket corresponding to the longer maturities and hence does not use any of these risk factors within its *risk measurement model*;

(ii) any verifiable price is only counted in a single maturity bucket; and

(iii) any verifiable price is only reallocated once.

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**Criteria for the modellability of risk factors belonging to parametric curves, surfaces and cubes**

10. In relation to the modellability of risk factors belonging to parametric curves, surfaces and cubes:

    (a) where an institution uses one or more parametric functions to represent a curve, a surface or a cube and defines the function parameters as the risk factors in its *risk measurement model*, the institution shall assess the modellability of those function parameters used as risk factors by applying for each parametric function the following steps in sequence:

        (i) it shall identify the set of points of the curve, surface or cube that were used to calibrate the parametric function;

        (ii) it shall apply the bucketing approach set out in paragraph 9 as if the risk factors in the *risk measurement model* were the points identified pursuant to point (i);

        (iii) it shall assess, in accordance with paragraph 8, the modellability of the buckets resulting from the application of the bucketing approach referred to in paragraph 9, as if the risk factors in the *risk measurement model* were the points identified in point (i);

    (b) for the purpose of assessing the modellability of a parameter of the parametric function, the institution shall apply the following steps in sequence:

        (i) it shall identify the set of points of the curve, surface or cube that were used to calibrate that function parameter;

        (ii) it shall assess that function parameter as modellable, where the points identified pursuant to point (i) belong only to buckets assessed as modellable pursuant to point (a)(iii); and

    (c) it shall assess that function parameter as non-modellable, where a point identified pursuant to point (i) belongs to a bucket assessed as non-modellable pursuant to point (a)(iii).

**Documentation**

11. An institution shall clearly document in its internal policies:

    (a) the set and definitions of risk factors in its *risk measurement model* subject to the modellability assessment;

    (b) the sources of verifiable price information used to assess the modellability of risk factors;

    (c) the criteria for a price to be considered verifiable in accordance with paragraphs 5 and 6, including an outline of how the institution assesses whether the volume of a transaction or committed quote is non-negligible in accordance with point (b)(ii) of paragraph 5 and whether the bid–offer spread of a quote is reasonable in accordance with point (b)(iii) of paragraph 5 and paragraph 6;

    (d) the mapping process and the criteria used to determine the representativeness of verifiable prices to risk factors in accordance with paragraph 7, including an outline of the methodology specified for the extraction of the value of the risk factor and any additional input the methodology potentially requires;

    (e) the modellability assessment for parametric curves, surfaces or cubes in accordance with paragraph 10;

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(f) the use of the bucketing approaches in accordance with paragraph 9, also specifying whether and how the institution reallocates the verifiable prices of a bucket to the adjacent bucket related to shorter maturities; and

(g) the use of the 12-*month* period in accordance with paragraphs 3 and 8.

12. For each risk factor, an institution shall keep a record of at least one year of the results of their modellability assessment, including the documentation referred to in points (a) to (g) of paragraph 11. For risk factors for which one year of results is not yet available, an institution shall keep the maximum available track record of results.

[Note: Paragraphs 1 and 2 of this rule correspond to Article 325be(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bf** **REGULATORY BACK-TESTING REQUIREMENTS AND MULTIPLICATION FACTORS**

1. For the purposes of this Article, an 'overshooting' means a one-day change in the value of a portfolio composed of all the positions assigned to the trading desk that exceeds the related value-at-risk number calculated on the basis of the institution's internal model in accordance with the following requirements:

(a) the calculation of the value at risk shall be subject to a one-day holding period;

(b) scenarios of future shocks shall apply to the risk factors of the trading desk's positions referred to in Article 325bg(3), including risk factors that are considered non-modellable in accordance with Article 325be;

(c) data inputs used to determine the scenarios of future shocks applied to the risk factors shall be calibrated to historical data referred to in point (c) of Article 325bc(4); and

(d) unless stated otherwise in this Article, the institution's internal model shall be based on the same modelling assumptions as those used for the calculation of the expected shortfall risk measure referred to in point (a) of Article 325ba(1).

2. An institution shall count daily overshootings on the basis of back-testing of the hypothetical and actual changes in the value of the portfolio composed of all the positions assigned to the trading desk.

3. An institution's trading desk shall be deemed to meet the *back-testing requirements* where the number of overshootings for that trading desk that occurred over the most recent 250 *business days* does not exceed any of the following:

(a) 12 overshootings for the value-at-risk number, calculated at a 99th percentile one tailed-confidence interval on the basis of back-testing of the hypothetical changes in the value of the portfolio;

(b) 12 overshootings for the value-at-risk number, calculated at a 99th percentile one tailed-confidence interval on the basis of back-testing of the actual changes in the value of the portfolio;

(c) 30 overshootings for the value-at-risk number, calculated at a 97.5th percentile one tailed-confidence interval on the basis of back-testing of the hypothetical changes in the value of the portfolio; or

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(d) 30 overshootings for the value-at-risk number, calculated at a 97.5th percentile one tailed-confidence interval on the basis of back-testing of the actual changes in the value of the portfolio.

4. An institution shall count daily overshootings in accordance with the following:

(a) it shall base the back-testing of hypothetical changes in the value of the portfolio on a comparison between the end-of-day value of the portfolio and, assuming unchanged positions, the value of the portfolio at the end of the subsequent day;

(b) it shall base the back-testing of actual changes in the value of the portfolio on a comparison between the end-of-day value of the portfolio and its actual value at the end of the subsequent day, excluding fees and commissions; and

(c) it shall count an overshooting for each *business day* for which the institution is not able to assess the value of the portfolio or is not able to calculate the value-at-risk number referred to in paragraph 3.

5. An institution shall calculate, in accordance with paragraphs 6 and 7, the multiplication factor ($m_c$) referred to in Article 325ba for the portfolio of all the positions assigned to the trading desks for which it has been granted an *IMA permission*.

6. An institution shall calculate the multiplication factor ($m_c$) as the sum of the value of 1.5 and an add-on between 0 and 0.5 in accordance with Table 3. For the portfolio referred to in paragraph 5, the institution shall calculate that add-on on the basis of the number of overshootings that occurred over the most recent 250 *business days* as evidenced by the institution's back-testing of the value-at-risk number calculated in accordance with point (a) of this paragraph. The institution's calculation of the add-on shall be subject to the following requirements:

(a) an overshooting shall be a one-day change in the portfolio's value that exceeds the related value-at-risk number calculated by the institution's internal model in accordance with the following:

(i) a one-day holding period;

(ii) a 99th percentile, one tailed confidence interval;

(iii) scenarios of future shocks shall apply to the risk factors of the trading desks' positions referred to in Article 325bg(3) and which are considered modellable in accordance with Article 325be;

(iv) the data inputs used to determine the scenarios of future shocks applied to the modellable risk factors shall be calibrated to historical data referred to in point (c) of Article 325bc(4);

(v) unless stated otherwise in this Article, the institution's internal model shall be based on the same modelling assumptions as those used for the calculation of the expected shortfall risk measure referred to in point (a) of Article 325ba(1);

(b) the number of overshootings shall be equal to the greater of the number of overshootings under hypothetical and the actual changes in the value of the portfolio.

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Table 3

| Number of overshootings | Add-on |
|---|---|
| Fewer than 5 | 0.00 |
| 5 | 0.20 |
| 6 | 0.26 |
| 7 | 0.33 |
| 8 | 0.38 |
| 9 | 0.42 |
| More than 9 | 0.50 |

7. An institution shall promptly notify the *PRA* of overshootings that result from their back-testing programme and provide an explanation for those overshootings, and in any case shall notify the *PRA* thereof no later than within five *business days* after the occurrence of an overshooting.

8. By way of derogation from paragraph 6, an institution may, with the permission of the *PRA*, exclude an overshooting from a count if, on applying for such permission, it can demonstrate to the satisfaction of the *PRA* that:

   (a) the overshooting is not attributable to a deficiency in the internal risk model; and

   (b) it meets either of the following requirements:

      (i) if the overshooting is attributable to a non-modellable risk factor, the one-day change in the portfolio's value does not exceed the related value-at-risk number referred to in point (a) of paragraph 6 but calculated by applying the scenarios of future shocks to all risk factors of the trading desk's positions referred to in Article 325bg(3), including non-modellable risk factors; or

      (ii) if the overshooting is attributable to deficiencies in risk capture and where the institution fulfils an additional own funds requirement in accordance with Article 325az(4), the additional own funds requirement calculated in accordance with Article 325az(4) is higher than the positive difference between the change in the value of the institution's portfolio and the related value-at-risk number.

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

9. For the purpose of the trading desk back-testing referred to in paragraph 3, an institution shall:

   (a) compute actual changes in the trading desk portfolio's value using the same pricing methods, model parametrisations, market data and any other technique as those used in the end-of-day valuation process, taking into account the independent price verification process in accordance with paragraph 8 of Trading Book (CRR) Part Article 105;

   (b) reflect the passage of time in the actual changes in the trading desk portfolio's value;

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(c) compute the value of an adjustment on the basis of only the positions assigned to that trading desk and shall reflect changes in its value only on the reference date for the calculation of the adjustment;

(d) include in the actual changes in the trading desk portfolio's value only the adjustments that have been considered in the end-of-day valuation process referred to in point (a) that are market risk related, with the exception of all of the following:

(i) credit valuation adjustments reflecting the current market value of the credit risk of counterparties to the institution;

(ii) adjustments attributed to the institution's own credit risk that have been excluded from own funds in accordance with point (b) or (c) of paragraph 1 of Own Funds (CRR) Part Article 33;

(iii) additional value adjustments deducted from Common Equity Tier 1 capital in accordance with Own Funds (CRR) Part Article 34;

provided that, an institution may also exclude from the calculation of the actual changes an adjustment that is computed, in the end-of-day valuation process, across sets of positions assigned to more than one trading desk on a net basis, where all of the following conditions are met:

(1) that adjustment is computed across sets of positions assigned to more than one trading desk on a net basis due to its nature;

(2) the internal risk management of that adjustment is consistent with the level at which it is calculated;

(3) the institution documents all of the following:

(a) the sets of positions on which the adjustment is computed;

(b) the reasoning underpinning the computation of the adjustment on the sets of positions referred to in point (1); and

(c) the justification for not computing the adjustment on the basis of positions assigned to that trading desk only.

**Technical elements to be included in the actual changes in the portfolio's value for the back-testing**

10. For the purpose of the back-testing referred to in paragraph 6, an institution shall:

(a) compute actual changes in the portfolio's value using the same pricing methods, model parametrisations, market data and any other technique as those used in the end-of-day valuation process, taking into account the independent price verification process in accordance with paragraph 8 of Trading Book (CRR) Part Article 105;

(b) reflect the passage of time in the actual changes in the portfolio's value;

(c) include in the actual changes in the portfolio's value the adjustments that have been considered in the end-of-day valuation process referred to in point (a) that are market risk related, with the exception of all of the following:

(i) credit valuation adjustments reflecting the current market value of the credit risk of counterparties to the institution;

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(ii) adjustments attributed to the institution's own credit risk that have been excluded from own funds in accordance with point (b) or (c) of paragraph 1 of Own Funds (CRR) Part Article 33; and

(iii) additional value adjustments deducted from Common Equity Tier 1 capital in accordance with Own Funds (CRR) Part Article 34;

(d) compute the value of an adjustment in either of the following ways:

(i) on the basis of only those positions that are assigned to trading desks for which an institution calculate the own funds requirements for market risk in accordance with this Part; or

(ii) on the basis of all positions subject to own funds requirements for market risk; and

(e) reflect changes in the value of that adjustment only on the reference date for the calculation of the adjustment.

**Technical elements to be included in the hypothetical changes of a trading desk portfolio's value for the back-testing**

11. For the purpose of the trading desk back-testing referred to in paragraph 3, an institution shall:

(a) compute hypothetical changes in the trading desk portfolio's value using the same pricing methods, model parametrisations, market data and any other technique as those used in the end-of-day valuation process, without considering any fees and commissions;

(b) reflect the passage of time effect in the hypothetical changes in the trading desk portfolio's value consistently with the treatment they apply in relation to such effect in the calculation of the expected shortfall risk measure referred to in Article 325bb and in the calculation of the stress scenario risk measure referred to in Article 325bk; and

(c) include in the hypothetical changes in the trading desk portfolio's value only adjustments that have been considered in the end-of-day valuation process referred to in point (a) that are market risk related and are calculated on a daily basis, with the exception of all of the following:

(i) credit valuation adjustments reflecting the current market value of the credit risk of counterparties to the institution;

(ii) adjustments attributed to the institution's own credit risk that have been excluded from own funds in accordance with point (b) or (c) of paragraph 1 of Own Funds (CRR) Part Article 33;

(iii) additional value adjustments deducted from Common Equity Tier 1 capital pursuant to Own Funds (CRR) Part Article 34; and

(iv) any other adjustment specified for the purposes of this paragraph in the institution's *IMA permission*.

12. By way of derogation from point (a) of paragraph 11, an institution may also exclude from the calculation of the hypothetical changes an adjustment that is computed, in the end-of-day valuation process, across sets of positions assigned to more than one trading desk on a net basis, where all of the following conditions are met:

(a) that adjustment is computed across sets of positions assigned to more than one trading desk on a net basis due to its nature;

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(b) the internal risk management of that adjustment is consistent with the level at which it is calculated;

(c) the institution documents all of the following:

(i) the sets of positions on which the adjustment is computed;

(ii) the reasoning underpinning the computation of the adjustment on the sets of positions referred to in point (i); and

(iii) the justification for not computing the adjustment on the basis of positions assigned to that trading desk only.

13. An institution shall compute the value of an adjustment on the basis of the positions assigned to that trading desk only and shall reflect changes based on a comparison between the end-of-day value of that adjustment and, assuming unchanged positions in the trading desk's portfolio, the value of that adjustment at the end of the subsequent day.

**Technical elements to be included in the hypothetical changes in the portfolio's value for the back-testing**

14. For the purpose of the back-testing referred to in paragraph 6, an institution shall:

(a) compute hypothetical changes in the portfolio's value using the same pricing methods, model parametrisations, market data and any other technique as those used in the end-of-day valuation process, without considering any fees and commissions;

(b) reflect the passage of time effect in the hypothetical changes in the portfolio's value consistently with the treatment the institution applies for such effect in the calculation of the expected shortfall risk measure as referred to in Article 325bb and in the calculation of the stress scenario risk measure referred to in Article 325bk;

(c) include in the hypothetical changes in the portfolio's value only the adjustments that have been considered in the end-of-day valuation process referred to in point (a) that are market risk related, are calculated on a daily basis, with the exception of all of the following:

(i) credit valuation adjustments reflecting the current market value of the credit risk of counterparties to the institution;

(ii) adjustments attributed to the institution's own credit risk that have been excluded from own funds in accordance with point (b) or (c) of paragraph 1 of Own Funds (CRR) Part Article 33;

(iii) additional valuation adjustments deducted from Common Equity Tier 1 capital as per Own Funds (CRR) Part Article 34; and

(iv) other adjustments which are specified for the purposes of this paragraph in the institution's *IMA permission*;

(d) compute the value of an adjustment in either of the following ways:

(i) on the basis of only those positions that are assigned to trading desks for which an institution calculates the own funds requirements for market risk using internal models in accordance with this Part; or

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(ii) on the basis of all positions subject to own funds requirements for market risk; in this case, an institution shall include the changes in the value of that adjustment in the calculation of the actual changes in the portfolio's value.

**Documentation requirements**

15. An institution shall have policies and procedures in place defining how they calculate the actual and hypothetical changes in accordance with paragraphs 9 to 12, which shall include at least the following elements:

(a) a description of how the actual changes in the relevant portfolio's value are calculated, an outline of the differences between the changes in the end-of-day portfolio values produced by the end-of-day valuation process and the actual changes in the relevant portfolio's value;

(b) the definitions of fees and commissions and the methods used to apply the exclusion referred to in point (b) of paragraph 4;

(c) a list of all adjustments specifying for each adjustment all of the following:

(i) definitions;

(ii) calculation methodology and process;

(iii) frequency of calculation and reasoning in case of a less than daily calculation frequency;

(iv) whether the adjustment is sensitive to market risk;

(v) the sets of positions on which the adjustment is calculated and the reasoning for performing the computation on such sets;

(vi) whether and how the risk stemming from changes in the adjustment is actively hedged and which trading desk or desks are responsible for this;

(vii) whether and how each adjustment is taken into account in the actual changes in the relevant portfolio value for the purpose of the back-testing referred to in paragraph 6 and the back-testing referred to in paragraph 3; and

(viii) whether and how each adjustment is taken into account in the hypothetical changes in the relevant portfolio value for the purpose of this Article 325bf and Article 325bg, also outlining how the change in the adjustment is calculated if one assumes unchanged positions in the portfolio.

[Note: Paragraphs 1 to 8 of this rule correspond to Article 325bf(1) to (8) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bg PROFIT AND LOSS ATTRIBUTION REQUIREMENT**

1. An institution must ensure that a trading desk meets the *P&L attribution requirements* in compliance with the requirements set out in this Article.

2. An institution shall in compliance with the *P&L attribution requirements* ensure that the theoretical changes in the value of a trading desk's portfolio, based on the institution's *risk measurement model*, are sufficiently close to the hypothetical changes in the value of the trading desk's portfolio, based on the institution's pricing model.

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3. For each position of a given trading desk, an institution's compliance with the *P&L attribution requirements* shall lead to the identification of a precise list of risk factors that are deemed appropriate for verifying the institution's compliance with the *back-testing requirements* set out in Article 325bf.

4. With regard to ensuring that the theoretical changes in a trading desk portfolio's value are sufficiently close to the hypothetical changes in the trading desk portfolio's value for the purposes of paragraph 2, an institution shall calculate the *Spearman correlation coefficient* as laid down in paragraph 5, and the *Kolmogorov-Smirnov test metric* as laid down in paragraph 6.

   For the purposes of this Article, an institution may align the snapshot time for which it calculates the theoretical changes in the trading desk portfolio's value with the snapshot time for which it calculates the hypothetical changes in the trading desk portfolio's value.

5. In order to calculate the *Spearman correlation coefficient* for a trading desk referred to in paragraph 4, an institution shall perform the following steps in sequence:

   (a) determine the time series of observations of the hypothetical and theoretical changes in the trading desk portfolio's value for the most recent 250 *business days*;

   (b) from the time series of the hypothetical and theoretical changes referred to in point (a), produce the corresponding time series of ranks in the manner set out below, treating the time series of the hypothetical and theoretical changes as the originating time series;

   (c) compute the *Spearman correlation coefficient* in accordance with the following formula:

$$r_s = \frac{cov(R_{HPL}, R_{RTPL})}{\sigma_{R_{HPL}} \times \sigma_{R_{RTPL}}}$$

   Where:

   $R_{HPL}$= the time series of ranks produced from the time series of hypothetical changes as per point (b);

   $R_{RTPL}$= the time series of ranks produced from the time series of theoretical changes as per point (b);

   $\sigma_{R_{HPL}}$= the standard deviation of the time series of ranks $R_{HPL}$ calculated in accordance with point (a) of paragraph 9;

   $\sigma_{R_{RTPL}}$= the standard deviation of the time series of ranks $R_{RTPL}$ calculated in accordance with point (b) of paragraph 9;

   $cov(R_{HPL}, R_{RTPL})$= the covariance calculated in accordance with point (c) of paragraph 9 between the time series of ranks $R_{HPL}$ and $R_{RTPL}$.

   (d) An institution shall produce the time series of ranks referred to in point (b) from an originating time series by performing the following steps in sequence:

      (i) for each observation within the originating time series, count the number of observations with a lower value than that observation within that time series;

      (ii) label each observation with the number resulting from the application of point (i) increased by one;

      (iii) where, as a result of the application of point (ii), two or more observations are labelled with the same number, an institution shall in addition increase the numbers of those labels with the decimal fraction of one divided by the quantity of the labels with the same number;

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(iv) consider as time series of ranks the time series of the labels obtained in accordance with points (ii) and (iii).

(e) An institution shall calculate the standard deviation of the time series of ranks $R_{HPL}$ in accordance with the formula in point (i), the standard deviation of the time series of ranks $R_{RTPL}$ in accordance with the formula in point (ii) and the covariance between them in accordance with the formula in point (iii) as follows:

(i)

$$\sigma_{R_{HPL}} = \sqrt{\frac{\sum_{i=1}^{250}\left(R_{HPL_i} - \mu_{R_{HPL}}\right)^2}{249}}$$

(ii)

$$\sigma_{R_{RTPL}} = \sqrt{\frac{\sum_{i=1}^{250}\left(R_{RTPL_i} - \mu_{R_{RTPL}}\right)^2}{249}}$$

(iii)

$$cov(R_{HPL}, R_{RTPL}) = \frac{\sum_{i=1}^{250}(R_{HPL_i} - \mu_{R_{HPL}}) \times (R_{RTPL_i} - \mu_{R_{RTPL}})}{249}$$

Where:

$i$= the index that denotes the observation in the time series of ranks;

$R_{HPL_i}$= the 'i-th' observation of the time series of ranks $R_{HPL}$;

$\mu_{R_{HPL}}$= the mean of the time series of ranks $R_{HPL}$;

$R_{RTPL_i}$= the 'i-th' observation of the time series of ranks $R_{RTPL}$;

$\mu_{R_{RTPL}}$= the mean of the time series of ranks $R_{RTPL}$.

6. In order to calculate the *Kolmogorov-Smirnov test metric* for a trading desk referred to in paragraph 4, an institution shall perform the following steps in sequence:

(a) determine the time series of the most recent 250 *business days* of observations of the hypothetical and theoretical changes in the trading desk portfolio's value;

(b) compute the empirical cumulative distribution function of the hypothetical changes in the trading desk portfolio's value from the time series of the hypothetical changes referred to in point (a);

(c) compute the empirical cumulative distribution function of the theoretical changes in the trading desk portfolio's value from the time series of theoretical changes referred to in point (a); and

(d) obtain the *Kolmogorov-Smirnov test metric* by calculating the maximum difference observed between the two empirical cumulative distributions calculated in accordance with points (b) and (c) at any possible value of profit and loss.

For the purpose of this paragraph, the empirical distribution function obtained from a time series shall be understood as the function that, given any number as input, results in the ratio of the number of observations within the time series with lower or equal value than the input number, to the number of observations within the full time series.

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7. For the purpose of determining the consequences for trading desks for which theoretical changes in their portfolio's value are not sufficiently close to the hypothetical changes in the trading desk portfolio's value, an institution shall classify each of the trading desks as green zone, orange zone, yellow zone or red zone trading desk as set out in paragraphs 2 to 5. An institution shall classify trading desks as follows:

   (a) A trading desk shall be classified as a 'green zone desk' where both of the following conditions are met:

      (i) the *Spearman correlation coefficient* for the trading desk, is greater than 0.8; and

      (ii) the *Kolmogorov-Smirnov test metric* for the trading desk, is lower than 0.09;

   (b) A trading desk shall be classified as a 'red zone desk' where either of the following conditions is met:

      (i) the *Spearman correlation coefficient* for the trading desk is lower than 0.7; or

      (ii) the *Kolmogorov-Smirnov test metric* for the trading desk, is greater than 0.12;

   (c) a trading desk which is not classified as either a green zone or a red zone desk, and where the own funds requirements for the positions assigned to the trading desk was computed in the previous quarter in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part, shall be classified as an orange zone desk; and

   (d) a trading desk which is not a green zone, orange zone or red zone desk shall be classified as a yellow zone desk.

8. An institution shall perform the tests relating to the *P&L attribution requirement* on a quarterly basis for all trading desks for which the institution has an *IMA permission* to calculate the own funds requirements using internal models.

9. An institution shall:

   (a) calculate the theoretical changes in a trading desk's portfolio value based on a comparison between the portfolio's end-of-day value and, assuming unchanged positions, the value of that portfolio at the end of the subsequent day;

   (b) base theoretical changes in a trading desk's portfolio on the pricing methods, model parametrisations, market data and any other technique used in the *risk measurement model*; and

   (c) only include in the theoretical changes in a trading desk's portfolio value the changes in the value of all risk factors included in the *risk measurement model* to which an institution applies the scenarios of future shocks for the purpose of calculating the expected shortfall risk measure referred to in Article 325bb or the stress scenario risk measure referred to in Article 325bk.

10. An institution shall compute hypothetical changes in a trading desk portfolio's value as set out in paragraph 11 of Article 325bf.

11. An institution may replace the input data of a risk factor used for calculation of theoretical changes with data for hypothetical changes in accordance with the following:

   (a) it may replace such input data only in the following situations:

      (i) to use the same provider of input data for theoretical changes as is used for hypothetical changes;

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(ii) to align the time of day of input data for theoretical changes with the time of day of input data for hypothetical changes;

(b) for the purpose of this replacement, an institution shall either:

(i) directly replace the input data for theoretical changes with the input data used for hypothetical changes; or

(ii) use the input data used for hypothetical changes as the basis for calculating data to replace the input data for theoretical changes, provided that for the approach in this point (ii), an institution shall document, validate and justify all instances where data calculated from the input data for hypothetical changes is calculated using techniques or transformation methods other than those in the institution's *risk measurement model*;

(c) for the purpose of this replacement, an institution shall not apply further adjustments to theoretical or hypothetical changes to address residual operational noise that may remain after the replacement; and

(d) an institution shall document its reasons for all instances where the replacement referred to in this paragraph is applied.

12. An institution shall have policies and procedures in place defining how they calculate the theoretical changes in accordance with paragraphs 9 and 11 in accordance with the following:

(a) the policies and procedures shall include at least an explanation of how the theoretical changes in the trading desk portfolio's value are calculated for modellable and non-modellable risk factors;

(b) where designing the procedures for aligning the data in accordance with paragraph 11, an institution shall:

(i) compare the theoretical changes in the trading desk portfolio's value without the alignments referred to in paragraph 11, and the theoretical changes in the trading desk portfolio's value with the alignments referred to in paragraph 11 and they shall document that comparison; and

(ii) assess the effect of the alignments on the metrics of the test relating to the *P&L attribution requirements* referred to in paragraphs 5 and 6 and document that assessment; and

(c) An institution shall document any adjustments to input data for the risk factors within the calculation of the theoretical changes in the trading desk portfolios performed in accordance with paragraph 11, as well as the rationale for such adjustments.

[Note: Paragraphs 1 to 3 of this rule correspond to Article 325bg(1) to (3) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bh REQUIREMENTS ON RISK MEASUREMENT**

1. An institution using a *risk measurement model* that is used to calculate the own funds requirements for market risk as referred to in Article 325ba shall ensure that that model meets all the following requirements:

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(a) the *risk measurement model* shall capture a sufficient number of risk factors, which shall include at least the risk factors referred to in Market Risk: Advanced Standardised Approach (CRR) Part Articles 325l to 325q unless the institution is able:

(i) to demonstrate that the omission of one or more of those risk factors does not have a material impact on the results of the *P&L attribution requirement*; and

(ii) to justify why it has incorporated a risk factor in its pricing model but not in its *risk measurement model*;

and the omission of the risk factor is specified in the institution's *IMA permission*.

(b) the *risk measurement model* shall capture nonlinearities for options and other products as well as correlation risk and basis risk;

(c) the *risk measurement model* shall incorporate a set of risk factors that correspond to the interest rates in each currency in which the institution has interest rate sensitive on- or off-balance-sheet positions;

(d) the yield curves shall meet the following requirements:

(i) the institution shall model the yield curves using one of the generally accepted approaches;

(ii) the yield curve shall be divided into various maturity segments to capture the variations of volatility of rates along the yield curve;

(iii) for material exposures to interest-rate risk in the major currencies and markets, the yield curve shall be modelled using a minimum of six maturity segments;

(iv) the number of risk factors used to model the yield curve shall be proportionate to the nature and complexity of the institution's trading strategies; and

(v) the model shall also capture the risk spread of less than perfectly correlated movements between different yield curves or different financial instruments on the same underlying *issuer*;

(e) the *risk measurement model* shall incorporate risk factors corresponding to gold and to the individual foreign currencies in which the institution's positions are denominated;

(f) the actual foreign exchange positions of a CIU shall be taken into account, provided that:

(i) for this purpose, an institution may rely on third-party reporting of the foreign exchange position of the CIU, provided that the correctness of that report is adequately ensured; and

(ii) the institution shall carve out from the internal models those foreign exchange positions of a CIU of which it is not aware, and shall treat them in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part;

(g) the sophistication of the modelling technique shall be proportionate to the materiality of the institution's activities in the equity markets. The *risk measurement model* shall use a separate risk factor at least for each of the equity markets in which the institution holds significant positions and at least one risk factor that captures systemic movements in equity prices and the dependency of that risk factor on the individual risk factors for each equity market;

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(h) the *risk measurement model* shall use a separate risk factor at least for each commodity in which the institution holds significant positions, unless the institution has a small aggregate commodity position compared to all its trading activities, in which case it may use a separate risk factor for each broad commodity type; for material exposures to commodity markets, the model shall capture the risk of less than perfectly correlated movements between commodities that are similar, but not identical, the exposure to changes in forward prices arising from maturity mismatches, and the convenience yield between derivative and cash positions;

(i) the proxies used shall show a good track record for the actual position held, shall be appropriately conservative, and shall be used only where the available data are insufficient, such as during the period of stress referred to in point (c) of Article 325bc(2);

(j) for material exposures to volatility risks in instruments with optionality, the *risk measurement model* shall capture the dependency of implied volatilities across strike prices and options' maturities; and

(k) an institution shall periodically and at least annually demonstrate that the modelling of positions in CIUs in their *risk measurement model* leads to own funds requirements that are at least as conservative as if a look-through approach was applied to those positions.

2. An institution may use empirical correlations within broad categories of risk factors and, for the purpose of calculating the unconstrained expected shortfall measure $UES_t$ as referred to in Article 325bb(1), across broad categories of risk factors only where the institution's approach for measuring those correlations is sound, consistent with the applicable liquidity horizons, and implemented with integrity.

3. An institution shall ensure that:

(a) for the purpose of calculating the partial expected shortfall calculations referred to in Article 325bc, the data inputs used in their *risk measurement model* meet the requirements in paragraphs 4 to 10;

(b) where the data inputs used for a risk factor in the *risk measurement model* do not meet the requirements in paragraphs 4 to 10, institution deems the risk factor shall be deemed as non-modellable and shall calculate the own funds requirements for market risk in accordance with Article 325bk for that risk factor; and

(c) it considers the coefficients of a multifactor model as non-modellable risk factors in accordance with Article 325be unless the coefficients of that multifactor model are determined empirically based on historical data.

**Data inputs derived from a combination of modellable risk factors**

4. An institution shall ensure that:

(a) it derives data input used in an institution's *risk measurement model* from only modellable risk factors. An institution may use interpolation from a combination of modellable risk factors to determine a data input; provided that if so specified in the *IMA permission*, an institution may use extrapolation to determine a data input if the extrapolation is only a reasonable distance from the closest modellable risk factor;

(b) where an institution uses interpolation or extrapolation to generate a data input for the institution's *risk measurement model*, it must determine the theoretical changes in portfolio value for the *P&L attribution requirements* in accordance with Article 325bg using that same interpolation or extrapolation; and

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(c) by way of derogation, where an institution additionally calculates a stress scenario risk measure referred to in Article 325bk for one or more non-modellable risk factors that relate to that data input, the institution may also include the changes in those non-modellable risk factors for the purposes of determining the theoretical changes in portfolio value for the *P&L attribution* r*equirements* in accordance with Article 325bg.

**Systematic and idiosyncratic market risk**

5. An institution shall ensure the data inputs used for their *risk measurement model* are appropriate for adequately capturing both systematic and idiosyncratic market risk.

   Where the data inputs in paragraph 11 do not allow for adequate capture of systematic or idiosyncratic market risks, the institution shall ensure that the systematic or idiosyncratic market risk is capitalised separately through non-modellable risk factors in accordance with the methodology set out in Article 325bk.

**Reflection of volatility and correlation**

6. An institution shall ensure that:

   (a) the data inputs used in their *risk measurement model* accurately reflect the volatilities of and correlations between risk factors that are included in the *risk measurement model*; and

   (b) any transformations applied to data inputs shall not have the effect of reducing the accuracy of the volatility of and correlations between risk factors that are included in the *risk measurement model*.

**Consistency of data inputs with verifiable prices and with front-office and back-office prices**

7. An institution shall perform at least quarterly analysis to compare prices series in point (a) with the alternative price series in points (b), (c) and (d) as follows:

   (a) the price series used in the *risk measurement model*;

   (b) price data used to generate the actual changes in the value of the portfolio and the hypothetical changes in the value of the portfolio;

   (c) verifiable prices in accordance with Article 325be; and

   (d) price data used in the independent price verification process in accordance with paragraph 8 of Trading Book (CRR) Part Article 105 including daily and intra-*month* data where this is collected.

8. For the purpose of performing the analysis in paragraph 7, the institution:

   (a) shall compare the levels, volatilities and correlations of price series from these four alternative price series for the purpose of highlighting differences between the sources that are material in terms of their impact on the measurement of the expected shortfall;

   (b) shall, where the four alternative price series are derived from overlapping underlying data, explicitly reflect this in the analysis. The institution shall give due considerations to price uncertainty; and

   (c) shall combine all available information, including information about intra-day movements, to derive a statistical test or tests that monitor price series referred to in this paragraph to assess whether the price data used in the *risk measurement model* results in an understatement of the measurement of the expected shortfall,

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provided that, for the purposes of any analysis involving the price series in point (c) of paragraph 7, the institution may perform the assessment on a best efforts basis.

9. An institution shall appropriately review and escalate the methodologies and results of the analysis in this Article. Where a potential understatement of ES is detected, an institution shall consider at least one of the following actions:

   (a) make appropriate adjustments to the inputs or output of the risk measurement;

   (b) consider those risk factors to be non-modellable in accordance with Article 325be.

**Frequency of updating data inputs**

10. An institution shall ensure that:

   (a) the data inputs used for their *risk measurement model* are updated at least weekly; provided that by way of derogation from this requirement, an institution may update certain data inputs for their *risk measurement model* less frequently than weekly but not less frequently than *monthly*, where the institution is able to demonstrate that less frequent updates are appropriate or necessary;

   (b) where it uses regressions to estimate model parameters for their *risk measurement model*, it re-estimates such parameters with sufficient frequency and at least fortnightly. By way of derogation from this requirement an institution may re-estimate certain model parameters for their *risk measurement model* less frequently than fortnightly if the institution is able to demonstrate that less frequent re-estimation is appropriate or necessary and this is specified in the institution's *IMA permission*;

   (c) its *risk measurement models* are calibrated to current market prices which are of the same observation period as the calibration of front office pricing models;

   (d) it has a workflow process for updating the sources of data that allows it to obtain alternative data sources in a timely manner where the data sources presently used cease to be available; and

   (e) it has clear policies for backfilling and gap-filling missing data in a timely manner where appropriate.

**Data inputs for stress period**

11. An institution shall ensure that the data inputs used for their *risk measurement model* for the purpose of calculating the partial expected shortfall calculations referred to in Article 325bc(2) are determined directly from market prices in the period of significant financial stress identified in accordance with point (c) of Article 325bc(2); provided that, by way of derogation from this requirement, where the fundamental characteristics of a certain risk factor now differ from the characteristics of that risk factor in the identified period of significant financial stress and the institution is able to empirically justify each instance where the derogation is applied, an institution may determine stressed data inputs from market prices other than those in the identified period of significant financial stress.

12. Where a risk factor did not exist in the identified period of significant financial stress, an institution may determine data inputs from market prices other than those relating to that risk factor in the identified period of significant financial stress, subject to the following requirements:

   (a) it shall be able to empirically justify that the data inputs used are consistent with the level of changes observed in similar risk factors in the identified historical period; and

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(b) it shall not include the idiosyncratic component of name-specific risk factors in the subset of modellable risk factors chosen in point (a) of Article 325bc(2), unless specified otherwise in its *IMA permission*;

provided that, where an institution is unable to empirically justify that the data inputs used are consistent with the level of changes observed in similar risk factors in the identified historical period, the risk factor shall not be included in the subset of modellable risk factors chosen in point (a) of Article 325bc(2) and specified in the institution's *IMA permission*.

**Use of proxies**

13. Where an institution uses as proxy for a risk factor one or more other risk factors, an institution shall ensure that:

(a) the methodologies for generating the proxy are conceptually and empirically sound; and

(b) the proxy appropriately represents the characteristics of the risk factor being proxied.

14. Where an institution uses a proxy to represent a risk factor in the *risk measurement model*, it must use the value of the proxy rather than the risk factor itself for calculating the theoretical changes in portfolio value for the *P&L attribution requirements* in accordance with Article 325bg. By way of derogation from this requirement, an institution may use the value of the actual risk factor for calculating the theoretical changes in portfolio value for the *P&L attribution requirements* in accordance with Article 325bg, subject to meeting the following conditions:

(a) the institution is able to identify the basis between the proxy and the actual risk factor; and

(b) the institution adequately capitalises the basis identified between the proxy and the actual risk factor either through the methodology set out in Article 325bb or through Article 325bk if the risk factor is non-modellable in accordance with Article 325be.

[Note: Paragraphs 1 and 2 of this rule correspond to Article 325bh(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bi QUALITATIVE REQUIREMENTS**

1. An institution shall ensure that any *risk measurement model* used for the purposes of this Part shall be conceptually sound and be calculated and implemented with integrity, and ensure that it meets the following qualitative requirements:

(a) any *risk measurement model* used to calculate capital requirements for market risk shall be closely integrated into the daily risk management process of the institution and shall serve as the basis for reporting risk exposures to senior management;

(b) an institution shall have a risk control unit that:

(i) is independent from business trading units and that reports directly to senior management;

(ii) is responsible for designing and implementing any *risk measurement model*;

(iii) conducts the initial and on-going validation of any internal model used for the purposes of this Part;

(iv) is responsible for the overall risk management system; and

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(v) produces and analyses daily reports on the output of any internal model used to calculate capital requirements for market risk, as well as reports on the appropriateness of measures to be taken in terms of trading limits;

(c) the management body and senior management shall be actively involved in the risk-control process;

(d) daily reports produced by the risk control unit shall be reviewed at a level of management with sufficient authority to require the reduction of positions taken by individual traders and to require the reduction of the institution's overall risk exposure;

(e) the institution shall have a sufficient number of staff with a level of skills that is appropriate to the sophistication of the *risk measurement model*, and a sufficient number of staff with skills in the trading, risk control, audit and back-office area;

(f) the institution shall have in place a documented set of internal policies, procedures and controls for monitoring and ensuring compliance with the overall operation of its *risk measurement model*s;

(g) each of its *risk measurement models*, including any pricing model, shall have a proven track record of being reasonably accurate in measuring risks, and shall not differ significantly from the models that the institution uses for its internal risk management;

(h) the institution shall frequently conduct rigorous programmes of stress testing, including reverse stress tests that meet the following requirements:

(i) the tests shall encompass each *risk measurement model*;

(ii) the results of those stress tests shall be reviewed by senior management at least on a *monthly* basis;

(iii) the stress tests shall comply with the policies and limits approved by the management body; and

(iv) the institution shall take appropriate actions where the results of those stress tests show excessive losses arising from the trading's business of the institution under certain circumstances; and

(i) the institution shall conduct an independent review of its *risk measurement models*, either as part of its regular internal auditing process, or by mandating a third-party undertaking to conduct that review. Such independent review shall include both the activities of the business trading units and the independent risk control unit.

For the purposes of point (i), a third-party undertaking means an undertaking that provides auditing or consulting services to institutions and that has staff who have sufficient skills in the area of market risk in trading activities.

2. The institution shall conduct a review of its overall risk management process at least once a year which shall assess the following:

(a) the adequacy of the documentation of the risk management system and process and the organisation of the risk control unit;

(b) the integration of risk measures into daily risk management and the integrity of the management information system;

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(c) the processes the institution employs for approving the risk-pricing models and valuation systems that are used by front and back-office personnel;

(d) the scope of risks captured by the model, the accuracy and appropriateness of the risk-measurement system, and the validation of any significant changes to the *risk measurement model*;

(e) the accuracy and completeness of position data, the accuracy and appropriateness of volatility and correlation assumptions, the accuracy of valuation and risk sensitivity calculations, and the accuracy and appropriateness for generating data proxies where the available data are insufficient to meet the requirement set out in this Part;

(f) the verification process that the institution employs to evaluate the consistency, timeliness and reliability of the data sources used to run any of its *risk measurement models*, including the independence of those data sources;

(g) the verification process that the institution employs to evaluate *back-testing requirements* and *P&L attribution requirements* that are conducted in order to assess the accuracy of its *risk measurement models*; and

(h) where the review is performed by a third-party undertaking in accordance with point (i) of paragraph 1, the verification that the internal validation process set out in Article 325bj fulfils its objectives.

3. An institution shall update the techniques and practices it uses for any of the *risk measurement models* used for the purposes of this Part to take into account the evolution of new techniques and best practices that develop in respect of those *risk measurement models*.

[Note: This rule corresponds to Article 325bi of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bj INTERNAL VALIDATION**

1. An institution shall have processes in place to ensure that any *risk measurement models* used for the purposes of this Part have been adequately validated by suitably qualified parties that are independent of the development process, in order to ensure that any such models are conceptually sound and adequately capture all material risks.

2. An institution shall conduct the validation referred to in paragraph 1 in the following circumstances:

(a) when any *risk measurement model* is initially developed and when any significant changes are made to that model; and

(b) on a periodic basis, and where there have been significant structural changes in the market or changes to the composition of the portfolio which might lead to the *risk measurement model* no longer being adequate.

3. An institution shall not limit the validation of the *risk measurement models* of an institution to *back-testing requirements* and *P&L attribution requirements*, but shall, at a minimum, include the following:

(a) tests to verify whether the assumptions made in the internal model are appropriate and do not underestimate or overestimate the risk;

(b) own internal model validation tests, including back-testing in addition to the regulatory back-testing programmes, in relation to the risks and structures of their portfolios; and

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(c) the use of hypothetical portfolios to ensure that the *risk measurement model* is able to account for particular structural features that may arise, for example, material basis risks and concentration risk, or the risks associated with the use of proxies.

[Note: This rule corresponds to Article 325bj of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bk CALCULATION OF STRESS SCENARIO RISK MEASURE**

1. For the purposes of this Article, the 'stress scenario risk measure' of a given non-modellable risk factor means the loss that is incurred in all trading book positions or *non-trading book positions* that are subject to foreign exchange or commodity risk of the portfolio which includes that non-modellable risk factor when an extreme scenario of future shock is applied to that risk factor.

2. An institution shall develop appropriate extreme scenarios of future shock for all non-modellable risk factors.

**Development of extreme scenarios of future shock for individual risk factors**

3. An institution shall develop the extreme scenarios of future shock for a single non-modellable risk factor for the purposes of paragraph 2 such that the resulting stress scenario risk measure is at least as conservative as:

   (a) an expected shortfall measure calculated for that non-modellable risk factor alone;

   (b) for the stress period in accordance with paragraph 10;

   (c) at 97.5$^{th}$ percentile, one tailed confidence interval;

   (d) calculated with base time horizon of 10 days; and

   (e) scaled to a time horizon that is the greater of 20 days and the liquidity horizon of that non-modellable risk factor in accordance with the following formula:

$$SS_j = SS_j(T)\sqrt{\frac{max(20, LH_j)}{10}}$$

   Where:

   $SS_j$= the standalone expected shortfall measure of non-modellable risk factor j

   $LH_j$= the liquidity horizon of non-modellable risk factor j, as set out in Article 325bd

   $T$= the base time horizon, where $\mathrm{T} = 10$ days

   $SS_j(T)$= the expected shortfall measure that is determined with a 10-day time horizon for only the non-modellable risk factor j

4. An institution may use a variety of methodologies for developing the extreme scenarios of future shock for different non-modellable risk factors and shall:

   (a) apply those methodologies in a consistent manner across similar non-modellable risk factors;

   (b) document a clear rationale for the methodology used for each non-modellable risk factor; and

   (c) validate that the methodologies meet the conditions in paragraph 3.

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5. In developing the extreme scenarios of future shocks in accordance with paragraph 3 an institution shall ensure that the extreme scenarios of future shock adequately consider any limitations to the methodologies used, including but not limited to:

   (a) any skewness or kurtosis in the distribution of returns on the non-modellable risk factor; and

   (b) any material non-linearity in the institution's portfolio with respect to that non-modellable risk factor.

   Conceptually, an institution shall estimate the confidence interval around the extreme scenarios of future shocks produced by their methodologies due to the methodological limitations, and ensure that the extreme scenarios of future shocks used are at the conservative end of that confidence interval.

6. Where an institution determines the extreme scenarios of future shock based on a proxy risk factor, the institution shall demonstrate that that proxy results in a stress scenario risk measure that meets the conditions in paragraph 3 with a high degree of confidence. Where an institution determines the extreme scenarios of future shock indirectly by scaling to the stress period a risk measure calibrated to another period of time, the institution shall demonstrate that the scalar is generally appropriate for the non-modellable risk factors to which it is applied and results in stress scenario risk measures that meet the conditions in paragraph 3 with a high degree of confidence.

**Development of extreme scenarios of future shock at standardised bucket level**

7. By way of derogation from paragraph 3, where an institution has simultaneously assessed the modellability of more than one non-modellable risk factor by assessing the modellability of a single standardised bucket in accordance with Article 325be, the institution may instead develop joint extreme scenarios of future shock for all risk factors in that single standardised bucket for the purposes of paragraph 2 such that the resulting stress scenario risk measure is at least as conservative as:

   (a) an expected shortfall measure calculated for non-modellable risk factors included in that standardised bucket only;

   (b) for the stress period in accordance with paragraph 10;

   (c) at 97.5$^{th}$ percentile, one tailed confidence interval;

   (d) calculated with base time horizon of 10 days; and

   (e) scaled to a time horizon that is the greater of 20 days and the liquidity horizon of that non-modellable risk factor in accordance with the following formula:

$$SS_j = SS_j(T)\sqrt{\frac{max(20, LH_j)}{10}}$$

   Where:

   $SS_j$= the standalone expected shortfall measure of the non-modellable risk factors in standardised bucket j

   $LH_j$= the liquidity horizon of the non-modellable risk factors in standardised bucket j, as set out in Article 325bd

   $T$= the base time horizon, where $T = 10$ days

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$SS_j(T)$= the expected shortfall measure that is determined with a 10-day time horizon for only the non-modellable risk factors in standardised bucket j

For the extreme scenarios of future shock, an institution shall comply with the requirements in paragraph 3.

**Calculation and use of time series of returns for developing extreme scenarios of future shock**

8. Where an institution elects to determine the extreme scenarios of future shock based on a time series of returns on the non-modellable risk factor or returns on other risk factors, the institution shall use a time series of 10 *business days* returns that are determined as follows:

(a) they shall determine the time series of observations for the non-modellable risk factor for the relevant period;

(b) by way of derogation from the first paragraph, they may extend the time series referred to in point (a) by including the observations available within the period of 20 *business days* following the stress period; where the reference date for the calculation of the stress scenario risk measure is less than 20 *business days* after the end of the stress period, an institution may include those observations that are available from the end of the stress period to the reference date;

(c) in relation to each date $D_t$, for which there is an observation in the time series resulting from point (a) excluding the last observation, an institution shall determine the date $D_{t'}$ following $D_t$, that minimises the following value:

$$v = \left| \frac{10\ business\ days}{D_{t'} - D_t} - 1 \right|$$

where:

$D_t$= the date for which there is an observation in the time series referred to in point (a), excluding the last observation;

-$D_{t'}$= a date following $D_t$;

the difference $D_{t'} - D_t$ is expressed in *business days*

Where there is more than one date minimising that value, the date $D_{t'}$ shall be the date among those minimising that value that occurred later in time;

(d) for each date $D_t$, for which there is an observation in the time series resulting from point (a) excluding the last observation, they shall determine the corresponding 10 *business days* return by determining the return for the non-modellable risk factor over the period between the date $D_t$, of the observation and the date $D_{t'}$ minimising the value v in accordance with point (b), and subsequently rescaling it to obtain a return over a 10 *business days* period by multiplying the return with

$$\sqrt{\frac{10\ business\ days}{D_{t'} - D_t}}$$

9. Where an institution does not have a complete time series of returns as determined in accordance with paragraph 8 to develop their extreme scenarios of future shock for a non-modellable risk factor, the institution shall demonstrate that the methodologies they use to determine the extreme scenarios of future shock are accurate and result in stress scenario risk measures that meet the conditions in paragraph 3 with a high degree of confidence.

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**Determination of stress period**

10. An institution shall determine the stress period for the non-modellable risk factors in each broad risk factor category referred to in Article 325bd by identifying the 12 *months* observation period maximising the following value:

$$\sum_{j \in i} SS_j$$

Where:

$i$ = the broad risk factor category;

$j$ = the index denoting the non-modellable risk factors or the non-modellable standardised buckets for which the institution calculates the stress scenario risk measure belonging to the broad risk factor category;

$SS_j$ = the stress scenario risk measure for the non-modellable risk factor or the non-modellable standardised bucket j calculated in accordance with paragraphs 3, 4 and 7.

By way of derogation from the first paragraph, an institution may determine the stress period for the non-modellable risk factors in each broad risk factor category by identifying the 12 *months* observation period maximising the partial expected shortfall measure $PES^{RS,i}$ referred to in paragraph 1 of Article 325bb. Where the institution applies this derogation, it shall provide evidence that the stress period identified represents a period of financial stress for its non-modellable risk factors; when doing so, it shall take into account how its portfolio is exposed to the non-modellable risk factors in the broad risk factor category.

For the purposes of identifying the stress period, an institution shall use historical data starting at least from 1 January 2007. An institution shall review the stress period identified at least with a quarterly frequency.

**Regulatory extreme scenario of future shock**

11. Where an institution is unable to develop an extreme scenario of future shock in accordance with paragraphs 3 to 7, the institution must use a regulatory extreme scenario of future shock, being a shock that leads to the stress scenario risk measure being the maximum loss that may occur due to a change in the non-modellable risk factor where such maximum loss is finite.

12. Where the maximum loss referred to in paragraph 11 is not finite, an institution shall apply the following steps in sequence for determining the regulatory extreme scenario of future shock:

(a) it shall use an expert-based approach using qualitative and quantitative information available to identify a loss due to a change in the value taken by the non-modellable risk factor that will not be exceeded with a level of certainty equal to 99.95% on a 10 *business day* horizon in a future period of financial stress equivalent to the stress period identified for the non-modellable risk factor; when doing so, an institution shall take into account the skewness and the excess kurtosis that may characterise the returns of the non-modellable risk factor in a period of financial stress and shall justify any distributional or statistical assumptions taken for identifying that loss;

(b) it shall determine the maximum loss as follows:

$$loss_{max} = max(loss_x , loss_{Hist^+} , loss_{Hist^-})$$

where:

$loss_{max}$ = the maximum loss;

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$loss_x$= the loss resulting from point (a);

$loss_{Hist^+}$= the loss that would result from the greatest historically observed 10-day increase in the non-modellable risk factor since 1 January 2007;

$loss_{Hist^-}$= the loss that would result from the greatest historically observed 10-day decrease in the non-modellable risk factor since 1 January 2007;

(c) it shall multiply the maximum loss obtained in accordance with point b by

$$\sqrt{\frac{\max(20,LH)}{10}};$$

where:

$LH$= liquidity horizon of non-modellable risk factor j, as set out in Article 325bd;

and

(d) it shall identify the regulatory extreme scenario of future shock as the shock leading to the stress scenario risk measure being the scaled maximum loss identified in point (c).

An institution shall not use the regulatory extreme scenario of future shock to calculate a single stress scenario risk measure for more than one non-modellable risk factor in a standardised bucket.

**Aggregation of stress scenario risk measures**

13. An institution shall calculate the aggregate stress scenario risk measure for the purposes of Article 325ba by applying the following formula:

$$\mathrm{SS}_{\mathrm{total}} = \sqrt{\sum_{\mathrm{k}\in \mathrm{I}^{\mathrm{CSR}}} (\mathrm{SS}_{\mathrm{k}})^2} + \sqrt{\sum_{\mathrm{l}\in \mathrm{I}^{\mathrm{EQ}}} (\mathrm{SS}_{\mathrm{l}})^2} + \sqrt{\left(\rho \times \sum_{\mathrm{j}\in \mathrm{OR}} \mathrm{SS}_{\mathrm{j}}\right)^2 + (1-\rho^2) \times \sum_{\mathrm{j}\in \mathrm{OR}} \left(\mathrm{SS}_{\mathrm{j}}\right)^2}$$

Where:

$I^{CSR}$= the set of non-modellable risk factors or non-modellable standardised buckets for which the institution determined a stress scenario risk measure that was classified as reflecting idiosyncratic credit spread risk only, in accordance with this Article;

$k$= an index denoting the non-modellable risk factors or non-modellable standardised buckets belonging to $\mathrm{I}^{\mathrm{CSR}}$;

$I^{EQ}$= the set of non-modellable risk factors or non-modellable standardised buckets for which the institution determined a stress scenario risk measure that was classified as reflecting idiosyncratic equity risk only, in accordance with this Article;

$l$= an index denoting the non-modellable risk factors or non-modellable standardised buckets belonging to $I^{EQ}$;

$OR$= the set of non-modellable risk factors or non-modellable standardised buckets for which the institution determined a stress scenario risk measure that was neither classified as reflecting idiosyncratic credit spread risk only, nor idiosyncratic equity risk only, both as in accordance with this Article;

$j$= an index denoting the non-modellable risk factors or non-modellable standardised buckets belonging to $OR$;

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$SS_k, SS_l, SS_j$ = respectively the stress scenario risk measures for the non-modellable risk factors or the non-modellable standardised buckets $k, l, j$ calculated in accordance with paragraphs 3, 4 and 7;

$SS_{total}$ = the stress scenario risk measure for the purposes of Article 325ba;

$\rho$ = 0.6.

14. An institution shall ensure that non-modellable risk factors that the institution classifies as reflecting only idiosyncratic credit spread risk meet all the following conditions:

(a) the nature of the risk factor is such that it shall reflect idiosyncratic credit spread risk only;

(b) the value taken by the risk factor shall not be driven by systematic risk components;

(c) the correlation among risk factors is negligible;

(d) there are no material subsets within that set of idiosyncratic risk factors that have non-negligible correlation;

(e) there are no important systematic risk factors that are not considered and that could explain some of the movements in those non-modellable risk factors; and

(f) the institution performs and documents the statistical tests used to verify the conditions in points (c), (d) and (e) of this paragraph.

15. The institution shall ensure that non-modellable risk factors that the institution classifies as reflecting only idiosyncratic equity risk meet all the following conditions:

(a) the nature of the risk factor is such that it shall reflect idiosyncratic equity risk only;

(b) the value taken by the risk factor shall not be driven by systematic risk components;

(c) the correlation among risk factors is negligible;

(d) there are no material subsets within that set of idiosyncratic risk factors that have non-negligible correlation;

(e) there are no important systematic risk factors that are not considered and that could explain some of the movements in those non-modellable risk factors; and

(f) the institution performs and documents the statistical tests used to verify the conditions in points (c), (d) and (e) of this paragraph.

[Note: Paragraphs 1 and 2 of this rule correspond to Article 325bk(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 3 INTERNAL DEFAULT RISK MODEL

### Article 325bl SCOPE OF THE INTERNAL DEFAULT RISK MODEL

1. An institution shall hold an own funds requirement for default risk in respect of all the positions of the institution that have been assigned to the trading desks for which the institution has been granted an *IMA permission* where those positions contain at least one risk factor that has been mapped to the broad categories of ‘equity’ or ‘credit spread’ risk factors in accordance with Article 325bd(1).

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2. The institution shall calculate the own funds requirement for default risk, which is incremental to the risks captured by the own funds requirements referred to in Article 325ba(1), using the institution's *internal default risk model*.

3. An institution shall ensure that the *internal default risk model* complies with the requirements laid down in Articles 325bl to 325bp.

4. For each of the positions referred to in paragraph 1, an institution shall identify one *issuer* of traded debt or equity instruments related to at least one risk factor.

[Note: This rule corresponds to Article 325bl of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bm PERMISSION TO USE AN INTERNAL DEFAULT RISK MODEL**

1. Subject to paragraph 3, an institution which has been granted *an IMA permission* by the *PRA* must use an *internal default risk model* to calculate the own funds requirements referred to in Article 325ba(2) for all the trading book positions referred to in Article 325bl that are assigned to a trading desk for which the *internal default risk model* complies with the requirements set out in Articles 325bi, 325bj, 325bn, 325bo and 325bp.

2. Where the trading desk of an institution, to which at least one of the trading book positions referred to in Article 325bl has been assigned, does not meet the requirements set out in paragraph 1, the institution must calculate the own funds requirements for market risk of all positions in that trading desk in accordance with the approach set out in the Market Risk: Advanced Standardised Approach (CRR) Part. The institution may resume the use of internal models in accordance with this Part to calculate own funds requirements for market risk for the positions of those trading desks if the institution provides to the *PRA* a reasoned confirmation that the trading desk again fulfils all the requirements set out in paragraph 1.

3. An institution must calculate the own funds requirements referred to in Article 325ba(2) for any trading book positions to which paragraph 2(a) and paragraph 3 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 147 applies (or would apply if the institution had permission from the *PRA* to use the *IRB Approach*) using the approach set out in Section 5 of Market Risk: Advanced Standardised Approach (CRR) Part. An institution may not use an *internal default risk model* for this purpose.

[Note: this rule corresponds to Article 325bm of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bn OWN FUNDS REQUIREMENTS FOR DEFAULT RISK USING AN INTERNAL DEFAULT RISK MODEL**

1. An institution shall calculate the own funds requirements for default risk using an *internal default risk model* for the portfolio of all trading book positions as referred to in Article 325bl as follows:

   (a) the own funds requirements shall be equal to a value-at-risk number measuring potential losses in the market value of the portfolio caused by the default of *issuers* related to those positions at the 99.9% confidence interval over a one-year time horizon;

   (b) the potential loss referred to in point (a) means a direct or indirect loss in the market value of a position which was caused by the default of the *issuers* and which is incremental to any losses already taken into account in the current valuation of the position; and the default of the *issuers* of equity positions shall be represented by the value for the *issuers'* equity prices being set to zero;

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(c) an institution shall determine default correlations between different *issuers* on the basis of a conceptually sound methodology, using objective historical data on market credit spreads or equity prices that cover at least a 10-year period that includes the stress period identified by the institution in accordance with Article 325bc(2); the calculation of default correlations between different *issuers* shall be calibrated to a one-year time horizon; and

(d) it shall base the *internal default risk model* on a one-year constant position assumption.

2. An institution shall calculate the own funds requirement for default risk using an *internal default risk model* as referred to in paragraph 1 on at least a weekly basis.

3. By way of derogation from points (a) and (c) of paragraph 1, an institution may replace the one-year time horizon with a time horizon of 60 days for the purpose of calculating the default risk of some or all of the equity positions, where appropriate. In such case, the institution shall ensure that the calculation of default correlations between equity prices and *PDs* shall be consistent with a time horizon of 60 days and the calculation of default correlations between equity prices and bond prices shall be consistent with a one-year time horizon.

[Note: This rule corresponds to Article 325bn of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bo** **RECOGNITION OF HEDGES IN AN INTERNAL DEFAULT RISK MODEL**

1. An institution may incorporate hedges in its *internal default risk model* and may net positions where the long positions and short positions relate to the same financial instrument.

2. In its *internal default risk model*, an institution may only recognise hedging or diversification effects associated with long and short positions involving different instruments or different securities of the same obligor, as well as long and short positions in different *issuers* by explicitly modelling the gross long and short positions in the different instruments, including modelling of basis risks between different *issuers*.

3. In its *internal default risk model*, an institution shall:

(a) capture material risks between a hedging instrument and the hedged instrument that could occur during the interval between the maturity of a hedging instrument and the one-year time horizon, as well as the potential for significant basis risks in hedging strategies that arise from differences in the type of product, seniority in the capital structure, internal or external ratings, maturity, vintage and other differences; and

(b) recognise a hedging instrument only to the extent that it can be maintained even as the obligor approaches a credit event or other event.

[Note: This rule corresponds to Article 325bo of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325bp** **PARTICULAR REQUIREMENTS FOR AN INTERNAL DEFAULT RISK MODEL**

1. An institution shall ensure that its *internal default risk model* shall be capable of modelling the default of individual *issuers* as well as the simultaneous default of multiple *issuers*, and shall take into account the impact of those defaults in the market values of the positions that are included in the scope of that model. For that purpose, an institution shall model the default of each individual *issuer* using two types of systematic risk factors.

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2. An institution shall ensure that its *internal default risk model* reflects the economic cycle, including the dependency between recovery rates and the systematic risk factors referred to in paragraph 1.

3. An institution shall ensure that its *internal default risk model* reflects the nonlinear impact of options and other positions with material nonlinear behaviour with respect to price changes. An institution shall also have due regard to the amount of model risk inherent in the valuation and estimation of price risks associated with those products. An institution may use approximations when modelling default of individual *issuers* as well as the simultaneous default of multiple *issuers* for equity derivatives with multiple underlyings if so specified in its *IMA permission*.

4. An institution shall ensure that its *internal default risk model* is based on data that are objective and up-to-date.

5. To simulate the default of *issuers* in the *internal default risk model*, the institution shall ensure that its estimates of *PDs* meet the following requirements:

   (a) *PDs* shall be floored at 0.03%;

   (b) *PDs* shall be based on a one-year time horizon, unless stated otherwise in this Section;

   (c) *PDs* shall be measured using, solely or in combination with current market prices, data observed during a historical period of at least five years of actual past defaults and extreme declines in market prices equivalent to default events; *PDs* shall not be inferred solely from current market prices; and

   (d) if the institution has been granted permission to estimate *PDs* in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, it shall use the methodology set out therein to calculate *PDs*; or

   (e) if the institution has not been granted permission to estimate *PDs* in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, it shall develop an internal methodology or use external sources to estimate *PDs*; in both situations, the estimates of *PDs* shall be consistent with the requirements set out in this Article.

6. To simulate the default of *issuers* in the *internal default risk model*, the institution shall ensure that its estimates of *loss given default* shall meet the following requirements:

   (a) the *loss given default* estimates are floored at 0%;

   (b) the *loss given default* estimates shall reflect the seniority of each position;

   (c) if the institution has been granted permission to estimate *loss given default* in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, it shall use the methodology set out therein to calculate *loss given default* estimates; and

   (d) if the institution has not been granted permission to estimate *loss given default* in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part, it shall develop an internal methodology or use external sources to estimate *loss given default*; in both situations, the estimates of *loss given default* shall be consistent with the requirements set out in this Article.

7. As part of the independent review and validation of the internal models that it uses for the purposes of this Part, including for the risk-measurement system, an institution shall:

   (a) verify that their approach for the modelling of correlations and price changes is appropriate for their portfolio, including the choice and weights of the systematic risk factors in the model;

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(b) perform a variety of stress tests, including sensitivity analyses and scenario analyses, to assess the qualitative and quantitative reasonableness of the *internal default risk model*, in particular with regard to the treatment of concentrations; and

(c) apply appropriate quantitative validation including relevant internal modelling benchmarks.

The tests referred to in point (b) shall not be limited to the range of past events experienced.

8. An institution shall ensure that its *internal default risk model* appropriately reflects *issuer* concentrations and concentrations that can arise within and across product classes under stressed conditions.

9. An institution shall ensure that its *internal default risk model* is consistent with the institution's internal risk management methodologies for identifying, measuring, and managing trading risks.

10. An institution shall have clearly defined policies and procedures for determining:

(a) the default assumptions for correlations between different *issuers* in accordance with point (c) of Article 325bn(1);

(b) the preferred choice of method for estimating *PDs* in point (e) of paragraph 5; and

(c) the *loss given default* in point (d) of paragraph 6.

11. An institution shall document its internal models so that its correlation assumptions and other modelling assumptions are transparent.

12. [Note: Provision left blank]

[Note: Paragraphs 1 to 11 of this rule correspond to Article 325bp(1) to (11) of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Annex 1**

**STANDARDS FOR GRANT OF AN IMA PERMISSION**

1. The institution must establish its trading desks in accordance with the requirements of Trading Book (CRR) Part Article 104b, provided that, in respect of a notional trading desk, Article 104b(2) shall not apply.

2. The institution must have a rationale for the inclusion of the trading desk in the scope of the internal model approach; an institution must not exclude a trading desk from the scope of the internal model approach on the basis that the own funds requirement calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part would be lower than the own funds requirement calculated under the internal model approach.

3. The institution has an arrangement in place whereby any *ineligible positions* assigned to the trading desk are managed separately for the purposes of calculation of own funds requirements for market risk in respect of those *ineligible positions*.

4. The institution does not include in the scope of the internal model approach any CIU positions for which the institution is unable to look through to the underlying positions of the CIU.

5. The institution must meet and continue to meet the *back-testing requirements* of Article 325bf(3) from the 12 *months* preceding application.

6. An institution must certify that it complies with the requirements of:

   (a) Article 325bg (profit and loss attribution requirement);

   (b) Article 325bh (requirements on risk measurement); and

   (c) Article 325bi (qualitative requirements).

7. For trading desks that have been assigned at least one of the trading book positions referred to in Article 325bl, the institution must certify that it meets the requirements set out in Article 325bm for the *internal default risk model*.

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**Annex 2**

## MATERIAL CHANGES AND EXTENSIONS TO INTERNAL MODELS

### Part A Material Changes and Extensions

1. For the purpose of Article 325azx(1), a change or extension to the use of internal models shall be considered material if it fulfils any of the following conditions:

   (a) it is an extension which is:

      (i) an extension of the market risk model to an additional location in another jurisdiction, including extending the market risk model to the positions of a desk located in a different time zone, or for which different front office or IT systems are used;

      (ii) integration in the scope of an internal model of product classes, for which the ES number, computed according to point (a)(i) of Article 325ba(1), exceeds 5% of the ES number, computed according to point (a)(i) of Article 325ba(1), of the total portfolio forming the scope of that internal model before the integration; or

      (iii) a reversion in approach where the institution seeks to limit or reduce the scope of application of an *IMA permission* a permission to use internal models;

   (b) it is a change which is:

      (i) a change between historical simulation, parametric or Monte Carlo ES;

      (ii) a change in the aggregation scheme such as where a simple summation of risk numbers is replaced by integrated modelling;

   (c) it is a change or extension which results in a change in absolute value of 1% or more, computed for the first *business day* of the testing of the impact of the extension or change, of one of the relevant risk numbers referred to in point (a)(i) of Article 325ba(1), or point (a)(ii) of Article 325ba(1), or point (a) of Article 325ba(2); and associated with the scope of application of the relevant internal models to which the risk number refers; and results in either of the following:

      (i) a change of 5% or more of the sum of the risk numbers referred to in point (b) of Article 325ba(1), as applicable, computed at the level of the *CRR consolidation entity* or, in the case of an institution which is neither a parent institution nor a subsidiary, at the level of that institution; or

      (ii) a change of 10% or more of one or more of the relevant risk numbers referred to in point (a)(i) of Article 325ba(1), point (a)(ii) of Article 325ba(1), or point (a) of Article 325ba(2) and associated with the scope of application of the relevant internal models to which the risk number refers.

2. In accordance with Article 325azx(1), an institution shall assess the impact of any change or extension as the highest absolute value over the period referred to in paragraph 3 of a ratio calculated as follows:

   (a) for the purpose of point (c)(i) of paragraph 1 of this Annex:

      (i) in the numerator, the difference between the sum referred to in point (c)(i) of paragraph 1 with and without the change or extension; and

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(ii) in the denominator, the sum referred to in point (c)(i) of paragraph 1 without the change or extension;

(b) for the purposes of point (c)(ii) of paragraph 1 of this Annex:

(i) in the numerator, the difference between the risk number referred to in point (a)(i) of Article 325ba(1), point (a)(ii) of Article 325ba(1), or point (a) of Article 325ba(2) with and without the change or extension; and

(ii) in the denominator, the risk number referred to, respectively, in point (a)(i) of Article 325ba(1), point (a)(ii) of Article 325ba(1), or point (a) of Article 325ba(2) without the change or extension.

3. For the purposes of point (c)(i) and (c)(ii) of paragraph 1 the ratios referred to in paragraph 2 shall be calculated for a period the duration of which is the shortest between:

(a) 15 consecutive *business days* starting from the first *business day* of the testing of the impact of the change or extension; and

(b) until such day where a daily calculation of either one of the ratios referred to in points (a) or (b) of paragraph 2 results in an impact equal or greater than the percentages referred to in point (c)(i) or (ii) of paragraph 1, respectively.

**Part B Changes and Extensions that require prior notification to the PRA**

1. For the purpose of Article 325azx(3), an institution must give prior notification to the *PRA* before implementing the following changes and extensions to the use of internal models:

(a) the inclusion in the scope of an internal model of product classes requiring other risk modelling techniques than those forming part of the permission to use that internal model, such as path-dependent products, or multi-underlying positions, according to Article 325bh;

(b) changes in the fundamentals of statistical methods referred to in the Market Risk: Internal Model Approach (CRR) Part, including but not limited to any of the following:

(i) reduction in the number of simulations;

(ii) introduction or removal of variance reduction methods;

(iii) changes to the algorithms to generate the random numbers;

(iv) changes in the statistical method to estimate volatilities or correlations between risk factors; or

(v) changes in the assumptions about the joint distribution of risk factors;

(c) changes in the effective length of the historical observation period, including a change in a weighting scheme of the time series according to point (c) of Article 325bc(4);

(d) changes in the approach for identifying the stressed period according to point (c) of Article 325bc(2);

(e) changes in the definition of market risk factors applied in the internal ES model, including migration to an OIS discounting framework, a move between zero rates, par rates or swap rates;

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(f) changes in how shifts in market risk factors are translated into changes of the portfolio value, such as changes in instrument valuation models - used to calculate sensitivities to risk factors or to re-value positions when calculating risk numbers -, changes from analytical to simulation-based pricing model, changes between Taylor-approximation and full revaluation, or changes in the sensitivity measures applied, according to Article 325bh;

(g) changes in the methodology for defining proxies according to paragraphs 13 and 14 of Article 325bh;

(h) changes in the hierarchy of sources of ratings used for determining the rating of an individual position in the default risk model according to Section 3 of this Part;

(i) changes in the methodology regarding the *loss given default* rate (*LGD*) or the liquidity horizons for default risk model according to Section 3 of this Part;

(j) changes in the methodology used for assigning exposures to individual exposure classes in the default risk model according to Section 3 of Market Risk: Internal Model Approach (CRR) Part;

(k) changes of methods for estimating exposure or asset correlation default risk model according to Section 3 of this Market Risk: Internal Model Approach (CRR) Part;

(l) changes in the methodology for calculating either actual or hypothetical profit and loss when used for back-testing purposes according to Article 325bf;

(m) changes in the internal validation methodology according to Article 325bj;

(n) structural, organisational or operational changes to the core processes in risk management or risk controlling functions, according to Article 325bi including any of the following:

  (i) senior staff changes;

  (ii) the limit setting framework;

  (iii) the reporting framework;

  (iv) the stress testing methodology;

  (v) the new product process;

  (vi) the internal model change policy; or

(o) changes in the IT environment, including any of the following:

  (i) changes to the IT system, which result in amendments in the calculation procedure of the internal model;

  (ii) applying vendor pricing models;

  (iii) outsourcing of central data collection functions.

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**Part C** **Documentation required in respect of changes and extension permission applications and notifications**

1. For the purposes of obtaining the permission from the *PRA* referred to in Article 325azx(1) for material changes or extensions to the use of internal models or material changes to the institution's choice of the subset of the modellable risk factors, an institution shall submit, together with the application, the following documentation:

   (a) description of the extension or change, its rationale and objective;

   (b) implementation date;

   (c) scope of application affected by the model extension or change, with volume characteristics;

   (d) technical and process document(s);

   (e) reports of the institution's independent review or validation;

   (f) confirmation that the extension or change has been approved through the institution's approval processes by the competent bodies and date of approval;

   (g) where applicable, the quantitative impact of the change or extension on the risk-weighted exposure amounts, or on the own funds requirements, or on the relevant risk numbers or sum of relevant own funds requirements and risk numbers; and

   (h) records of the institution's current and previous version number of internal models which are subject to approval by the *PRA*.

2. Where institutions are required to calculate the quantitative impact of any extension or change on own funds requirements or, where applicable, on risk-weighted exposure amounts, they shall apply the following methodology:

   (a) for the purpose of the assessment of the quantitative impact institutions shall use the most recent data available;

   (b) where a precise assessment of the quantitative impact is not feasible, institutions shall instead perform an assessment of the impact based on a representative sample or other reliable inference methodologies; or

   (c) for changes having no direct quantitative impact, no quantitative impact as laid down in point (c) of paragraph 1 of Part A of this Annex needs to be calculated.

3. For the purposes of notifying the *PRA* in accordance with paragraph 4 of Article 325azx for changes or extensions to the use of internal models or changes to the institution's choice of the subset of the modellable risk factors which are not material, institutions shall submit documentation referred to in points (a), (b), (c), (f) and (g) of paragraph 1 of Part C of this Annex.

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**Annex 3**

**IMA TRANSITIONAL PERMISSIONS**

**PART A USE OF INTERNAL MODELS TO CALCULATE OWN FUNDS REQUIREMENTS (PART THREE, TITLE IV, CHAPTER 5 OF CRR)**

**Section 1 Permission and own funds requirements**

**Article 362 SPECIFIC AND GENERAL RISKS**

Position risk on a traded debt instrument or equity instrument or derivative thereof may be divided into two components for the purposes of this Chapter. The first shall be its specific risk component and shall encompass the risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument. The general risk component shall encompass the risk of a price change in the instrument due in the case of a traded debt instrument or debt derivative to a change in the level of interest rates or in the case of an equity or equity derivative to a broad equity-market movement unrelated to any specific attributes of individual securities.

[Note: This rule corresponds to Article 362 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 363 PERMISSION TO USE INTERNAL MODELS**

1.

(a) An institution may, with the prior permission of the *PRA*, calculate its own funds requirements for one or more of the following risk categories by using its internal models instead of or in combination with the methods in the Market Risk: Advanced Standardised Approach (CRR) Part, to the extent and subject to any modifications in the permission:

(i) general risk of equity instruments;

(ii) specific risk of equity instruments;

(iii) general risk of debt instruments;

(iv) specific risk of debt instruments;

(v) foreign-exchange risk;

(vi) commodities risk.

(b) An institution applying for a permission under this paragraph must be able to demonstrate to the satisfaction of the *PRA* that it complies with the requirements of Sections 2, 3 and 4 as relevant.

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. For risk categories for which the institution has not been granted the permission referred to in paragraph 1 to use its internal models, that institution shall calculate own funds requirements in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part. Permission by the *PRA* for the use of internal models shall be required for each risk category. An institution applying for the permission in paragraph 1 must be able to demonstrate to the satisfaction of the *PRA* that the internal model covers a significant share of the positions of a certain risk category.

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2A. An institution with an *IMA transitional permission* shall not use its internal models to calculate own funds requirements for positions assigned to the non-trading book in accordance with the Trading Book (CRR) Part, other than for the purposes of point (c) paragraph 3 of Article 92 of the Required Level of Own Funds (CRR) Part.

3. Material changes to the use of internal models that the institution has received permission to use, the extension of the use of internal models that the institution has received permission to use, in particular to additional risk categories, and the initial calculation of stressed value-at-risk in accordance with Article 365(2) require a separate permission by the *PRA*.

   Institutions shall notify the *PRA* of all other extensions and changes to the use of those internal models that the institution has received permission to use.

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

4. [Note: Provision left blank]

[Note: This rule corresponds to Article 363 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 364 OWN FUNDS REQUIREMENTS WHEN USING INTERNAL MODELS**

1. Each institution using an internal model shall fulfil, in addition to own funds requirements calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for those risk categories for which permission to use an internal model has not been granted, an own funds requirement expressed as the sum of points (a) and (b):

   (a) the higher of the following values:

      (i) its previous day's value-at-risk number calculated in accordance with Article 365(1) ($VaR_{t-1}$);

      (ii) an average of the daily value-at-risk numbers calculated in accordance with Article 365(1) on each of the preceding sixty *business days* ($VaR_{avg}$), multiplied by the multiplication factor ($m_c$) in accordance with Article 366;

   (b) the higher of the following values:

      (i) its latest available stressed-value-at-risk number calculated in accordance with Article 365(2) ($sVaR_{t-1}$); and

      (ii) an average of the stressed value-at-risk numbers calculated in the manner and frequency specified in Article 365(2) during the preceding sixty *business days* ($sVaR_{avg}$), multiplied by the multiplication factor ($m_s$) in accordance with Article 366;

2. Institutions that use an internal model to calculate their own funds requirement for specific risk of debt instruments shall fulfil an additional own funds requirement expressed as the sum of the following points (a) and (b):

   (a) the own funds requirement calculated in accordance with Article 337 and 338 of the *CRR,* as it applied immediately before revocation by the *Treasury,* for the specific risk of securitisation positions and $n^{th}$ to default credit derivatives in the trading book with the exception of those incorporated in an own funds requirement for the specific risk of the correlation trading portfolio in accordance with Article 377 and, where applicable, the own funds requirement for specific risk in accordance with Chapter 2, Section 6 of the *CRR*, as it applied immediately before revocation by the *Treasury*, for those positions in CIUs for which neither the conditions in Article 350(1) nor Article 350(2) of the *CRR*, as it applied immediately before revocation by the *Treasury*, are fulfilled;

   (b) the higher of:

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(i) the most recent risk number for the incremental default and migration risk calculated in accordance with Section 3;

(ii) the average of this number over the preceding 12 weeks.

3. Institutions that have a correlation trading portfolio, which meets the requirements in Article 338(1) to (3) of the *CRR*, as it applied immediately before revocation by the *Treasury*, may fulfil an own funds requirement on the basis of Article 377 instead of the own funds requirement calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part, calculated as the higher of the following:

(a) the most recent risk number for the correlation trading portfolio calculated in accordance with Article 377;

(b) the average of this number over the preceding 12 weeks;

(c) 8% of the own funds requirement that would, at the time of calculation of the most recent risk number referred to in point (a), be calculated in accordance with Article 338(4) of the *CRR*, as it applied immediately before revocation by the *Treasury*, for all those positions incorporated into the internal model for the correlation trading portfolio.

[Note: This rule corresponds to Article 364 of *CRR* as it applied immediately before revocation by the *Treasury*]

## Section 2 General requirements

### Article 365 VAR AND STRESSED VAR CALCULATION

1. The calculation of the value-at-risk number referred to in Article 364 shall be subject to the following requirements:

(a) daily calculation of the value-at-risk number;

(b) a 99$^{th}$ percentile, one-tailed confidence interval;

(c) a 10-day holding period;

(d) an effective historical observation period of at least one year except where a shorter observation period is justified by a significant upsurge in price volatility;

(e) at least monthly data set updates.

The institution may use value-at-risk numbers calculated according to shorter holding periods than 10 days scaled up to 10 days by an appropriate methodology that is reviewed periodically.

2. In addition, the institution shall at least weekly calculate a 'stressed value-at-risk' of the current portfolio, in accordance with the requirements set out in the first paragraph, with value-at-risk model inputs calibrated to historical data from a continuous 12-month period of significant financial stress relevant to the institution's portfolio. The choice of such historical data shall be subject to at least annual review by the institution, which shall notify the outcome to the *PRA*.

[Note: This rule corresponds to Article 365 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 366 REGULATORY BACK TESTING AND MULTIPLICATION FACTORS

1. The results of the calculations referred to in Article 365 shall be scaled up by the multiplication factors ($m_c$) and ($m_s$).

2. Each of the multiplication factors ($m_c$) and ($m_s$) shall be the sum of at least 3 and an addend between 0 and 1 in accordance with Table 1. That addend shall depend on the number of

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overshootings for the most recent 250 *business days* as evidenced by the institution's back-testing of the value-at-risk number as set out in Article 365(1).

Table 1

| Number of overshootings | addend |
|---|---|
| Fewer than 5 | 0.00 |
| 5 | 0.40 |
| 6 | 0.50 |
| 7 | 0.65 |
| 8 | 0.75 |
| 9 | 0.85 |
| 10 or more | 1.00 |

3. The institutions shall count daily overshootings on the basis of back-testing on hypothetical and actual changes in the portfolio's value. An overshooting is a one-day change in the portfolio's value that exceeds the related one-day value-at-risk number generated by the institution's model. For the purpose of determining the addend the number of overshootings shall be assessed at least quarterly and shall be equal to the higher of the number of overshootings under hypothetical and actual changes in the value of the portfolio.

   Back-testing on hypothetical changes in the portfolio's value shall be based on a comparison between the portfolio's end-of-day value and, assuming unchanged positions, its value at the end of the subsequent day.

   Back-testing on actual changes in the portfolio's value shall be based on a comparison between the portfolio's end-of-day value and its actual value at the end of the subsequent day excluding fees, commissions, and net interest income.

4. An institution may, with the prior permission of the *PRA*, limit the addend to that resulting from overshootings under hypothetical changes, where the number of overshootings under actual changes does not result from deficiencies in the internal model, to the extent and subject to any modifications set out in the permission.

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

5. In order to allow the *PRA* to monitor the appropriateness of the multiplication factors on an ongoing basis, institutions shall notify promptly, and in any case no later than within five *business days*, the *PRA* of overshootings that result from their back-testing programme.

[Note: This rule corresponds to Article 366 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 367 REQUIREMENTS ON RISK MEASUREMENT**

1. Any internal model used to calculate capital requirements for position risk, foreign exchange risk, commodities risk and any internal model for correlation trading shall meet all of the following requirements:

   (a) the model shall capture accurately all material price risks;

   (b) the model shall capture a sufficient number of risk factors, depending on the level of activity of the institution in the respective markets. Where a risk factor is incorporated into the institution's pricing model but not into the risk-measurement model, the institution shall be able to justify such an omission to the satisfaction of the *PRA*. The risk-measurement model shall capture nonlinearities for options and other products as well as correlation risk and basis risk. Where proxies for risk factors are used they shall show a good track record for the actual position held.

2. Any internal model used to calculate capital requirements for position risk, foreign exchange risk or commodities risk shall meet all of the following requirements:

   (a) the model shall incorporate a set of risk factors corresponding to the interest rates in each currency in which the institution has interest rate sensitive on-balance sheet or off-balance sheet positions. The institution shall model the yield curves using one of the generally accepted approaches. For material exposures to interest-rate risk in the major currencies and markets, the yield curve shall be divided into a minimum of six maturity segments, to capture the variations of volatility of rates along the yield curve. The model shall also capture the risk of less than perfectly correlated movements between different yield curves;

   (b) the model shall incorporate risk factors corresponding to gold and to the individual foreign currencies in which the institution's positions are denominated. For CIUs the actual foreign exchange positions of the CIU shall be taken into account. Institutions may rely on third party reporting of the foreign exchange position of the CIU, where the correctness of that report is adequately ensured. If an institution is not aware of the foreign exchange positions of a CIU, this position shall be carved out and treated in accordance with Article 353(3) of the *CRR*, as it applied immediately before revocation by the *Treasury*;

   (c) the model shall use a separate risk factor at least for each of the equity markets in which the institution holds significant positions;

   (d) the model shall use a separate risk factor at least for each commodity in which the institution holds significant positions. The model shall also capture the risk of less than perfectly correlated movements between similar, but not identical, commodities and the exposure to changes in forward prices arising from maturity mismatches. It shall also take account of market characteristics, notably delivery dates and the scope provided to traders to close out positions;

   (e) the institution's internal model shall conservatively assess the risk arising from less liquid positions and positions with limited price transparency under realistic market scenarios. In addition, the internal model shall meet minimum data standards. Proxies shall be appropriately conservative and shall be used only where available data is insufficient or is not reflective of the true volatility of a position or portfolio.

3. Institutions may, in any internal model used for the purposes of this Chapter, use empirical correlations within risk categories and across risk categories only if the institution's approach for measuring correlations is sound and implemented with integrity.

[Note: This rule corresponds to Article 367 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 368 QUALITATIVE REQUIREMENTS**

1. Any internal model used for the purposes of this Chapter shall be conceptually sound and implemented with integrity and, in particular, all of the following qualitative requirements shall be met:

   (a) any internal model used to calculate capital requirements for position risk, foreign exchange risk or commodities risk shall be closely integrated into the daily risk-management process of the institution and serve as the basis for reporting risk exposures to senior management;

   (b) the institution shall have a risk control unit that is independent from business trading units and reports directly to senior management. The unit shall be responsible for designing and implementing any internal model used for the purposes of this Chapter. The unit shall conduct the initial and on-going validation of any internal model used for the purposes of this Chapter, being responsible for the overall risk management system. The unit shall produce and analyse daily reports on the output of any internal model used for calculating capital requirements for position risk, foreign exchange risk and commodities risk, and on the appropriate measures to be taken in terms of trading limits;

   (c) the institution's management body and senior management shall be actively involved in the risk-control process and the daily reports produced by the risk-control unit are reviewed by a level of management with sufficient authority to enforce both reductions of positions taken by individual traders as well as in the institution's overall risk exposure;

   (d) the institution shall have sufficient numbers of staff skilled in the use of sophisticated internal models, and including those used for the purposes of this Chapter, in the trading, risk-control, audit and back-office areas;

   (e) the institution shall have established procedures for monitoring and ensuring compliance with a documented set of internal policies and controls concerning the overall operation of its internal models, and including those used for the purposes of this Chapter;

   (f) any internal model used for the purposes of this Chapter shall have a proven track record of reasonable accuracy in measuring risks;

   (g) the institution shall frequently conduct a rigorous programme of stress testing, including reverse stress tests, which encompasses any internal model used for the purposes of this Chapter and the results of these stress tests shall be reviewed by senior management and reflected in the policies and limits it sets. This process shall particularly address illiquidity of markets in stressed market conditions, concentration risk, one-way markets, event and jump-to-default risks, non-linearity of products, deep out-of-the-money positions, positions subject to the gapping of prices and other risks that may not be captured appropriately in the internal models. The shocks applied shall reflect the nature of the portfolios and the time it could take to hedge out or manage risks under severe market conditions;

   (h) the institution shall conduct, as part of its regular internal auditing process, an independent review of its internal models, and including those used for the purposes of this Chapter.

2. The review referred to in point (h) of paragraph 1 shall include both the activities of the business trading units and of the independent risk-control unit. At least once a year, the institution shall conduct a review of its overall risk-management process. The review shall consider the following:

   (a) the adequacy of the documentation of the risk-management system and process and the organisation of the risk-control unit;

   (b) the integration of risk measures into daily risk management and the integrity of the management information system;

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(c) the process the institution employs for approving risk-pricing models and valuation systems that are used by front and back-office personnel;

(d) the scope of risks captured by the risk-measurement model and the validation of any significant changes in the risk-measurement process;

(e) the accuracy and completeness of position data, the accuracy and appropriateness of volatility and correlation assumptions, and the accuracy of valuation and risk sensitivity calculations;

(f) the verification process the institution employs to evaluate the consistency, timeliness and reliability of data sources used to run internal models, including the independence of such data sources;

(g) the verification process the institution uses to evaluate back-testing that is conducted to assess the model's accuracy.

3. As techniques and best practices evolve, institutions shall apply those new techniques and practices in any internal model used for the purposes of this Chapter.

[Note: This rule corresponds to Article 368 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 369 INTERNAL VALIDATION**

1. Institutions shall have processes in place to ensure that all their internal models used for the purposes of this Chapter have been adequately validated by suitably qualified parties independent of the development process to ensure that they are conceptually sound and adequately capture all material risks. The validation shall be conducted when the internal model is initially developed and when any significant changes are made to the internal model. The validation shall also be conducted on a periodic basis but especially where there have been any significant structural changes in the market or changes to the composition of the portfolio which might lead to the internal model no longer being adequate. As techniques and best practices for internal validation evolve, institutions shall apply these advances. Internal model validation shall not be limited to back-testing, but shall, at a minimum, also include the following:

   (a) tests to demonstrate that any assumptions made within the internal model are appropriate and do not underestimate or overestimate the risk;

   (b) in addition to the regulatory back-testing programmes, institutions shall carry out their own internal model validation tests, including back-testing, in relation to the risks and structures of their portfolios;

   (c) the use of hypothetical portfolios to ensure that the internal model is able to account for particular structural features that may arise, for example material basis risks and concentration risk.

2. The institution shall perform back-testing on both actual and hypothetical changes in the portfolio's value.

[Note: This rule corresponds to Article 369 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## Section 3 Requirements particular to specific risk modelling

### Article 370 REQUIREMENTS FOR MODELLING SPECIFIC RISK

An internal model used for calculating own funds requirements for specific risk and an internal model for correlation trading shall meet the following additional requirements:

(a) it explains the historical price variation in the portfolio;

(b) it captures concentration in terms of magnitude and changes of composition of the portfolio;

(c) it is robust to an adverse environment;

(d) it is validated through back-testing aimed at assessing whether specific risk is being accurately captured. If the institution performs such back-testing on the basis of relevant sub-portfolios, these shall be chosen in a consistent manner;

(e) it captures name-related basis risk and shall in particular be sensitive to material idiosyncratic differences between similar but not identical positions;

(f) it captures event risk.

[Note: This rule corresponds to Article 370 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 371 EXCLUSIONS FROM SPECIFIC RISK MODELS

1. An institution may choose to exclude from the calculation of its specific risk own funds requirement using an internal model those positions for which it fulfils an own funds requirement for specific risk in accordance with Article 332(1)(e) or Article 337 of the *CRR*, as it applied immediately before revocation by the *Treasury*, with exception of those positions that are subject to the approach set out in Article 377.

2. An institution may choose not to capture default and migration risks for traded debt instruments in its internal model where it is capturing those risks through the requirements set out in Section 4.

[Note: This rule corresponds to Article 371 of *CRR* as it applied immediately before revocation by the *Treasury*]

## Section 4 Internal model for incremental default and migration risk

### Article 372 REQUIREMENT TO HAVE AN INTERNAL IRC MODEL

An institution that uses an internal model for calculating own funds requirements for specific risk of traded debt instruments shall also have an internal incremental default and migration risk ('IRC') model in place to capture the default and migration risks of its trading book positions that are incremental to the risks captured by the value-at-risk measure as specified in Article 365(1). The institution shall be able to demonstrate to the *PRA* that its internal model meets the following standards under the assumption of a constant level of risk, and adjusted where appropriate to reflect the impact of liquidity, concentrations, hedging and optionality:

(a) the internal model provides a meaningful differentiation of risk and accurate and consistent estimates of incremental default and migration risk;

(b) the internal model's estimates for potential losses play an essential role in the risk management of the institution;

(c) the market and position data used for the internal model are up-to-date and subject to an appropriate quality assessment;

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(d) the requirements in Article 367(3), Article 368, Article 369(1) and points (b), (c), (e) and (f) of Article 370 are met.

[Note: This rule corresponds to Article 372 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 373 SCOPE OF THE INTERNAL IRC MODEL**

The internal IRC model shall cover all positions subject to an own funds requirement for specific interest rate risk, including those subject to a 0% specific risk capital charge under Article 336 of the *CRR*, as it applied immediately before revocation by the *Treasury*, but shall not cover securitisation positions and n-th-to-default credit derivatives.

The institution may, with the prior permission of the *PRA*, choose to consistently include all listed equity positions and derivatives positions based on listed equities where such inclusion is consistent with how the institution internally measures and manages risk, and to the extent and subject to any modifications set out in the permission.

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

[Note: This rule corresponds to Article 373 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 374 PARAMETERS OF THE INTERNAL IRC MODEL**

1. Institutions shall use the internal model to calculate a number which measures losses due to default and internal or external ratings migration at the 99.9% confidence interval over a time horizon of one year. Institutions shall calculate this number at least weekly.

2. Correlation assumptions shall be supported by analysis of objective data in a conceptually sound framework. The internal model shall appropriately reflect issuer concentrations. Concentrations that can arise within and across product classes under stressed conditions shall also be reflected.

3. The internal IRC model shall reflect the impact of correlations between default and migration events. The impact of diversification between, on the one hand, default and migration events and, on the other hand, other risk factors shall not be reflected.

4. The internal model shall be based on the assumption of a constant level of risk over the one-year time horizon, implying that given individual trading book positions or sets of positions that have experienced default or migration over their liquidity horizon are re-balanced at the end of their liquidity horizon to attain the initial level of risk. Alternatively, an institution may choose to consistently use a one-year constant position assumption.

5. The liquidity horizons shall be set according to the time required to sell the position or to hedge all material relevant price risks in a stressed market, having particular regard to the size of the position. Liquidity horizons shall reflect actual practice and experience during periods of both systematic and idiosyncratic stresses. The liquidity horizon shall be measured under conservative assumptions and shall be sufficiently long that the act of selling or hedging, in itself, would not materially affect the price at which the selling or hedging would be executed.

6. The determination of the appropriate liquidity horizon for a position or set of positions is subject to a floor of three months.

7. The determination of the appropriate liquidity horizon for a position or set of positions shall take into account an institution's internal policies relating to valuation adjustments and the management of stale positions. When an institution determines liquidity horizons for sets of positions rather than for individual positions, the criteria for defining sets of positions shall be

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defined in a way that meaningfully reflects differences in liquidity. The liquidity horizons shall be greater for positions that are concentrated, reflecting the longer period needed to liquidate such positions. The liquidity horizon for a securitisation warehouse shall reflect the time to build, sell and securitise the assets, or to hedge the material risk factors, under stressed market conditions.

[Note: This rule corresponds to Article 374 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 375 RECOGNITION OF HEDGES IN THE INTERNAL IRC MODEL**

1. Hedges may be incorporated into an institution's internal model to capture the incremental default and migration risks. Positions may be netted when long and short positions refer to the same financial instrument. Hedging or diversification effects associated with long and short positions involving different instruments or different securities of the same obligor, as well as long and short positions in different issuers, may only be recognised by explicitly modelling gross long and short positions in the different instruments. Institutions shall reflect the impact of material risks that could occur during the interval between the hedge's maturity and the liquidity horizon as well as the potential for significant basis risks in hedging strategies by product, seniority in the capital structure, internal or external rating, maturity, vintage and other differences in the instruments. An institution shall reflect a hedge only to the extent that it can be maintained even as the obligor approaches a credit or other event.

2. For positions that are hedged via dynamic hedging strategies, a rebalancing of the hedge within the liquidity horizon of the hedged position may be recognised provided that the institution:

   (a) chooses to model rebalancing of the hedge consistently over the relevant set of trading book positions;

   (b) is able to demonstrate to the *PRA* that the inclusion of rebalancing results in a better risk measurement;

   (c) is able to demonstrate to the *PRA* that the markets for the instruments serving as hedges are liquid enough to allow for such rebalancing even during periods of stress. Any residual risks resulting from dynamic hedging strategies shall be reflected in the own funds requirement.

[Note: This rule corresponds to Article 375 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 376 PARTICULAR REQUIREMENTS FOR THE INTERNAL IRC MODEL**

1. The internal model to capture the incremental default and migration risks shall reflect the nonlinear impact of options, structured credit derivatives and other positions with material nonlinear behaviour with respect to price changes. The institution shall also have due regard to the amount of model risk inherent in the valuation and estimation of price risks associated with such products.

2. The internal model shall be based on data that are objective and up-to-date.

3. As part of the independent review and validation of their internal models used for the purposes of this Chapter, inclusively for the purposes of the risk measurement system, an institution shall in particular do all of the following:

   (a) validate that its modelling approach for correlations and price changes is appropriate for its portfolio, including the choice and weights of its systematic risk factors;

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(b) perform a variety of stress tests, including sensitivity analysis and scenario analysis, to assess the qualitative and quantitative reasonableness of the internal model, particularly with regard to the treatment of concentrations. Such tests shall not be limited to the range of events experienced historically;

(c) apply appropriate quantitative validation including relevant internal modelling benchmarks.

4. The internal model shall be consistent with the institution's internal risk management methodologies for identifying, measuring, and managing trading risks.

5. Institutions shall document their internal models so that its correlation and other modelling assumptions are transparent to the *PRA*.

6. The internal model shall conservatively assess the risk arising from less liquid positions and positions with limited price transparency under realistic market scenarios. In addition, the internal model shall meet minimum data standards. Proxies shall be appropriately conservative and may be used only where available data is insufficient or is not reflective of the true volatility of a position or portfolio.

[Note: This rule corresponds to Article 376 of *CRR* as it applied immediately before revocation by the *Treasury*]

## Section 5 Internal model for correlation trading

### Article 377 REQUIREMENTS FOR AN INTERNAL MODEL FOR CORRELATION TRADING

1. An institution that is allowed to use an internal model for specific risk of debt instruments and that meets the requirements in paragraphs 2 to 6 of this Article and in Article 367(1) and (3), Article 368, Article 369(1) and points (a), (b), (c), (e) and (f) of Article 370 may, with the prior permission of the *PRA*, use an internal model for the own funds requirement for the correlation trading portfolio instead of the own funds requirement in accordance with the advanced standardised approach for *ACTP CSR* positions set out in the Market Risk: Advanced Standardised Approach (CRR) Part, to the extent and subject to any modifications set out in the permission.

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. Institutions shall use this internal model to calculate a number which adequately measures all price risks at the 99.9% confidence interval over a time horizon of one year under the assumption of a constant level of risk, and adjusted where appropriate to reflect the impact of liquidity, concentrations, hedging and optionality. Institutions shall calculate this number at least weekly.

3. The following risks shall be adequately captured by the model referred to in paragraph 1:

(a) the cumulative risk arising from multiple defaults, including different ordering of defaults, in tranched products;

(b) *CSR*, including the gamma and cross-gamma effects;

(c) volatility of implied correlations, including the cross effect between spreads and correlations;

(d) basis risk, including both of the following:

(i) the basis between the spread of an index and those of its constituent single names;

(ii) the basis between the implied correlation of an index and that of bespoke portfolios;

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(e) recovery rate volatility, as it relates to the propensity for recovery rates to affect tranche prices;

(f) to the extent the comprehensive risk measure incorporates benefits from dynamic hedging, the risk of hedge slippage and the potential costs of rebalancing such hedges;

(g) any other material price risks of positions in the correlation trading portfolio.

4. An institution shall use sufficient market data within the model referred to in paragraph 1 in order to ensure that it fully captures the salient risks of those exposures in its internal approach in accordance with the requirements set out in this Article. It shall be able to demonstrate to the *PRA* through back testing or other appropriate means that its model can appropriately explain the historical price variation of those products.

The institution shall have appropriate policies and procedures in place in order to separate the positions for which it holds permission to incorporate them in the own funds requirement in accordance with this Article from other positions for which it does not hold such permission.

5. With regard to the portfolio of all the positions incorporated in the model referred to in paragraph 1, the institution shall regularly apply a set of specific, predetermined stress scenarios. Such stress scenarios shall examine the effects of stress to default rates, recovery rates, credit spreads, basis risk, correlations and other relevant risk factors on the correlation trading portfolio. The institution shall apply stress scenarios at least weekly and report at least quarterly to the *PRA* the results, including comparisons with the institution's own funds requirement in accordance with this Article. Any instances where the stress test results materially exceed the own funds requirement for the correlation trading portfolio shall be reported to the *PRA* in a timely manner.

6. The internal model shall conservatively assess the risk arising from less liquid positions and positions with limited price transparency under realistic market scenarios. In addition, the internal model shall meet minimum data standards. Proxies shall be appropriately conservative and may be used only where available data is insufficient or is not reflective of the true volatility of a position or portfolio.

[Note: This rule corresponds to Article 377 of *CRR* as it applied immediately before revocation by the *Treasury*]

## PART B COMMISSION DELEGATED REGULATION (EU) NO 529/2014

### Article 1 SUBJECT MATTER

[Note: Provision left blank]

### Article 2 CATEGORIES OF EXTENSIONS AND CHANGES

1. The materiality of the extensions and changes for the internal model approach ('extensions and changes in the IMA') shall be classified into one of the following categories:

(a) material extensions and changes, which, according to Article 363(3) of Part A of this Annex, require permission from the *PRA*;

(b) other extensions and changes, which require notification to the *PRA*.

2. The extensions and changes referred to in point (b) of paragraph 1 shall further be classified into:

(a) extensions and changes that require notification before their implementation;

(b) extensions and changes that require notification after their implementation.

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[Note: This rule corresponds to Article 2 of Commission Delegated Regulation (EU) No 529/2014 as it applied immediately before revocation by the *Treasury*]

**Article 3 PRINCIPLES OF CLASSIFICATION OF EXTENSIONS AND CHANGES**

1. The classification of extensions and changes in the IMA shall be carried out in accordance with this Article and Articles 7a and 7b.

2. Where institutions are required to calculate the quantitative impact of any extension or change on own funds requirements or, where applicable, on risk-weighted exposure amounts, they shall apply the following methodology:

   (a) for the purpose of the assessment of the quantitative impact institutions shall use the most recent data available;

   (b) where a precise assessment of the quantitative impact is not feasible, institutions shall instead perform an assessment of the impact based on a representative sample or other reliable inference methodologies;

   (c) for changes having no direct quantitative impact, no quantitative impact as laid down in Article 7a(1)(c) for the internal model approach needs to be calculated.

3. One material extension or change shall not be split into several changes or extensions of lower materiality.

4. In case of doubt, institutions shall assign extensions and changes to the category of the highest potential materiality.

5. Where the *PRA* has provided its permission in relation to a material extension or change, institutions shall calculate the own funds requirements based on the approved extension or change from the date specified in the new permission which shall replace the prior one. The non-implementation on the date specified in the new permission of an extension or change for which permission from the *PRA* has been given, shall require a new permission from the *PRA* which shall be applied for without undue delay.

6. In case of delay of the implementation of an extension or change for which permission from the *PRA* has been granted, the institution shall notify the *PRA* and present to the *PRA* a plan for a timely implementation of the approved extension or change, which it shall realise within a reasonable period.

7. Where an extension or change is classified as one requiring prior notification to the *PRA*, and where, subsequently to the notification, institutions decide not to implement the extension or change, institutions shall notify without undue delay the *PRA* of this decision.

[Note: This rule corresponds to Article 3 of Commission Delegated Regulation (EU) No 529/2014 as it applied immediately before revocation by the *Treasury*]

**Article 4 MATERIAL CHANGES TO THE IRB APPROACH**

[Note: Provision left blank]

**Article 5 CHANGES TO THE IRB APPROACH NOT CONSIDERED MATERIAL**

[Note: Provision left blank]

**Article 6 MATERIAL EXTENSIONS AND CHANGES TO THE AMA**

[Note: Provision left blank]

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## Article 7 EXTENSIONS AND CHANGES TO THE AMA NOT CONSIDERED MATERIAL

[Note: Provision left blank]

## Article 7a MATERIAL EXTENSIONS AND CHANGES TO THE IMA

1. Extensions and changes to the IMA shall be considered material, if they fulfil any of the following conditions:

   (a) they fall under any of the extensions described in Annex III, Part I, Section 1;

   (b) they fall under any changes described in Annex III, Part II, Section 1;

   (c) they result in a change in absolute value of 1% or more, computed for the first *business day* of the testing of the impact of the extension or change, of one of the relevant risk numbers referred to in Article 364(1)(a)(i), or Article 364(1)(b)(i), or Article 364(2)(b)(i) or Article 364(3)(a) of Part A of this Annex, and associated with the scope of application of the relevant internal model to which the risk number refers, and result in either of the following:

      (i) in a change of 5% or more of the sum of the risk numbers referred to in Article 364(1)(a)(i), Article 364(1)(b)(i), scaled up by the multiplication factors ($m_c$) and ($m_s$) respectively according to Article 366 of Part A of this Annex, Article 364(2)(b)(i) and Article 364(3)(a) of Part A of this Annex, and the own funds requirements according to the Market Risk: Advanced Standardised Approach (CRR) Part computed at the level of the UK parent institution or, in the case of an institution which is neither a parent institution nor a subsidiary, at the level of that institution;

      (ii) in a change of 10% or more of one or more of the relevant risk numbers referred to in Article 364(1)(a)(i), or Article 364(1)(b)(i), or Article 364(2)(b)(i) or Article 364(3)(a) of Part A of this Annex, and associated with the scope of application of the relevant internal model to which the risk number refers.

2. For the purposes of paragraph (1)(c)(i), and in accordance with Article 3(2), the impact of any extension or change shall be assessed as the highest absolute value over the period referred to in paragraph 4 of this Article of a ratio calculated as follows:

   (a) in numerator, the difference between the sum referred to in paragraph (1)(c)(i) with and without the extension or change;

   (b) in the denominator, the sum referred to in paragraph (1)(c)(i) without the extension or change.

3. For the purposes of paragraph (1)(c)(ii), and in accordance with Article 3(2), the impact of any extension or change shall be assessed as the highest absolute value over the period referred to in paragraph 4 of this Article of a ratio calculated as follows:

   (a) in the numerator, the difference between the risk number referred to in Article 364(1)(a)(i), Article 364(1)(b)(i), Article 364(2)(b)(i) or Article 364(3)(a) of Part A of this Annex with and without the extension or change;

   (b) in the denominator, the risk number referred to, respectively, in Article 364(1)(a)(i), or Article 364(1)(b)(i), or Article 364(2)(b)(i) or Article 364(3)(a) of Part A of this Annex without the extension or change.

4. For the purposes of paragraph (1)(c)(i) and (1)(c)(ii) the ratios referred to in paragraphs 2 and 3 shall be calculated for a period the duration of which is the shortest between the following points (a) and (b):

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(a) 15 consecutive *business days* starting from the first *business day* of the testing of the impact of the extension or change;

(b) until such day where a daily calculation of either one of the ratios referred to in paragraphs 2 and 3 results in an impact equal or greater than the percentages referred to in either paragraph (1)(c)(i) or paragraph (1)(c)(ii), respectively.

[Note: This rule corresponds to Article 7a of Commission Delegated Regulation (EU) No 529/2014 as it applied immediately before revocation by the *Treasury*]

**Article 7b EXTENSIONS AND CHANGES TO THE IMA NOT CONSIDERED MATERIAL**

Extensions and changes to the IMA, which are not material but are to be notified to the *PRA* according to the second subparagraph of Article 363(3) of Part A of this Annex, shall be notified in the following manner:

(a) extensions and changes falling under Annex III, Part I, Section 2, and Part II, Section 2, shall be notified to the *PRA* two weeks before their planned implementation;

(b) all other extensions and changes shall be notified to the *PRA* after implementation at least on an annual basis.

[Note: This rule corresponds to Article 7b of Commission Delegated Regulation (EU) No 529/2014 as it applied immediately before revocation by the *Treasury*]

**Article 8 DOCUMENTATION OF EXTENSIONS AND CHANGES**

1. For extensions and changes to the IMA classified as requiring the *PRA*'s approval, institutions shall submit, together with the application, the following documentation:

   (a) description of the extension or change, its rationale and objective;

   (b) implementation date;

   (c) scope of application affected by the model extension or change, with volume characteristics;

   (d) technical and process document(s);

   (e) reports of the institutions' independent review or validation;

   (f) confirmation that the extension or change has been approved through the institution's approval processes by the competent bodies and date of approval;

   (g) where applicable, the quantitative impact of the change or extension on the risk weighted exposure amounts, or on the own funds requirements, or on the relevant risk numbers or sum of relevant own funds requirements and risk numbers;

   (h) records of the institution's current and previous version number of internal models which are subject to approval.

2. For extensions and changes classified as requiring notification either before or after implementation, institutions shall submit, together with the notification, the documentation referred to in points (a), (b), (c), (f) and (g) of paragraph 1.

[Note: This rule corresponds to Article 8 of Commission Delegated Regulation (EU) No 529/2014 as it applied immediately before revocation by the *Treasury*]

**Article 9 ENTRY INTO FORCE**

[Note: Provision left blank]

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## ANNEX I CHANGES TO THE IRB APPROACH

[Note: Provision left blank]

## ANNEX II EXTENSIONS AND CHANGES TO THE AMA

[Note: Provision left blank]

## ANNEX III EXTENSIONS AND CHANGES TO THE IMA

### Part I Extensions to the IMA

#### Section 1 Extensions requiring PRA approval ('material')

1. Extension of the market risk model to an additional location in another jurisdiction, including extending the market risk model to the positions of a desk located in a different time zone, or for which different front office or IT systems are used.

2. Integration in the scope of an internal model of product classes, for which the VaR number, computed according to Article 364(1)(a)(i) of Part A of this Annex, exceeds 5% of the VaR number, computed according to Article 364(1)(a)(i) of Part A of this Annex, of the total portfolio forming the scope of that model before the integration.

3. Any reverse extensions such as cases where the institutions aim at applying the standardised method to risk categories for which they are granted permission to use an internal market risk model.

#### Section 2 Extensions requiring ex ante notification to the PRA

The inclusion in the scope of an internal model of product classes requiring other risk modelling techniques than those forming part of the permission to use that model, such as path-dependent products, or multi-underlying positions, according to Article 367 of Part A of this Annex.

### Part II Changes to the IMA

#### Section 1 Changes requiring PRA approval ('material')

1. Changes between historical simulation, parametric or Monte Carlo VaR.

2. Changes in the aggregation scheme such as where a simple summation of risk numbers is replaced by integrated modelling.

#### Section 2 Changes requiring ex ante notification to the PRA

1. Changes in the fundamentals of statistical methods according to Articles 365, 374 or 377 of Part A of this Annex, including but not limited to any of the following:

   (a) reduction in the number of simulations;

   (b) introduction or removal of variance reduction methods;

   (c) changes to the algorithms to generate the random numbers;

   (d) changes in the statistical method to estimate volatilities or correlations between risk factors;

   (e) changes in the assumptions about the joint distribution of risk factors.

2. Changes in the effective length of the historical observation period, including a change in a weighting scheme of the time series according to Article 365(1)(d) of Part A of this Annex.

3. Changes in the approach for identifying the stressed period in order to calculate a Stressed VaR measure, according to Article 365(2) of Part A of this Annex.

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4. Changes in the definition of market risk factors applied in the internal VaR model, including migration to an OIS discounting framework, a move between zero rates, par rates or swap rates.

5. Changes in how shifts in market risk factors are translated into changes of the portfolio value, such as changes in instrument valuation models used to calculate sensitivities to risk factors or to re-value positions when calculating risk numbers, changes from analytical to simulation-based pricing model, changes between Taylor-approximation and full revaluation, or changes in the sensitivity measures applied, according to Article 367 of Part A of this Annex.

6. Changes in the methodology for defining proxies.

7. Changes in the hierarchy of sources of ratings used for determining the rating of an individual position in the IRC.

8. Changes in the methodology regarding the *loss given default* rate ('*LGD*') or the liquidity horizons for IRC or correlation trading models according to Articles 372 to 376 or Article 377 of Part A of this Annex.

9. Changes in the methodology used for assigning exposures to individual exposure classes in the IRC or correlation trading models according to Articles 372 to 376 or Article 377 of Part A of this Annex.

10. Changes of methods for estimating exposure or asset correlation for IRC or correlation trading models according to Articles 372 to 376 or Article 377 of Part A of this Annex.

11. Changes in the methodology for calculating either actual or hypothetical profit and loss when used for back-testing purposes according to Article 366(3) and 369(2) of Part A of this Annex.

12. Changes in the internal validation methodology according to Article 369 of Part A of this Annex.

13. Structural, organisational or operational changes to the core processes in risk management or risk controlling functions, according to Article 368(1) of Part A of this Annex including any of the following:

    (a) senior staff changes;

    (b) the limit setting framework;

    (c) the reporting framework;

    (d) the stress testing methodology;

    (e) the new product process;

    (f) the internal model change policy.

14. Changes in the IT environment, including any of the following:

    (a) changes to the IT system, which result in amendments in the calculation procedure of the internal model;

    (b) applying vendor pricing models;

    (c) outsourcing of central data collection functions.

[Note: This rule corresponds to Annex III of Commission Delegated Regulation (EU) No 529/2014 as it applied immediately before revocation by the *Treasury*]

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**Annex I**

**Market Risk: Advanced Standardised Approach (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# MARKET RISK: ADVANCED STANDARDISED APPROACH (CRR)

**Chapter content**

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. ADVANCED STANDARDISED APPROACH (CHAPTER 1A OF TITLE IV OF PART THREE OF CRR)

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

*GIRR*

means general interest rate risk.

*non-ACTP CSR*

means *CSR* for securitisation not included in the *ACTP*.

*non-trading book position*

means a position which is held by an institution and which is not held in the trading book.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: This rule sets out Article 11(6) of *CRR* that it applies to this Part]

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## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

3.2 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 4 ADVANCED STANDARDISED APPROACH (CHAPTER 1A OF TITLE IV OF PART THREE OF CRR)

### SECTION 1 GENERAL PROVISIONS

#### Article 325c SCOPE AND STRUCTURE OF THE ADVANCED STANDARDISED APPROACH

1. [Note: Provision left blank]

2. An institution shall calculate the own funds requirements for market risk in accordance with the advanced standardised approach for a portfolio of:

   (a) trading book positions; or

   (b) *non-trading book positions* that are subject to foreign exchange or commodity risk,

   as the sum of the following three components:

   (i) the own funds requirement under the sensitivities-based method set out in Section 2;

   (ii) the own funds requirement for residual risks set out in Section 4 which is only applicable to the trading book positions referred to in that Section; and

   (iii) the own funds requirement for the default risk set out in Section 5 which is only applicable to the trading book positions referred to in that Section.

[Note: Paragraph 2 of this rule corresponds to paragraph 2 of Article 325c of *CRR* as it applied immediately before revocation by the *Treasury*]

### SECTION 2 SENSITIVITIES-BASED METHOD FOR CALCULATING THE OWN FUNDS REQUIREMENT

#### Article 325d DEFINITIONS

1. For the purposes of this Part, the following definitions apply:

   (a) 'bucket' means a sub-category of positions within one risk class with a similar risk profile to which a risk factor as defined in Sub-section 1 of Section 3 is assigned.

   (b) 'risk class' means one of the following seven categories:

   (i) *GIRR*;

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(ii) *CSR* for non-securitisation;

(iii) *non-ACTP CSR*;

(iv) *ACTP CSR*;

(v) equity risk;

(vi) commodity risk; or

(vii) foreign exchange risk.

(c) 'sensitivity' means the relative change in the value of a position, as a result of a change in the value of one of the relevant risk factors of the position, calculated using the institution's pricing model in accordance with Sub-section 2 of Section 3.

[Note: This rule corresponds to Article 325d of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325e COMPONENTS OF THE SENSITIVITIES-BASED METHOD**

1. An institution shall calculate the own funds requirement for market risk under the sensitivities-based method by aggregating the following three own funds requirements in accordance with Article 325h:

   (a) own funds requirements for delta risk which capture the risk of changes in the value of an instrument due to movements in its non-volatility related risk factors;

   (b) own funds requirements for vega risk which capture the risk of changes in the value of an instrument due to movements in its volatility-related risk factors; and

   (c) own funds requirements for curvature risk which capture the risk of changes in the value of an instrument due to movements in the main non-volatility related risk factors not captured by the own funds requirements for delta risk.

2. For the purpose of the calculation referred to in paragraph 1:

   (a) all the positions of instruments with optionality shall be subject to the own funds requirements referred to in points (a), (b) and (c) of paragraph 1 for the risks other than exotic underlyings of the instruments as referred to in point (a) of Article 325u(2); and

   (b) all the positions of instruments without optionality shall only be subject to the own funds requirements referred to in point (a) of paragraph 1 for the risks other than exotic underlyings of the instruments as referred to in point (a) of Article 325u(2).

   For the purposes of this Part, instruments with optionality include, among others: calls, puts, caps, floors, swap options, barrier options, embedded options (such as prepayment or behavioural options) and exotic options.

   For the purposes of this Part, instruments whose cash-flows can be written as a linear function of the underlying's notional amount shall be considered to be instruments without optionality.

3. By way of derogation from point (b) of paragraph 2, an institution may with the prior permission of the *PRA* to the extent and subject to any modifications set out in the permission, subject all the positions of instruments without optionality to the own funds requirements referred to in point (c) of paragraph 1, in addition to the requirements referred to in point (a) of paragraph 1.

   If an institution is granted permission by the *PRA* to apply the approach in the first sub-paragraph, it may only cease applying such approach with the permission of the *PRA*.

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[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

[Note: This rule corresponds to Article 325e of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325f OWN FUNDS REQUIREMENTS FOR DELTA AND VEGA RISKS**

1. An institution shall apply the delta and vega risk factors described in Sub-section 1 of Section 3 to calculate the own funds requirements for delta and vega risks.

2. An institution shall apply the process set out in paragraphs 3 to 8 to calculate own funds requirements for delta and vega risks.

3. For each risk class, the sensitivity of all instruments in scope of the own funds requirements for delta or vega risks to each of the applicable delta or vega risk factors included in that risk class shall be calculated by using the corresponding formulas in Sub-section 2 of Section 3. If the value of an instrument depends on several risk factors, the sensitivity shall be determined separately for each risk factor.

4. Sensitivities shall be assigned to one of the buckets '*b*' within each risk class.

5. Within each bucket '*b*', the positive and negative sensitivities to the same risk factor shall be netted, giving rise to net sensitivities ($s_k$) to each risk factor '*k*' within a bucket.

6. The net sensitivities to each risk factor within each bucket shall be multiplied by the corresponding risk weights set out in Section 6, giving rise to weighted sensitivities to each risk factor within that bucket in accordance with the following formula:

$$WS_k = RW_k \cdot s_k$$

where:

$WS_k$ = the weighted sensitivities;

$RW_k$ = the risk weights;

$s_k$ = the net sensitivities to each risk factor *k*.

7. The weighted sensitivities to the different risk factors within each bucket shall be aggregated in accordance with the formula below, where the quantity within the square root function is floored at zero, giving rise to the bucket-specific sensitivity. The corresponding correlations for weighted sensitivities within the same bucket ($\rho_{kl}$), set out in Section 6, shall be used.

$$K_b = \sqrt{\sum_k WS_k^2 + \sum_k \sum_{l \neq k} \rho_{kl} WS_k WS_l}$$

where:

$K_b$ = the bucket-specific sensitivity;

$WS$ = the weighted sensitivities.

8. The bucket-specific sensitivity shall be calculated for each bucket within a risk class in accordance with paragraphs 5, 6 and 7. Once the bucket-specific sensitivity has been calculated for all buckets, weighted sensitivities to all risk factors across buckets shall be aggregated in accordance with the formula below, using the corresponding correlations $\gamma_{bc}$ for weighted sensitivities in different buckets set out in Section 6, giving rise to the risk class-specific own funds requirement for delta or vega risk:

Risk class-specific own fund requirement for delta or vega risk $= \sqrt{\sum_b K_b^2 + \sum_b \sum_{c \neq b} \gamma_{bc} S_b S_c}$

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where:

$S_b = \sum_k WS_k$ for all risk factors in bucket b and $S_c = \sum_k WS_k$ in bucket c; where those values for $S_b$ and $S_c$ produce a negative number for the overall sum of $\sum_b K_b^2 + \sum_b \sum_{c \neq b} \gamma_{bc} S_b S_c$ the institution shall calculate the risk class-specific own funds requirements for delta or vega risk using an alternative specification whereby:

$$S_b = \max\left[\min\left(\sum_k WS_k, K_b\right), -K_b\right]$$

$$S_c = \max\left[\min\left(\sum_k WS_k, K_c\right), -K_c\right]$$

The risk class-specific own funds requirements for delta or vega risk shall be calculated for each risk class in accordance with paragraphs 1 to 8.

[Note: This rule corresponds to Article 325f of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325g** **OWN FUNDS REQUIREMENTS FOR CURVATURE RISK**

1. An institution shall perform the calculations laid down in paragraph 2 for each risk factor of the instruments subject to the own funds requirement for curvature risk, except for the risk factors referred to in paragraph 3.

   For a given risk factor, an institution shall perform those calculations on a net basis across all the positions of the instruments subject to the own funds requirement for curvature risk that contain that risk factor.

2. For a given risk factor $k$ included in one or more instruments referred to in paragraph 1, an institution shall calculate the upward net curvature risk position of that risk factor ($CVR_k^+$) and the downward net curvature risk position of that risk factor ($CVR_k^-$) as follows:

$$CVR_k^+ = -\sum_i CVR_{ik}^+$$

$$CVR_k^- = -\sum_i CVR_{ik}^-$$

$$CVR_{ik}^+ = V_i\left(x_k^{RW(Curvature)^+}\right) - V_i(x_k) - RW_k^{Curvature} \times s_{ik}$$

$$CVR_{ik}^- = V_i\left(x_k^{RW(Curvature)^-}\right) - V_i(x_k) + RW_k^{Curvature} \times s_{ik}$$

where:

$i$ = the index that denotes all the positions of instruments referred to in paragraph 1 and including risk factor $k$;

$x_k$ = the current value of risk factor $k$;

$V_i(x_k)$ = the value of instrument $i$ as estimated by the pricing model of the institution based on the current value of risk factor $k$;

$V_i\left(x_k^{RW(Curvature)^+}\right)$ = the value of instrument $i$ as estimated by the pricing model of the institution based on an upward shift of the value of risk factor $k$;

$V_i\left(x_k^{RW(Curvature)^-}\right)$ = the value of instrument $i$ as estimated by the pricing model of the institution based on a downward shift of the value of risk factor $k$;

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$RW_k^{Curvature}$ = the risk weight applicable to risk factor $k$ determined in accordance with Section 6;

$s_{ik}$ = the delta sensitivity of instrument $i$ with respect to risk factor $k$, calculated in accordance with Article 325r.

3. By way of derogation from paragraph 2, for curves of risk factors that belong to the *GIRR*, *CSR* and commodity risk classes, an institution shall perform the calculations laid down in paragraph 6 at the level of the entire curve instead of at the level of each risk factor that belongs to the curve.

   For the purposes of the calculation referred to in paragraph 2, where $x_k$ is a curve of risk factors allocated to the *GIRR*, *CSR* and commodity risk classes, $s_{ik}$ shall be the sum of the delta sensitivities to the risk factor of the curve across all tenors of the curve.

4. In order to determine a bucket-level own funds requirement for curvature risk, an institution shall aggregate, in accordance with the following formula the upward and downward net curvature risk positions, calculated in accordance with paragraph 2, of all the risk factors assigned to that bucket in accordance with Sub-section 1 of Section 3:

$$K_b = \begin{cases} \max(K_b^+, K_b^-)\text{; where } K_b^+ \neq K_b^- \\ K_b^+\text{; where } K_b^+ = K_b^- \text{ and } \sum_k CVR_k^+ > \sum_k CVR_k^- \\ K_b^-\text{; otherwise} \end{cases}$$

   where:

   $b =$ the index that denotes a bucket of a given risk class;

   $K_b$= the own funds requirement for curvature risk for bucket $b$;

   $K_b^+ = \sqrt{\max(0, \sum_k \max(CVR_k^+, 0)^2 + \sum_{l \neq k} \sum_k \rho_{kl} CVR_k^+ CVR_l^+ \psi(CVR_k^+, CVR_l^+))}$;

   $K_b^- = \sqrt{\max(0, \sum_k \max(CVR_k^-, 0)^2 + \sum_{l \neq k} \sum_k \rho_{kl} CVR_k^- CVR_l^- \psi(CVR_k^-, CVR_l^-))}$;

   $\psi(x, y) = \begin{cases} 0\text{; where } x < 0 \text{ and } y < 0 \\ 1\text{; otherwise} \end{cases}$;

   $\rho_{kl} =$ the intra-bucket correlations between risk factors $k$ and $l$ as prescribed in Section 6;

   $k, l =$ the indices that denote all the risk factors $k$ and $l$ as included in one or more instruments referred to in paragraph 1;

   $CVR_k^+ =$ the upward net curvature risk position;

   $CVR_k^- =$ the downward net curvature risk position.

5. By way of derogation from paragraph 4, for the bucket-level own funds requirements for curvature risk of bucket 16 of Table 4 in Article 325ah, of bucket 16 of Table 6 in Article 325ak, of bucket 25 of Table 7 in Article 325am and of bucket 11 of Table 8 in Article 325ap, an institution shall use the following formula:

$$K_b = \max\left(\sum_k max(CVR_k^+, 0), \sum_k max(CVR_k^-, 0)\right)$$

6. An institution shall calculate the risk class own funds requirements for curvature risk by aggregating all the bucket-level own funds requirements for curvature risk within a given risk class as follows:

$$RCCR = \sqrt{\max\left(0, \sum_b K_b^2 + \sum_{c \neq b} \sum_b \gamma_{bc} S_b S_c \psi(S_b, S_c)\right)}$$

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where:

$b, c$ = the indices that denote all the buckets of a given risk class that corresponds to instruments referred to in paragraph 1;

$K_b$ = own funds requirements for curvature risk for bucket $b$;

$$S_b = \begin{cases} \sum_k CVR_k^+ \text{; where } K_b = K_b^+ \text{ in accordance with paragraph 4} \\ \sum_k CVR_k^- \text{; otherwise} \end{cases}$$

$$\psi(x, y) = \begin{cases} 0 \text{; where } x < 0 \text{ and } y < 0 \\ 1 \text{; otherwise} \end{cases}$$

$\gamma_{bc}$ = the inter-bucket correlations between buckets $b$ and $c$ as set out in Section 6.

7. An institution must ensure the own funds requirement for curvature risk is the sum of the risk class own funds requirements for curvature risk calculated in accordance with paragraph 6 across all risk classes to which at least one risk factor of the instruments referred to in paragraph 1 belongs.

[Note: This rule corresponds to Article 325g of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325h** **AGGREGATION OF RISK CLASS-SPECIFIC OWN FUNDS REQUIREMENTS FOR DELTA, VEGA AND CURVATURE RISKS**

1. An institution shall aggregate risk class-specific own funds requirements for delta, vega and curvature risks in accordance with the process set out in paragraphs 2, 3 and 4.

2. The process to calculate the risk class-specific own funds requirements for delta, vega and curvature risks described in Articles 325f and 325g shall be performed three times per risk class, each time using a different set of correlation parameters $\rho_{kl}$ (correlation between risk factors within a bucket) and $\gamma_{bc}$ (correlation between buckets within a risk class). Each of those three sets shall correspond to a different scenario, as follows:

   (a) the medium correlations scenario, whereby the correlation parameters $\rho_{kl}$ and $\gamma_{bc}$ remain unchanged from those specified in Section 6;

   (b) the high correlations scenario, whereby the correlation parameters $\rho_{kl}$ and $\gamma_{bc}$ that are specified in Section 6 shall be uniformly multiplied by 1.25, with $\rho_{kl}$ and $\gamma_{bc}$ subject to a cap at 100%; and

   (c) the low correlations scenario, whereby the correlation parameters $\rho_{kl}^{low} = \max(2 \cdot \rho_{kl} - 100\%, 75\% \cdot \rho_{kl})$ and $\gamma_{bc}^{low} = \max(2 \cdot \gamma_{bc} - 100\%, 75\% \cdot \gamma_{bc})$ respectively.

3. An institution shall calculate the sum of the delta, vega and curvature risk class-specific own funds requirements for each scenario to determine three scenario-specific own funds requirements.

4. The own funds requirement under the sensitivities-based method shall be the highest of the three scenario-specific own funds requirements referred to in paragraph 3.

[Note: This rule corresponds to Article 325h of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 325i** **TREATMENT OF INDEX INSTRUMENTS AND OTHER MULTI-UNDERLYING INSTRUMENTS**

1. An institution shall use a look-through approach for index and other multi-underlying instruments in accordance with the following:

   (a) for the purposes of calculating the own funds requirements for delta and curvature risk, an institution shall consider that they hold individual positions directly in the underlying constituents of the index or other multi-underlying instruments, except for a position in an index included in the *ACTP* for which they shall calculate a single sensitivity to the index;

   (b) an institution may net the sensitivities to a risk factor of a given constituent of an index instrument or other multi-underlying instrument with the sensitivities to the same risk factor of the same constituent of single name instruments, except for positions included in the *ACTP*; and

   (c) for the purposes of calculating the own funds requirements for vega risk, an institution may either consider that they directly hold individual positions in the underlying constituents of the index or other multi-underlying instrument, or calculate a single sensitivity to the underlying of that instrument. In the latter case, an institution shall assign the single sensitivity to the relevant bucket as set out in Sub-section 1 of Section 6 as follows:

      (i) where, taking into account the weightings of that index, more than 75% of constituents in that index would be mapped to the same bucket, an institution shall assign the sensitivity to that bucket and treat it as a single-name sensitivity in that bucket;

      (ii) in all other cases, an institution shall assign the sensitivity to the relevant index bucket.

2. By way of derogation from point (a) of paragraph 1, an institution may calculate a single sensitivity to a position in a *listed* equity or credit index for the purposes of calculating the own funds requirements for delta and curvature risks provided the *listed* equity or credit index meets the conditions set out in paragraph 3. In that case, an institution shall assign the single sensitivity to the relevant bucket as set out in Sub-section 1 of Section 6 as follows:

   (a) where, taking into account the weightings of that *listed* index, more than 75% of constituents in that *listed* index would be mapped to the same bucket, that sensitivity shall be assigned to that bucket and treated as a single-name sensitivity in that bucket;

   (b) in all other cases, an institution shall assign the sensitivity to the relevant *listed* index bucket.

3. An institution may use the approach set out in paragraph 2 for all instruments referencing a *listed* equity or credit index where all the following conditions are met:

   (a) the constituents of the *listed* index and their respective weightings in that index are known;

   (b) the *listed* index contains at least 20 constituents;

   (c) no single constituent contained within the *listed* index represents more than 25% of the total index;

   (d) no set comprising one tenth of the total number of constituents of the *listed* index, rounded up to the next integer, represents more than 60% of the total index; and

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(e) the total market capitalisation of all the constituents of the *listed* index is no less than GBP 32 billion.

4. An institution must exclusively use either:

(a) the approach set out in paragraph 1; or

(b) the approach set out in paragraph 2,

for all instruments that reference the same *listed* equity or credit index that meets the conditions set out in paragraph 3. An institution which has used the approach set out in paragraph 1 for a type of instrument referencing a particular index may only with the prior permission of the *PRA* change to the approach set out in paragraph 2 in respect of such instruments to the extent and subject to any modifications set out in the permission.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

5. An institution must ensure that for an index or other multi-underlying instrument, the sensitivity inputs for the calculation of delta and curvature risks is consistent, irrespective of the approaches used for that instrument.

6. Index or multi-underlying instruments which bear other residual risks as referred to in paragraph 6 of Article 325u shall be subject to the residual risk add-on referred to in Section 4.

[Note: This rule corresponds to Article 325i of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325j** **TREATMENT OF COLLECTIVE INVESTMENT UNDERTAKINGS**

1. Subject to paragraph 6, an institution shall calculate the own funds requirements for market risk of a position in a CIU using one of the following approaches:

(a) where an institution is able to obtain sufficient information about the individual underlying exposures of the CIU, which in aggregate amount to at least 50% of the value of the CIU, the institution shall calculate the own funds requirements for market risk of that CIU position by looking through to the underlying positions of the CIU as follows:

(i) for the underlying exposures of the CIU to which the institution is able to look through that are eligible for the trading book in accordance with the Trading Book (CRR) Part, as if those underlying exposures were positions directly held by the institution; and

(ii) for the underlying exposures of the CIU to which the institution is unable to look through, or for underlying exposures to which the institution is able to look through that are not eligible for the trading book in accordance with the Trading Book (CRR) Part, in accordance with point (b)(i);

(b) where the institution is not able to obtain sufficient information about the individual underlying exposures of the CIU, but the institution has knowledge of the content of the mandate of the CIU and daily price quotes for the CIU can be obtained, the institution shall calculate the own funds requirements for market risk of that CIU position under the sensitivities-based method set out in Section 2 by using one of the following approaches:

(i) the institution may consider the position in the CIU as a single equity position allocated to the bucket ‘other sector’, being item 11 in Table 8 of paragraph 1 of Article 325ap;

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(ii) with the prior permission of the *PRA* to the extent and subject to any modifications set out in the permission, an institution may calculate the own funds requirements for market risk of the CIU in accordance with the limits set in the CIU's mandate and relevant law;

(iii) in accordance with paragraph 4a, the institution may calculate the own funds requirements for market risk of the CIU on a stand-alone basis by treating the CIU as a single equity position and applying a risk weight calculated by a third party;

(c) where the institution does not meet the conditions in points (a) or (b), the institution shall allocate the CIU to the non-trading book.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

Where the mandate of the CIU implies that some exposures in the CIU shall be subject to the own funds requirement for default risk, an institution that uses one of the approaches set out in point (b) shall apply the own funds requirement for default risk set out in Section 5 and the residual risk add-on set out in Section 4, provided that:

(1A) where an institution uses the approach set out in point (b)(i), that institution shall, for the purposes of determining any own funds requirement for default risk, consider the position in the CIU as a single unrated equity position allocated to the bucket 'Unrated' in Table 2 of paragraph 1 of Article 325y; and

(1B) where an institution uses the approach set out in point (b)(iii), that institution shall, for the purposes of determining the residual risk add-on and own funds requirement for default risk, apply separate risk weights calculated by a third party. An institution shall ensure that the third party provides separate calculations for non-securitisations, securitisations that are not included in the *ACTP* and securitisations that are included in the *ACTP*.

An institution that uses the approach set out in point (b)(ii) may calculate the own funds requirements for counterparty credit risk and own funds requirements for *CVA risk* of derivative positions of the CIU, using the simplified approach set out in paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 132A.

2. By way of derogation from paragraph 1, where an institution has a position in a CIU that tracks an index benchmark so that the annualised return difference between the CIU and the tracked index benchmark over the last 12 *months* is below 1% in absolute terms, ignoring fees and commissions, the institution may treat that position as a position in the tracked index benchmark. An institution shall verify compliance with that condition when the institution enters into the position and, after that, at least annually.

   For the purposes of the first sub-paragraph, where data over the last 12 *months* cannot as yet be obtained, an institution may use an annualised return difference for a period shorter than 12 *months*.

3. An institution may use a combination of the approaches referred to in points (a), (b) and (c) of paragraph 1 for its positions in separate CIUs. However, an institution shall use only one of those approaches for all the positions in the same CIU.

4. For the purposes of point (b)(ii) of paragraph 1 and where point (b)(ii) of paragraph 1 applies as the mandate of the CIU implies that some exposures in the CIU shall be subject to the own funds requirement for default risk in accordance with the second sub-paragraph of paragraph 1, an institution shall carry out the calculations under the following provisions:

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(a) for the purposes of calculating the own funds requirement under the sensitivities-based method set out in Section 2, the CIU shall first take position to the maximum extent allowed under its mandate or relevant law in the exposures attracting the highest own funds requirements set out under that Section and shall then continue taking positions in descending order until the maximum total loss limit is reached;

(b) for the purposes of the own fund requirements for the default risk set out in Section 5, the CIU shall first take position to the maximum extent allowed under its mandate or relevant law in the exposures attracting the highest own funds requirements set out under that Section and shall then continue taking positions in descending order until the maximum total loss limit is reached; and

(c) the CIU shall apply leverage to the maximum extent allowed under its mandate or relevant law, where applicable.

The own funds requirements for all positions in the same CIU for which the calculations referred to in the first sub-paragraph are used shall be calculated on a stand-alone basis as a separate portfolio using the approach set out in this Part.

4A. An institution may apply the treatment in point (b)(iii) of paragraph 1 where conditions (a), (b) and (c) are met and may apply the treatment in point (1B) of paragraph 1 where conditions (b) and (c) are met. The conditions are:

(a) the risk weight is determined as the own funds requirements of the CIU calculated on a stand-alone basis in accordance with point (a) of paragraph 1, divided by the delta sensitivity that would be determined if treating the position in the CIU as a single equity position in accordance with point (b)(i) of paragraph 1;

(b) an external auditor has confirmed the adequacy of the third party's calculation of the risk weight, including that the third party has adequate information to perform the calculation in point (a) of this paragraph; and

(c) the institution verifies the appropriateness of the third party's risk weight calculation.

5. An institution may use the approaches referred to in point (a) or (b) of paragraph 1 only where the CIU meets all the conditions set out in paragraph 3 of Credit Risk: Standardised Approach (CRR) Part Article 132.

6. An institution shall treat a position in a CIU which is also a closed-ended investment fund as an equity position in accordance with this Part. For the purposes of this paragraph, the term 'closed-ended investment fund' shall have the meaning given to the term in the *FCA Handbook*.

[Note: This rule corresponds to Article 325j of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325k** **UNDERWRITING PROVISIONS**

[Note: Provision left blank]

**SECTION 3** **RISK FACTOR AND SENSITIVITY DEFINITIONS**

**SUB-SECTION 1** **RISK FACTOR DEFINITIONS**

**Article 325l** **GENERAL INTEREST RATE RISK FACTORS**

1. An institution shall ensure that for all *GIRR* factors, including inflation risk and cross-currency basis risk, there shall be one bucket per currency, each containing different types of risk factor.

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An institution shall ensure that the delta *GIRR* factors applicable to interest rate-sensitive instruments shall be the relevant risk-free rates per currency and per each of the following maturities: 0.25 years, 0.5 years, one year, two years, three years, five years, 10 years, 15 years, 20 years, 30 years. An institution shall assign risk factors to the specified vertices by linear interpolation or by using a method that is most consistent with the pricing functions used by the independent risk control function of the institution to report market risk or profits and losses to *senior management*.

2. An institution shall obtain the risk-free rates per currency from *money-market instruments* held in the trading book of the institution that have the lowest credit risk, such as overnight index swaps.

3. Where an institution cannot apply the approach referred to in paragraph 2, the risk-free rates shall be based on one or more market-implied swap curves used by the institution to mark positions to market, such as the interbank offered rate swap curves.

   Where the data on market-implied swap curves described in paragraph 2 and the first sub-paragraph of this paragraph are insufficient, the risk-free rates may be derived from the most appropriate sovereign bond curve for a given currency.

   Where an institution uses the *GIRR* factors derived in accordance with the procedure set out in the second sub-paragraph of this paragraph for sovereign debt instruments, the sovereign debt instrument shall not be exempted from the own funds requirements for *CSR*. In those cases, where it is not possible to disentangle the risk-free rate from the credit spread component, the sensitivity to the risk factor shall be allocated both to the *GIRR* and to *CSR* classes.

   For the purpose of constructing the risk-free rates per currency:

   (a) an overnight index swap curve (such as Eonia or a new benchmark rate) and a bank offering rate swap curve (such as three-*month* Euribor or other benchmark rates) must be considered two different curves;

   (b) two bank offering rate curves at different maturities (such as three-*month* Euribor and six-*month* Euribor) must be considered two different curves; and

   (c) an onshore and an offshore currency curve (such as onshore Indian rupee and offshore Indian rupee) must be considered two different curves.

4. An institution shall ensure that in the case of *GIRR* factors, each currency constitutes a separate bucket. An institution shall assign risk factors within the same bucket, but with different maturities a different risk weight in accordance with Section 6.

   An institution shall apply additional risk factors for inflation risk to debt instruments whose cash-flows are functionally dependent on inflation rates. Those additional risk factors shall consist of one vector of market implied inflation rates of different maturities per inflation curve in a given currency. For each instrument, the vector shall contain as many components as there are inflation rates used as variables by the institution's pricing model for that instrument.

5. An institution shall calculate the sensitivity of the instrument to the additional risk factor for inflation risk referred to in paragraph 4 as the change in the value of the instrument, according to its pricing model, as a result of a one basis point shift in each of the components of the vector. Each currency shall constitute a separate bucket. Within each bucket, an institution shall treat each inflation curve as a single risk factor, regardless of the number of components of each vector. An institution shall offset all sensitivities to a single inflation curve within a bucket, calculated as described in this paragraph, in order to give rise to a single net sensitivity per inflation curve.

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6. Debt instruments that involve payments in different currencies shall also be subject to cross-currency basis risk between those currencies. For the purposes of the sensitivities-based method, an institution shall apply risk factors which are the cross-currency basis risk of each currency over either US dollar or euro. An institution shall compute cross currency bases that do not relate to either basis over US dollar or basis over euro either on 'basis over US dollar' or 'basis over euro'.

   Each cross-currency basis risk factor shall consist of one vector of cross-currency basis of different maturities per currency. For each debt instrument, the vector shall contain as many components as there are cross-currency bases used as variables by the institution's pricing model for that instrument. Each currency shall constitute a different bucket.

   An institution shall calculate the sensitivity of the instrument to the cross-currency basis risk factor as the change in the value of the instrument, according to its pricing model, as a result of a one basis point shift in each of the components of the vector. Each currency shall constitute a separate bucket. Within each bucket there shall be two possible distinct risk factors: basis over euro and basis over US dollar, regardless of the number of components there are in each cross-currency basis vector. The maximum number of net sensitivities per bucket shall be two.

7. The vega *GIRR* factors applicable to options with underlyings that are sensitive to general interest rate shall be the implied volatilities of the relevant risk-free rates as described in paragraphs 2 and 3, defined along two dimensions:

   (a) the residual maturity of the option, mapped to one or several of the following tenors: 0.5 years, one year, three years, five years, 10 years; and

   (b) the residual maturity of the underlying at the expiry date of the option, mapped to one or more of the following residual maturity tenors: 0.5 years, one year, three years, five years, 10 years.

   Each vega *GIRR* factor shall be assigned to buckets depending on the currency, with one bucket per currency.

8. An institution shall apply curvature *GIRR* factors which consist of one vector of risk-free rates, representing a specific risk-free yield curve, per currency. Each currency shall constitute a different bucket. For each instrument, the vector shall contain as many components as there are different maturities of risk-free rates used as variables by the institution's pricing model for that instrument.

9. An institution shall calculate the sensitivity of the instrument to each risk factor used in the curvature risk formula in accordance with Article 325g. For the purposes of the curvature risk, an institution shall consider vectors corresponding to different yield curves and with a different number of components as the same risk factor, provided that those vectors correspond to the same currency. An institution shall offset sensitivities to the same risk factor. There shall be only one net sensitivity per bucket.

   There shall be no curvature risk own funds requirements for inflation and cross currency basis risks.

[Note: This rule corresponds to Article 325l of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325m** **CREDIT SPREAD RISK FACTORS FOR NON-SECURITISATION**

1. An institution shall apply delta *CSR* factors to non-securitisation instruments that are sensitive to credit spread which are the *issuer* credit spread rates of those instruments, inferred from the relevant debt instruments and credit default swaps, and mapped to each of the following maturities: 0.5 years, one year, three years, five years, 10 years.

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An institution shall identify two distinct risk factors per *issuer* and maturity: one risk factor for debt instruments and one risk factor for credit default swaps. The buckets shall be sector buckets, as referred to in Section 6, and each bucket shall include all the risk factors allocated to the relevant sector.

2. An institution shall apply vega *CSR* factors to options with non-securitisation underlyings that are sensitive to credit spread which are the implied volatilities of the underlyings' *issuer* credit spread rates inferred as laid down in paragraph 1, which shall be mapped to the following maturities in accordance with the maturity of the option subject to own funds requirements: 0.5 years, one year, three years, five years, 10 years. The same buckets shall be used as the buckets that were used for the delta *CSR* for non-securitisation.

3. An institution shall apply curvature *CSR* factors to non-securitisation instruments which consist of one vector of credit spread rates, representing a credit spread curve specific to the *issuer*. For each instrument, the vector shall contain as many components as there are different maturities of credit spread rates used as variables in the institution's pricing model for that instrument. The same buckets shall be used as the buckets that were used for the delta *CSR* for non-securitisation.

4. An institution shall calculate the sensitivity of the instrument to each risk factor used in the curvature risk formula in accordance with Article 325g. For the purposes of the curvature risk, an institution shall consider vectors inferred from either relevant debt instruments or credit default swaps and with a different number of components as the same risk factor, provided that those vectors correspond to the same *issuer*.

[Note: This rule corresponds to Article 325m of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325n** **CREDIT SPREAD RISK FACTORS FOR SECURITISATION**

1. An institution shall apply the *CSR* factors referred to in paragraph 3 to securitisation positions that are included in the *ACTP*, as referred to in paragraphs 6, 7 and 8 of Market Risk: General Provisions (CRR) Part Article 325.

   An institution shall apply the *CSR* factors referred to in paragraph 5 to securitisation positions that are not included in the *ACTP*, as referred to in paragraphs 6, 7 and 8 of Market Risk: General Provisions (CRR) Part Article 325.

2. The buckets applicable to the *CSR* for securitisations that are included in the *ACTP* shall be the same as the buckets applicable to the *CSR* for non-securitisations, as referred to in Section 6.

   The buckets applicable to the *CSR* for securitisations that are not included in the *ACTP* shall be specific to that risk class category, as referred to in Section 6.

3. An institution shall apply *CSR* factors to securitisation positions that are included in the *ACTP* as follows:

   (a) the delta risk factors shall be all the relevant credit spread rates of the *issuers* of the underlying exposures of the securitisation position, inferred from the relevant debt instruments and credit default swaps, and for each of the following maturities: 0.5 years, one year, three years, five years, 10 years.

   (b) the vega risk factors applicable to options with securitisation positions that are included in the *ACTP* as underlyings shall be the implied volatilities of the credit spreads of the *issuers* of the underlying exposures of the securitisation position, inferred as described in point (a) of this paragraph, which shall be mapped to the following maturities in accordance with the maturity of the corresponding option subject to own funds requirements: 0.5 years, one year, three years, five years, 10 years; and

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(c) the curvature risk factors shall be the relevant credit spread yield curves of the *issuers* of the underlying exposures of the securitisation position expressed as a vector of credit spread rates for different maturities, inferred as indicated in point (a) of this paragraph; for each instrument, the vector shall contain as many components as there are different maturities of credit spread rates that are used as variables by the institution's pricing model for that instrument.

4. An institution shall calculate the sensitivity of the securitisation position to each risk factor used in the curvature risk formula as specified in Article 325g. For the purposes of the curvature risk, an institution shall consider vectors inferred either from relevant debt instruments or credit default swaps and with a different number of components as the same risk factor, provided that those vectors correspond to the same *issuer*.

5. An institution shall apply *CSR* factors to securitisation positions that are not included in the *ACTP* which refer to the spread of the tranche rather than the spread of the underlying instruments as follows:

(a) the delta risk factors shall be the relevant tranche credit spread rates, mapped to the following maturities, in accordance with the maturity of the tranche: 0.5 years, one year, three years, five years, 10 years;

(b) the vega risk factors applicable to options with securitisation positions that are not included in the *ACTP* as underlyings shall be the implied volatilities of the credit spreads of the tranches, each of them mapped to the following maturities in accordance with the maturity of the option subject to own funds requirements: 0.5 years, one year, three years, five years, 10 years; and

(c) the curvature risk factors shall be the same as those described in point (a) of this paragraph; to all those risk factors, a common risk weight shall be applied, as referred to in Section 6.

[Note: This rule corresponds to Article 325n of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325o EQUITY RISK FACTORS**

1. The buckets for all equity risk factors shall be the sector buckets referred to in Section 6.

2. An institution shall apply equity delta risk factors which shall be all the equity spot prices and all equity *repo* rates.

For the purposes of equity risk, a specific equity *repo* curve shall constitute a single risk factor, which is expressed as a vector of *repo* rates for different maturities. For each instrument, the vector shall contain as many components as there are different maturities of *repo* rates that are used as variables by the institution's pricing model for that instrument.

An institution shall calculate the sensitivity of an instrument to an equity *repo* risk factor as the change in the value of the instrument, according to its pricing model, as a result of a one basis point shift in each of the components of the vector. An institution shall offset sensitivities to the equity *repo* rate risk factor of the same equity security, regardless of the number of components of each vector.

3. An institution shall apply equity vega risk factors to options with underlyings that are sensitive to equity which shall be the implied volatilities of equity spot prices which shall be mapped to the following maturities in accordance with the maturities of the corresponding options subject to own funds requirements: 0.5 years, one year, three years, five years, 10 years. There shall be no own funds requirements for vega risk for equity *repo* rates.

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4. An institution shall apply equity curvature risk factors to options with underlyings that are sensitive to equity which shall be all the equity spot prices, regardless of the maturity of the corresponding options. There shall be no curvature risk own funds requirements for equity *repo* rates.

[Note: This rule corresponds to Article 325o of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325p COMMODITY RISK FACTORS**

1. The buckets for all commodity risk factors shall be the sector buckets referred to in Section 6.

2. An institution shall apply commodity delta risk factors to commodity sensitive instruments which shall be all the commodity spot prices per commodity type and per each of the following maturities: 0 years, 0.25 years, 0.5 years, one year, two years, three years, five years, 10 years, 15 years, 20 years, 30 years. An institution shall only consider two commodity prices of the same type of commodity, and with the same maturity to constitute the same risk factor where the set of legal terms regarding the delivery location are identical.

3. An institution shall apply commodity vega risk factors to options with underlyings that are sensitive to commodity which shall be the implied volatilities of commodity prices per commodity type, which shall be mapped to the following maturities in accordance with the maturities of the corresponding options subject to own funds requirements: 0.5 years, one year, three years, five years, 10 years. An institution shall consider sensitivities to the same commodity type and allocated to the same maturity to be a single risk factor which the institution shall then offset.

4. An institution shall apply commodity curvature risk factors to options with underlyings that are sensitive to commodity which shall be one set of commodity prices with different maturities per commodity type, expressed as a vector. For each instrument, the vector shall contain as many components as there are prices of that commodity that are used as variables by the institution's pricing model for that instrument. An institution shall not differentiate between commodity prices by delivery location.

   An institution shall calculate the sensitivity of the instrument to each risk factor used in the curvature risk formula as specified in Article 325g. For the purposes of curvature risk, an institution shall consider vectors having a different number of components to constitute the same risk factor, provided that those vectors correspond to the same commodity type.

[Note: This rule corresponds to Article 325p of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325q FOREIGN EXCHANGE RISK FACTORS**

1. An institution shall apply foreign exchange delta risk factors to foreign exchange sensitive instruments which shall be all the spot exchange rates between:

   (a) the currencies either referenced by an instrument or in which an instrument is denominated; and

   (b) the institution's reporting currency or the institution’s base currency, where the institution is using a base currency in accordance with paragraph 7.

   There shall be one bucket per currency pair, containing a single risk factor and a single net sensitivity.

2. An institution shall apply foreign exchange vega risk factors to options with underlyings that are sensitive to foreign exchange which shall be the implied volatilities of exchange rates between

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all applicable currency pairs. Those implied volatilities of exchange rates shall be mapped to the following maturities in accordance with the maturities of the corresponding options subject to own funds requirements: 0.5 years, one year, three years, five years, 10 years. There shall be one bucket per currency pair.

3. An institution shall apply foreign exchange curvature risk factors to instruments with underlyings that are sensitive to foreign exchange which shall be the foreign exchange delta risk factors referred to in paragraph 1.

4. An institution shall not be required to distinguish between onshore and offshore variants of a currency for all foreign exchange delta, vega and curvature risk factors.

5. Where a foreign exchange rate that is the underlying of an instrument $i$ that is subject to own funds requirements for curvature risks neither refers to the institution's reporting currency nor the institution's base currency, if the institution has an approved base currency in accordance with paragraph 7, the institution may divide by 1.5 the corresponding components $CVR_{ik}^{-}$ and $CVR_{ik}^{+}$ set out in paragraph 2 of Article 325g for which $x_k$ is the foreign exchange risk factor between one of the two currencies of the underlying and the institution's reporting currency or the institution's base currency, as applicable.

6. An institution may with the prior permission of the *PRA* divide by 1.5 the components $CVR_{ik}^{-}$ and $CVR_{ik}^{+}$ set out in paragraph 2 of Article 325g for all the foreign exchange risk factors of instruments concerning foreign exchange and subject to own funds requirement for curvature risk to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that the institution calculates an additional set of curvature sensitivities for all foreign exchange risk factors under the assumption that the institution's reporting currency or the institution's base currency, if that institution has an approved base currency in accordance with paragraph 7, as applicable, simultaneously appreciates or depreciates against all other currencies. Those additional sensitivities shall be allocated to a single separate bucket.

   An institution that has been granted the permission set out in the first sub-paragraph shall comply with the requirements set out in that first sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

7. By way of derogation from paragraphs 1 and 3, an institution may with the prior permission of the *PRA* replace its reporting currency by another currency ('the base currency') in all the spot exchange rates to express the delta and curvature foreign exchange risk factors to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that:

   (a) it only uses one base currency;

   (b) it applies the base currency consistently to all its trading book positions and *non-trading book positions*;

   (c) its choice of base currency:

      (i) provides an appropriate risk representation for the institution's positions subject to foreign exchange risks;

      (ii) is compatible with the manner in which the institution manages those foreign exchange risks internally; and

      (iii) is not driven primarily by the desire to reduce the institution's own funds requirements; and

(d) it takes into account the translation risk between the reporting currency and the base currency.

An institution that has been permitted to use a base currency as set out in the first sub-paragraph shall:

(i) convert the resulting own funds requirements for foreign exchange risk into the reporting currency using the prevailing spot exchange rate between the base currency and the reporting currency; and

(ii) comply with the requirements set out in limbs (a) to (d).

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulation* applies]

[Note: Paragraphs 1 to 4 of this rule correspond to paragraphs 1 to 4 of Article 325q of *CRR* as applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 SENSITIVITY DEFINITIONS**

**Article 325r DELTA RISK SENSITIVITIES**

1. An institution shall calculate delta *GIRR* sensitivities as follows:

(a) the sensitivities to risk factors consisting of risk-free rates shall be calculated as follows:

$$S_{rkt} = \frac{V_i(r_{kt} + 0.0001, x, y \ldots) - V_i(r_{kt}, x, y \ldots)}{0.0001}$$

where:

$S_{rkt}$ = the sensitivities to risk factors consisting of risk-free rates;

$r_{kt}$ = the rate of a risk-free curve *k* with maturity *t*;

$V_i(.)$ = the pricing function of instrument *i*;

$x, y$ = risk factors other than $r_{kt}$ in the pricing function $V_i$;

(b) the sensitivities to risk factors consisting of inflation risk and cross-currency basis shall be calculated as follows:

$$S_{xj} = \frac{V_i(X_{ji} + 0.0001 I_m, y, z \ldots) - V_i(X_{ji}, y, z \ldots)}{0.0001}$$

where:

$S_{xj}$ = the sensitivities to risk factors consisting of inflation risk and cross-currency basis;

$X_{ji}$ = a vector of m components representing the implied inflation curve or the cross-currency basis curve for a given currency *j* with *m* being equal to the number of inflation or cross-currency related variables used in the pricing model of instrument *i*;

$I_m$ = the unity matrix of dimension $(1 \cdot m)$;

$V_i(.)$ = the pricing function of the instrument *i*;

$y, z$ = other variables in the pricing model.

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2. An institution shall calculate the delta *CSR* sensitivities for all securitisation and non-securitisation positions as follows:

$$S_{CSkt} = \frac{V_i(CS_{kt} + 0.0001, x, y \ldots) - V_i(CS_{kt}, x, y \ldots)}{0.0001}$$

where:

$S_{CSkt}$ = the delta *CSR* sensitivities for all securitisation and non-securitisation positions;

$CS_{kt}$ = the value of the credit spread of an *issuer k* at maturity *t*;

$V_i(.)$ = the pricing function of instrument *i*;

$x, y$ = risk factors other than $CS_{kt}$ in the pricing function $V_i$.

3. An institution shall calculate delta equity risk sensitivities as follows:

(a) the sensitivities to risk factors consisting of equity spot prices shall be calculated as follows:

$$S_k = \frac{V_i(1.01EQ_k, x, y \ldots) - V_i(EQ_k, x, y \ldots)}{0.01}$$

where:

$S_k$ = the sensitivities to risk factors consisting of equity spot prices;

*k* = a specific equity security;

$EQ_k$ = the value of the spot price of that equity security;

$V_i(.)$ = the pricing function of instrument *i*;

$x, y$ = risk factors other than $EQ_k$ in the pricing function $V_i$;

(b) the sensitivities to risk factors consisting of equity *repo* rates shall be calculated as follows:

$$S_{x_k} = \frac{V_i(X_{ki} + 0.0001I_m, y, z \ldots) - V_i(X_{ji}, y, z \ldots)}{0.0001}$$

where:

$S_{x_k}$ = the sensitivities to risk factors consisting of equity *repo* rates;

*k* = the index that denotes the equity;

$X_{ki}$ = a vector of m components representing the *repo* term structure for a specific equity *k* with m being equal to the number of *repo* rates corresponding to different maturities used in the pricing model of instrument *i*;

$I_m$ = the unity matrix of dimension $(1 \cdot m)$;

$V_i(.)$ = the pricing function of the instrument *i*;

$y, z$ = risk factors other than $X_{ki}$ in the pricing function $V_i$.

4. An institution shall calculate the delta commodity risk sensitivities to each risk factor *k* as follows:

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$$S_k = \frac{V_i(1.01CTY_k, y, z \ldots) - V_i(CTY_k, y, z \ldots)}{0.01}$$

where:

$S_k$ = the delta commodity risk sensitivities;

*k* = a given commodity risk factor;

$CTY_k$ = the value of risk factor *k*;

$V_i(.)$ = the pricing function of instrument *i*;

$y, z$ = risk factors other than $CTY_k$ in the pricing model of instrument *i*.

5. An institution shall calculate the delta foreign exchange risk sensitivities to each foreign exchange risk factor *k* as follows:

$$S_k = \frac{V_i(1.01FX_k, y, z \ldots) - V_i(FX_k, y, z \ldots)}{0.01}$$

where:

$S_k$ = the delta foreign exchange risk sensitivities;

*k* = a given foreign exchange risk factor;

$FX_k$ = the value of the risk factor;

$V_i(.)$ = the pricing function of instrument *i*;

$y, z$ = risk factors other than $FX_k$ in the pricing model of instrument *i*.

[Note: This rule corresponds to Article 325r of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325s VEGA RISK SENSITIVITIES**

1. An institution shall calculate the vega risk sensitivity of an option to a given risk factor *k* as follows:

$$S_k = \frac{V_i(0.01 + vol_k, x, y) - V_i(vol_k, x, y)}{0.01} \cdot vol_k$$

where:

$S_k$ = the vega risk sensitivity of an option;

*k* = a specific vega risk factor, consisting of an implied volatility;

$vol_k$ = the value of that risk factor, which should be expressed as a percentage;

$x, y$ = risk factors other than $vol_k$ in the pricing function $V_i$.

2. In the case of risk classes where vega risk factors have a maturity dimension, but where the rules to map the risk factors are not applicable because the options do not have a maturity, an institution shall map those risk factors to the longest prescribed maturity. An institution shall subject those options to the residual risks add-on.

3. In the case of options that do not have a strike or barrier and options that have multiple strikes or barriers, an institution shall apply the mapping to strikes and maturity used internally by the institution to price the option. An institution shall also subject those options to the residual risks add-on.

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4. An institution shall not calculate the vega risk for securitisation tranches included in the *ACTP*, as referred to in paragraphs 6, 7 and 8 of Market Risk: General Provisions (CRR) Part Article 325, that do not have an implied volatility. An institution shall compute own funds requirements for delta and curvature risk for those securitisation tranches.

[Note: This rule corresponds to Article 325s of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325t REQUIREMENTS ON SENSITIVITY COMPUTATIONS**

1. An institution shall derive sensitivities from the institution's pricing models that serve as a basis for reporting profit and loss to *senior management*, using the formulas set out in this Sub-section.

2. When calculating delta risk sensitivities of instruments with optionality as referred to in point (a) of Article 325e(2), an institution may assume that the implied volatility risk factors remain constant.

3. When calculating vega risk sensitivities of instruments with optionality as referred to in point (b) of Article 325e(2), the following requirements shall apply:

   (a) for *GIRR* and *CSR*, an institution shall assume, for each currency, that the underlying of the volatility risk factors for which vega risk is calculated follows either a lognormal or normal distribution in the pricing models used for those instruments;

   (b) for equity risk, commodity risk and foreign exchange risk, an institution shall assume that the underlying of the volatility risk factors for which vega risk is calculated follows a lognormal distribution in the pricing models used for those instruments.

4. An institution shall calculate all sensitivities except for the sensitivities to *CVAs*.

5. By way of derogation from paragraph 1, an institution may with the prior permission of the *PRA* use alternative definitions of delta risk sensitivities in the calculation of the own funds requirements of a trading book position under this Part to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that:

   (a) those alternative definitions are used for internal risk management purposes and for the reporting of profits and losses to *senior management* by an independent risk control unit within the institution; and

   (b) those alternative definitions are more appropriate for capturing the sensitivities for the position than are the formulas set out in this Sub-section, and that the resulting sensitivities do not materially differ from those formulas.

   An institution that has been granted the permission set out in the first sub-paragraph shall comply with the requirements set out in that first sub-paragraph.

   [Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

6. By way of derogation from paragraph 1, an institution may with the prior permission of the *PRA* calculate vega sensitivities on the basis of a linear transformation of alternative definitions of sensitivities in the calculation of the own funds requirements of a trading book position under this Part to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that:

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(a) those alternative definitions are used for internal risk management purposes and for the reporting of profits and losses to *senior management* by an independent risk control unit within the institution; and

(b) those alternative definitions are more appropriate for capturing the sensitivities for the position than are the formulas set out in this Sub-section, and that the linear transformation referred to in the first sub-paragraph reflects a vega risk sensitivity.

An institution that has been granted the permission set out in the first sub-paragraph shall comply with the requirements set out in that first sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

[Note: This rule corresponds to Article 325t of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 4 THE RESIDUAL RISK ADD-ON

### Article 325u OWN FUNDS REQUIREMENTS FOR RESIDUAL RISKS

1. In addition to the own funds requirements for market risk set out in Section 2, an institution shall apply additional own funds requirements to instruments exposed to residual risks in accordance with this Article.

2. Instruments are considered to be exposed to residual risks where they meet any of the following conditions:

   (a) the instrument is an instrument bearing residual risks where the instrument references an exotic underlying, which, for the purposes of this Part, means a trading book instrument referencing an underlying exposure that is not in the scope of the delta, vega or curvature risk treatments under the sensitivities-based method laid down in Section 2 or the own funds requirements for the default risk set out in Section 5;

   (b) the instrument is an instrument bearing other residual risks, which, for the purposes of this Part, means any of the following instruments:

      (i) instruments that are subject to the own funds requirements for vega and curvature risk under the sensitivities-based method set out in Section 2 and that generate pay-offs that cannot be replicated as a finite linear combination of plain-vanilla options with a single underlying equity price, commodity price, exchange rate, bond price, credit default swap price or interest rate swap;

      (ii) instruments that are positions that are included in the *ACTP* referred to in paragraph 6 of Market Risk: General Provisions (CRR) Part Article 325; but

      (iii) excluding hedges that are included in that *ACTP*, as referred to in paragraph 8 of Market Risk: General Provisions (CRR) Part Article 325.

3. An institution shall calculate the additional own funds requirements referred to in paragraph 1 as the sum of gross notional amounts of the instruments referred to in paragraph 2, multiplied by the following risk weights:

   (a) 1% in the case of instruments referred to in point (a) of paragraph 2; and

   (b) 0.1% in the case of instruments referred to in point (b) of paragraph 2.

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3A. By way of derogation from paragraph 3, an institution may, with the prior permission of the *PRA*, calculate the additional own funds requirement referred to in paragraph 1 for an instrument exposed to residual risks using the approaches specified in the permission, and to the extent and subject to any modifications set out in the permission, if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that for the specified instrument:

(a) using the approach in paragraph 3 is inappropriate and the resulting own funds requirement disproportionate for the instrument; and

(b) the approach specified in the permission is appropriate and captures the residual risks of the instrument.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

4. By way of derogation from paragraph 1, an institution shall not apply the own funds requirement for other residual risks, as determined in accordance with point (b) of paragraph 2, to an instrument that meets any of the following conditions:

(a) the instrument is *listed* on a recognised exchange; or

(b) the instrument is eligible for central clearing in accordance with Regulation (EU) No 648/2012.

4a. By way of derogation from paragraph 1, an institution shall not apply the own funds requirement for residual risks, as determined in accordance with points (a) and (b) of paragraph 2, to a position in an instrument where the instrument perfectly offsets the market risk of another matching position in the trading book, provided that such position is with a third party. Where the position in an instrument matches a position in that instrument with a third party in all respects other than the notional amount of the positions, the institution shall apply own funds requirements for residual risks for that instrument to any remaining net notional position in the instrument after offset of those positions.

5. For the purposes of point (a) in paragraph 2, an exotic underlying shall include, without limitation, the following underlyings:

(a) longevity;

(b) weather;

(c) natural disasters; and

(d) future realised volatility.

6. For the purposes of point (b) of paragraph 2, instruments bearing other residual risks shall include, without limitation, the following instruments:

(a) path-dependent options, which for the purpose of point (b) of paragraph 2 shall include, without limitation:

(i) barrier options;

(ii) Asian options; and

(iii) digital options.

(b) instruments whose value depends on the correlation between multiple underlyings, which for the purpose of paragraph 2 shall include, without limitation:

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(i) basket options, excluding options specified in point (c) of paragraph 7;

(ii) best-of-options;

(iii) spread options;

(iv) basis options;

(v) Bermudan options; and

(vi) Quanto options;

(c) instruments with behavioural risk where a *retail client* may prepay or exercise an option in a manner that does not maximise the value of the instrument for the client.

7. Where an instrument includes one or more of the following risks, this, in itself, shall not cause the instrument to be exposed to residual risks in accordance with paragraph 2:

(a) risk arising from a 'cheapest-to-deliver' option;

(b) risk of a change in an implied volatility parameter necessary for determining the value of an instrument with optionality relative to the implied volatility of other instruments optionality with the same underlying and maturity, but different moneyness;

(c) correlation risk arising from instruments referencing an index; and/or

(d) dividend risk arising from instruments where the underlying is not solely dividend payments.

[Note: Paragraphs 1 to 4 of this rule correspond to paragraphs 1 to 4 of Article 325u of *CRR* as applied immediately before revocation by the *Treasury*]

**SECTION 5 OWN FUNDS REQUIREMENTS FOR THE DEFAULT RISK**

**Article 325v DEFINITIONS AND GENERAL PROVISIONS**

1. For the purposes of this Section 5, the following definitions apply:

(a) 'covered bonds' means CRR covered bonds which meet the requirements set out in Credit Risk: Standardised Approach (CRR) Part Article 129;

(b) 'short exposure' means that the default of an *issuer* or group of *issuers* leads to a gain for the institution, regardless of the type of instrument or transaction creating the exposure;

(c) 'long exposure' means that the default of an *issuer* or group of *issuers* leads to a loss for the institution, regardless of the type of instrument or transaction creating the exposure;

(d) 'gross jump-to-default (JTD) amount' means the estimated size of the loss or gain that the default of the obligor would produce for a specific exposure;

(e) 'net jump-to-default (JTD) amount' means the estimated size of the loss or gain that an institution would incur due to the default of an obligor, after offsetting between gross JTD amounts has taken place;

(f) 'loss given default' or 'LGD' means the loss given default of the obligor on an instrument issued by that obligor expressed as a share of the notional amount of the instrument;

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(g) 'default risk weight' means the percentage representing the estimated probability of the default of each obligor, according to the creditworthiness of that obligor; and

(h) 'Simple, transparent and standardised (STS) securitisation' means securitisations which meet the requirements for simple, transparent and standardised securitisations pursuant to regulation 9 of the Securitisation Regulations 2024 (SI 2024/102).

2. Own funds requirements for the default risk shall apply to debt and equity instruments, to derivative instruments having those instruments as underlyings and to derivatives, the pay-offs or fair values of which are affected by the default of an obligor other than the counterparty to the derivative instrument itself. An institution shall calculate default risk requirements separately for each of the following types of instruments: non-securitisations, securitisations that are not included in the *ACTP* and securitisations that are included in the *ACTP*. An institution shall apply final own funds requirements for the default risk which shall be the sum of those three components.

[Note: This rule corresponds to Article 325v of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 1 OWN FUNDS REQUIREMENTS FOR THE DEFAULT RISK FOR NON-SECURITISATIONS**

**Article 325w GROSS JUMP-TO-DEFAULT AMOUNTS**

1. An institution shall calculate the gross JTD amounts for each long exposure to debt instruments as follows:

$$JTD_{long} = \max\{V_A - V_D; 0\}$$

where:

$JTD_{long}$ = the gross JTD amount for the long exposure;

$V_A$ = the *market value* of the instrument from which the exposures arises for the institution at the time of the calculation;

$V_D$ = the *market value* of the instrument from which the exposures arises for the institution, calculated under the assumption that, at the time of the calculation, the debt instrument defaulted and experienced a recovery rate, calculated with respect to the face value of the debt instrument, equal to (1-LGD) where LGD is LGD as assigned to the debt instruments in accordance with paragraph 3.

2. An institution shall calculate the gross JTD amounts for each short exposure to debt instruments as follows:

$$JTD_{short} = \min\{V_A - V_D; 0\}$$

where:

$JTD_{short}$ = the gross JTD amount for the short exposure;

$V_A$ = the *market value* of the instrument from which the exposures arises for the institution at the time of the calculation;

$V_D$ = the *market value* of the instrument from which the exposures arises for the institution, calculated under the assumption that, at the time of the calculation, the debt instrument defaulted and experienced a recovery rate, calculated with respect to the face value of the debt instrument, equal to (1-LGD) where LGD is LGD as assigned to the debt instruments in accordance with paragraph 3.

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3. For the purpose of determining the recovery rate for the calculation set out in paragraphs 1 and 2, an institution shall apply an LGD for debt instruments as follows:

   (a) exposures to non-senior debt instruments shall be assigned an LGD of 100%;

   (b) exposures to senior debt instruments shall be assigned an LGD of 75%; and

   (c) exposures to covered bonds shall be assigned an LGD of 25%.

4. For exposures to equity instruments, an institution shall calculate the gross JTD amounts as follows, instead of using the formulas referred to in paragraphs 1 and 2:

$$JTD_{long} = \max\{V_A - V_D; 0\}$$

$$JTD_{short} = \min\{V_A - V_D; 0\}$$

   where:

   $JTD_{long}$ = the gross JTD amount for the long exposure;

   $JTD_{short}$ = the gross JTD amount for the short exposure;

   $V_A$ = the *market value* of the instrument from which the exposures arises for the institution at the time of the calculation;

   $V_D$ = the *market value* of the instrument from which the exposures arises for the institution, calculated under the assumption that, at the time of the calculation, the equity instrument defaulted and experienced a full loss in value.

5. In the case of exposures to default risk arising from derivative instruments whose pay-offs in the event of the default of the obligor are not related to the notional amount of a specific instrument issued by that obligor or to the LGD of the obligor or an instrument issued by that obligor, an institution shall calculate the gross JTD amount as the difference between the *market value* of the instrument from which the exposure arises for the institution at the time of the calculation and the *market value* of the instrument from which the exposure arises calculated under the assumption that the obligor defaulted at that time.

6. By way of derogation from paragraph 5, if the obligor was already defaulted at the time of the calculation, and the *market value* of the instrument from which the exposure arises for the institution at the time already reflects the gain or loss resulting from the default of the obligor, an institution shall regard the gross JTD amount of the exposure to be zero.

7. By way of derogation from paragraphs 1, 2 and 4, if the contractual or legal terms of an instrument allow for the unwinding of that instrument with no exposure to default risk, then the gross JTD amount for such instrument shall be equal to zero.

[Note: This rule corresponds to Article 325w of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325x NET JUMP-TO-DEFAULT AMOUNTS**

1. An institution shall calculate net JTD amounts by offsetting the gross JTD amounts of short exposures and long exposures in accordance with this Article. Offsetting shall only be possible between exposures to the same obligor where the short exposures have the same seniority as, or lower seniority than, the long exposures.

2. Offsetting shall be either full or partial, depending on the maturities of the offsetting exposures:

   (a) offsetting shall be full where all offsetting exposures have maturities of one year or more; and

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(b) offsetting shall be partial where at least one of the offsetting exposures has a maturity of less than one year, in which case the size of the JTD amount of each exposure with a maturity of less than one year shall be multiplied by the ratio of the exposure's maturity relative to one year, with a floor of three *months*.

3. Where no offsetting is possible gross JTD amounts shall equal net JTD amounts in the case of exposures with maturities of one year or more. Gross JTD amounts with maturities of less than one year shall be multiplied by the ratio of the exposure's maturity relative to one year, with a floor of three *months*, to calculate net JTD amounts.

4. For the purposes of paragraphs 2 and 3, the maturities of the derivative contracts shall be considered, rather than those of their underlyings. An institution shall assign a maturity of either one year or three *months* to cash equity exposures and may assign a maturity of three *months* to equity derivative exposures, in each case at the institution's discretion.

5. For the purposes of paragraph 1, an institution shall treat a guaranteed bond as an exposure to the underlying obligor, or where the conditions set out in paragraphs 1 and 3 of Credit Risk Mitigation (CRR) Part Article 213 and paragraph 1 of Credit Risk Mitigation (CRR) Part Article 215 are met, to the guarantor.

[Note: Paragraphs 1 to 4 of this rule correspond to paragraphs 1 to 4 of Article 325x of *CRR* as applied immediately before revocation by the *Treasury*]

**Article 325y** **CALCULATION OF THE OWN FUNDS REQUIREMENTS FOR THE DEFAULT RISK**

1. An institution shall multiply net JTD amounts, irrespective of the type of counterparty, by the default risk weights that correspond to their credit quality, as specified in Table 2:

Table 2

| **Credit Quality** | | **Default risk weight** |
|---|---|---|
| Investment grade | Exposures rated as:<br>- AAA by Fitch Ratings Ireland Limited;<br>- Aaa by Moody's Investors Service;<br>- AAA by S&P Global Ratings Europe Limited<br>or equivalently rated by other ECAIs | 0.5% |
| | AA+ to AA - or equivalently rated by other ECAIs | 2% |
| | A+ to A - or equivalently rated by other ECAIs | 3% |
| | BBB+ to BBB - or equivalently rated by other ECAIs | 6% |
| Non- | BB+ to BB - or equivalently | 15% |

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| | | |
|---|---|---|
| investment grade | rated by other ECAIs | |
| | B+ to B - or equivalently rated by other ECAIs | 30% |
| | CCC+ and below - or equivalently rated by other ECAIs | 50% |
| Unrated | | 15% |
| Defaulted | | 100% |

[Note: Table 1 was previously included in Article 325k, which has now been deleted]

2. Exposures which would receive a 0% risk-weight under the *Standardised Approach* shall receive a 0% default risk weight for the own funds requirements for default risk.

3. The weighted net JTD amount shall be allocated to the following buckets: corporates, sovereigns, and local governments/municipalities.

4. Weighted net JTD amounts shall be aggregated within each bucket, in accordance with the following formula:

$$DRC_b = max\{(\sum_{i \in long} RW_i \cdot net\ JTD_i) - WtS \times (\sum_{i \in short} RW_i \cdot |net\ JTD_i|); 0\}$$

where:

$DRC_b$ = the own funds requirement for the default risk for bucket *b*;

*i* = the index that denotes an instrument belonging to bucket *b*;

$RW_i$ = the risk weight;

$WtS$ = a ratio recognising a benefit for hedging relationships within a bucket, which shall be calculated as follows:

$$WtS = \frac{\sum netJTD_{long}}{\sum netJTD_{long} + \sum |netJTD_{short}|}$$

For the purposes of calculating the $DRC_b$ and the $WtS$, the long positions and short positions shall be aggregated for all positions within a bucket, regardless of the credit quality step to which those positions are allocated, to produce the bucket-specific own funds requirements for the default risk.

5. The final own funds requirement for the default risk for non-securitisations shall be calculated as the simple sum of the bucket-level own funds requirements.

6. The determination of rating for a net JTD amount shall be on the basis of an external credit assessment by a nominated ECAI of the corresponding *issuer*. For an individual *issuer* for which a credit assessment by a nominated ECAI is not available, an institution shall map the internal rating of the *issuer* to one of the external credit assessments using the approach referred to in the Credit Risk: Internal Ratings Based Approach (CRR) Part.

[Note: Paragraphs 1 to 5 of this rule correspond to paragraphs 1 to 5 of Article 325y of *CRR* as applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 OWN FUNDS REQUIREMENTS FOR THE DEFAULT RISK FOR SECURITISATIONS NOT INCLUDED IN THE ACTP**

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**Article 325z JUMP-TO-DEFAULT AMOUNTS**

1. Gross jump-to-default amounts for securitisation exposures shall be their *market value* or, if their *market value* is not available, their fair value determined in accordance with the applicable accounting framework.

2. An institution shall determine net jump-to-default amounts by offsetting long gross jump-to-default amounts and short gross jump-to-default amounts. Offsetting shall only be possible between securitisation exposures with the same underlying asset pool and belonging to the same tranche. No offsetting shall be permitted between securitisation exposures with different underlying asset pools, even where the attachment and detachment points are the same.

3. Where, by decomposing or combining existing securitisation exposures, other existing securitisation exposures can be perfectly replicated, except for the maturity dimension, the exposures resulting from that decomposition or combination may be used instead of the existing securitisation exposures for the purposes of offsetting.

4. Where, by decomposing or combining existing exposures in underlying names, the entire tranche structure of an existing securitisation exposure can be perfectly replicated, the exposures resulting from that decomposition or combination may be used instead of the existing securitisation exposures for the purposes of offsetting. Where underlying names are used in that manner, they shall be removed from the non-securitisation default risk treatment.

5. Article 325x shall apply to both existing securitisation exposures and to securitisation exposures used in accordance with paragraph 3 or 4 of this Article. The relevant maturities shall be those of the securitisation tranches.

[Note: This rule corresponds to Article 325z of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325aa CALCULATION OF THE OWN FUNDS REQUIREMENT FOR THE DEFAULT RISK FOR SECURITISATIONS**

1. An institution shall multiply net JTD amounts of securitisation exposures by 8% of the risk weight that applies to the relevant securitisation exposure, including STS securitisations, in the non-trading book in accordance with the hierarchy of approaches set out in the Credit Risk: Standardised Approach (CRR) Part and irrespective of the type of counterparty.

2. An institution shall apply a maturity of one year to all tranches, where risk weights are calculated in accordance with Article 259 or Article 263 of *CRR*.

3. An institution shall cap the risk-weighted JTD amounts for individual cash securitisation exposures at the fair value of the position.

4. An institution shall assign risk-weighted net JTD amounts to the following buckets:

   (a) one common bucket for all corporates, regardless of the region;

   (b) 44 different buckets corresponding to one bucket per region for each of the 11 asset classes defined in the second and third sub-paragraphs;

   For the purposes of the first sub-paragraph, the 11 asset classes are:

   (i) asset-backed commercial paper;

   (ii) auto loans/leases;

   (iii) residential mortgage-backed securities;

   (iv) credit cards;

   (v) commercial mortgage-backed securities;

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(vi) collateralised loan obligations;

(vii) collateralised debt obligations squared;

(viii) small and medium-sized enterprises;

(ix) student loans;

(x) other retail; and

(xi) other wholesale.

For the purposes of the first sub-paragraph, the four regions are:

(A) Asia;

(B) Europe;

(C) North America; and

(D) the rest of the world.

5. In order to assign a securitisation exposure to a bucket, an institution shall rely on a classification commonly used in the market. An institution shall assign each securitisation exposure to only one of the buckets referred to in paragraph 4. Any securitisation exposure that an institution cannot assign to a bucket for an asset class or region shall be assigned to the asset class 'other retail' or 'other wholesale' or to the region 'rest of the world', respectively.

6. An institution shall aggregate weighted net JTD amounts within each bucket in the same manner as for default risk of non-securitisation exposures, using the formula in paragraph 4 of Article 325y, resulting in the own funds requirement for the default risk for each bucket.

7. The final own funds requirement for the default risk for securitisations not included in the *ACTP* shall be calculated as the simple sum of the bucket-level own funds requirements.

[Note: This rule corresponds to Article 325aa of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 3 OWN FUNDS REQUIREMENT FOR THE DEFAULT RISK OF SECURITISATIONS INCLUDED IN THE ACTP**

**Article 325ab SCOPE**

1. For the *ACTP*, an institution shall ensure that the own funds requirements includes the default risk for securitisation exposures and for non-securitisation hedges. Those hedges shall be removed from the default risk calculations for non-securitisation. There shall be no diversification benefit between the own funds requirements for the default risk for non-securitisations, the own funds requirements for the default risk for securitisations not included in the *ACTP* and own funds requirements for the default risk for securitisations included in the *ACTP*.

2. For traded non-securitisation credit and equity derivatives, an institution shall determine JTD amounts by individual constituents applying a look-through approach.

[Note: This rule corresponds to Article 325ab of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ac JUMP-TO-DEFAULT AMOUNTS FOR THE ACTP**

1. For the purposes of this Article, the following definitions apply:

(a) 'decomposition using a valuation model' means that a single name constituent of a securitisation is valued as the difference between the unconditional value of the

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securitisation and the conditional value of the securitisation assuming that single name defaults with an LGD of 100%;

(b) 'replication' means that the combination of individual securitisation index tranches are combined to replicate another tranche of the same index series, or to replicate an untranched position in the index series; and

(c) 'decomposition' means replicating an index by a securitisation of which the underlying exposures in the pool are identical to the single name exposures that compose the index.

2. The gross JTD amounts for securitisation exposures and non-securitisation exposures in the *ACTP* shall be their *market value* or, if their *market value* is not available, their fair value determined in accordance with the applicable accounting framework.

3. Nth-to-default products shall be treated as tranched products with the following attachment and detachment points:

(a) attachment point = (N – 1) / Total Names;

(b) detachment point = N / Total Names,

where 'Total Names' shall be the total number of names in the underlying basket or pool.

4. An institution shall determine net JTD amounts by offsetting long gross JTD amounts and short gross JTD amounts. Offsetting shall only be possible between exposures that are otherwise identical except for maturity. Offsetting shall only be possible as follows:

(a) for indices, index tranches and bespoke tranches, offsetting shall be possible across maturities within the same index family, series and tranche, subject to the provisions on exposures of less than one year laid down in Article 325x; long gross JTD amounts and short gross JTD amounts that perfectly replicate each other may be offset through decomposition into single name equivalent exposures using a valuation model; in such cases, the sum of the gross JTD amounts of the single name equivalent exposures obtained through decomposition shall be equal to the gross JTD amount of the undecomposed exposure;

(b) offsetting through decomposition as set out in point (a) shall not be allowed for resecuritisations or derivatives on securitisation;

(c) for indices and index tranches, offsetting shall be possible across maturities within the same index family, series and tranche by replication or by decomposition; where the long exposures and short exposures are otherwise equivalent, apart from one residual component, offsetting shall be allowed and the net JTD amount shall reflect the residual exposure;

(d) different tranches of the same index series, different series of the same index and different index families may not be used to offset each other.

[Note: This rule corresponds to Article 325ac of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ad** **CALCULATION OF THE OWN FUNDS REQUIREMENTS FOR THE DEFAULT RISK FOR THE ACTP**

1. An institution shall multiply net JTD amounts by:

(a) for non-tranched products, the default risk weights corresponding to their credit quality as specified in paragraphs 1 and 2 of Article 325y;

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(b) for tranched products, the default risk weights referred to in paragraph 1 of Article 325aa.

2. Risk-weighted net JTD amounts shall be assigned to buckets that correspond to an index.

3. Weighted net JTD amounts shall be aggregated within each bucket in accordance with the following formula:

$$DRC_b = max\left\{\left(\sum_{i\in long} RW_i \cdot net\ JTD_i\right) - WtS_{ACTP} \cdot \left(\sum_{i\in short} RW_i \cdot |net\ JTD_i|\right); 0\right\}$$

where:

$DRC_b$ = the own funds requirement for the default risk for bucket *b*;

*i* = an instrument belonging to bucket *b*;

$WtS_{ACTP}$ = the ratio recognising a benefit for hedging relationships within a bucket, which shall be calculated in accordance with the $WtS$ formula set out in paragraph 4 of Article 325y, but using long positions and short positions across the entire *ACTP* and not just the positions in the particular bucket.

4. An institution shall calculate the own funds requirements for the default risk for the *ACTP* by using the following formula:

$$DRC_{ACTP} = max\left\{\sum_b max\{DRC_b, 0\} + 0.5 \cdot (min\{DRC_b, 0\}); 0\right\}$$

where:

$DRC_{ACTP}$ = the own funds requirement for the default risk for the *ACTP*;

$DRC_b$ = the own funds requirement for the default risk for bucket *b*.

[Note: This rule corresponds to Article 325ad of *CRR* as it applied immediately before revocation by the *Treasury*]

**SECTION 6 RISK WEIGHTS AND CORRELATIONS**

**SUB-SECTION 1 DELTA RISK WEIGHTS AND CORRELATIONS**

**Article 325ae RISK WEIGHTS FOR GENERAL INTEREST RATE RISK**

1. For currencies not included in the most liquid currency sub-category as referred to in point (a) of paragraph 8 of Market Risk: Internal Model Approach (CRR) Part Article 325bd, the risk weights of the sensitivities to the risk-free rate risk factors shall be the following for each sub-bucket in Table 3.

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Table 3

| Sub-Bucket | Maturity | Risk Weight |
|---|---|---|
| 1 | 0.25 years | 1.7% |
| 2 | 0.5 years | 1.7% |
| 3 | One year | 1.6% |
| 4 | Two years | 1.3% |
| 5 | Three years | 1.2% |
| 6 | Five years | 1.1% |
| 7 | 10 years | 1.1% |
| 8 | 15 years | 1.1% |
| 9 | 20 years | 1.1% |
| 10 | 30 years | 1.1% |

2. An institution shall apply a risk weight of 1.6% to all sensitivities of inflation and to cross currency basis risk factors.

3. The risk weights of all risk factors relating to the currencies included in the most liquid currency sub-category as referred to in point (a) of paragraph 8 of Market Risk: Internal Model Approach (CRR) Part Article 325bd and to the domestic currency of the institution shall be the risk weights referred to in Table 3 and paragraph 2 divided by $\sqrt{2}$.

[Note: This rule corresponds to Article 325ae of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325af INTRA BUCKET CORRELATIONS FOR GENERAL INTEREST RATE RISK**

1. Between two weighted sensitivities of *GIRR* factors $WS_k$ and $WS_l$ within the same bucket, and with the same assigned maturity but corresponding to different curves, an institution shall set correlation $\rho_{kl}$ at 99.90%.

2. Between two weighted sensitivities of *GIRR* factors $WS_k$ and $WS_l$ within the same bucket, corresponding to the same curve, but having different maturities, an institution shall set correlation in accordance with the following formula:

$$max\left[e^{\left(-\theta\cdot\frac{|T_k-T_l|}{min\{T_k;T_l\}}\right)};40\%\right]$$

where:

$T_k$ (respectively $T_l$) = the maturity that relates to the risk free rate;

$\theta$ = 3%.

3. Between two weighted sensitivities of *GIRR* factors $WS_k$and $WS_l$ within the same bucket, corresponding to different curves and having different maturities, an institution shall set the

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correlation $\rho_{kl}$ as equal to the correlation parameter specified in paragraph 2, multiplied by 99.90%.

4. Between any given weighted sensitivity of *GIRR* factors $WS_k$ and any given weighted sensitivity of inflation risk factors $WS_l$, an institution shall set the correlation at 40%.

5. Between any given weighted sensitivity of cross-currency basis risk factors $WS_k$ and any given weighted sensitivity of *GIRR* factors $WS_l$, including another cross-currency basis risk factor, the correlation shall be set at 0%.

6. Between any given weighted sensitivity of inflation risk factor $WS_k$ and any given weighted sensitivity of a different inflation risk factor in the same currency $WS_l$, an institution shall set the correlation at 99.90%.

[Note: Paragraphs 1 to 5 of this rule correspond to paragraphs 1 to 5 of Article 325af of *CRR* as applied immediately before revocation by the *Treasury*]

**Article 325ag** **CORRELATIONS ACROSS BUCKETS FOR GENERAL INTEREST RATE RISK**

1. An institution shall use the parameter $\gamma_{bc}$ = 50% to aggregate risk factors belonging to different buckets.

2. [Note: Provision left blank]

[Note: Paragraph 1 of this rule corresponds to paragraph 1 of Article 325ag of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ah** **RISK WEIGHTS FOR CREDIT SPREAD RISK FOR NON-SECURITISATIONS**

1. Risk weights for the sensitivities to *CSR* factors for non-securitisations shall be the same for all maturities (0.5 years, one year, three years, five years, 10 years) within each bucket in Table 4:

Table 4

| Bucket number | Credit quality | Sector | RW |
|---|---|---|---|
| 1 | All | The central government of the *UK* and the *Bank of England* | 0.5% |
| | Investment grade | Central government, including central banks, of a *third country*, *multilateral development banks* and international organisations referred to in Credit Risk: Standardised Approach (CRR) Part Article 117(2) or Article 118 | 0.5% |
| 2 | | Regional or local authority and public sector entities | 1.0% |
| 3 | | Financial sector entities including credit institutions incorporated or established by a central government, a regional | 5.0% |

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| | | | |
|---|---|---|---|
| | | government or a local authority and promotional lenders | |
| 4 | | Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying | 3.0% |
| 5 | | Consumer goods and services, transportation and storage, administrative and support service activities | 3.0% |
| 6 | | Technology, telecommunications | 2.0% |
| 7 | | Health care, utilities, professional and technical activities | 1.5% |
| 8 | Investment grade (AA- or higher (or equivalently rated by ECAIs)) | Covered bonds issued by credit institutions | 1.5% |
| | Investment grade (Other) | Covered bonds issued by credit institutions | 2.5% |
| 9 | Non-Investment grade and unrated | Central government, including central banks, of a *third country*, *multilateral development banks* and international organisations referred to in Credit Risk: Standardised Approach (CRR) Part Article 117(2) or Article 118 | 2.0% |
| 10 | | Regional or local authority and public sector entities | 4.0% |
| 11 | | Financial sector entities including credit institutions incorporated or established by a central government, a regional government or a local authority and promotional lenders | 12.0% |
| 12 | | Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying | 7.0% |

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| | | | |
|---|---|---|---|
| 13 | | Consumer goods and services, transportation and storage, administrative and support service activities | 8.5% |
| 14 | | Technology, telecommunications | 5.5% |
| 15 | | Health care, utilities, professional and technical activities | 5.0% |
| 16 | Other Sector | | 12.0% |
| 17 | *Listed* credit indices with a majority of its individual constituents being investment grade | | 1.5% |
| 18 | *Listed* credit indices with a majority of its individual constituents being non-investment grade or unrated | | 5.0% |

2. To assign a risk exposure to a sector, an institution shall rely on a classification that is commonly used in the market for grouping *issuers* by sector. An institution shall assign each *issuer* to only one of the sector buckets in Table 4. Risk exposures from any *issuer* that an institution cannot assign to a sector in such a manner shall be assigned to bucket 16 in Table 4.

3. The assignment of a risk exposure to investment grade or non-investment grade and unrated shall be on the basis of an external credit assessment by a nominated ECAI of the corresponding *issuer*. For an individual *issuer* for which a credit assessment by a nominated ECAI is not available, an institution using the approach referred to in the Credit Risk: Internal Ratings Based Approach (CRR) Part shall map the internal rating of the *issuer* to one of the external credit assessments.

4. An institution shall assign an exposure to any non-tranched mortgage-backed security issued by an entity established or chartered by a government to serve public purposes specified by the legislative body of a country, but whose debt obligations are not explicitly guaranteed by the credit of that government (also known as a 'government sponsored enterprise') to bucket 2 in Table 4.

[Note: Paragraphs 1 and 2 of this rule correspond to paragraphs 1 and 2 of Article 325ah of *CRR* as applied immediately before revocation by the *Treasury*]

**Article 325ai** **INTRA-BUCKET CORRELATIONS FOR CREDIT SPREAD RISK FOR NON-SECURITISATIONS**

1. An institution shall set the correlation parameter $\rho_{kl}$ between two sensitivities $WS_k$ and $WS_l$ within the same bucket as follows:

$$\rho_{kl} = \rho_{kl}^{(name)} \cdot \rho_{kl}^{(tenor)} \cdot \rho_{kl}^{(basis)}$$

where:

$\rho_{kl}^{(name)}$ = 1 where the two names of sensitivities *k* and *l* are identical;

35% where the two names of sensitivities *k* and *l* are assigned to buckets 1 to 15 in Table 4 of paragraph 1 of Article 325ah; and

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80% where the two names of sensitivities *k* and *l* are assigned to buckets 17 to 18 in Table 4 of paragraph 1 of Article 325ah;

$\rho_{kl}^{(tenor)}$ = 1 where the two vertices of the sensitivities *k* and *l* are identical, otherwise it shall be equal to 65%;

$\rho_{kl}^{(basis)}$ = 1 where the two sensitivities are related to the same curves, otherwise it shall be equal to 99.90%.

2. The correlation parameters referred to in paragraph 1 shall not apply to bucket 16 in Table 4 of paragraph 1 of Article 325ah. The own funds requirement for the delta risk aggregation formula within bucket 16 in Table 4 of paragraph 1 of Article 325ah shall be equal to the sum of the absolute values of the net weighted sensitivities allocated to that bucket:

$$K_{b(bucket\ 16)} = \sum_{k} |WS_k|$$

[Note: This rule corresponds to Article 325ai of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325aj** **CORRELATIONS ACROSS BUCKETS FOR CREDIT SPREAD RISK FOR NON-SECURITISATIONS**

An institution shall set the correlation parameter $\gamma_{bc}$ that applies to the aggregation of sensitivities between different buckets as follows:

$$\gamma_{bc} = \gamma_{bc}^{(rating)} \cdot \gamma_{bc}^{(sector)}$$

where:

$\gamma_{bc}^{(rating)}$ = 1 where the two buckets have the same rating category (either investment grade, non-investment grade or unrated), otherwise it shall be equal to 50%;

$\gamma_{bc}^{(sector)}$ = 1 where the two buckets belong to the same sector, and otherwise shall be equal to the corresponding percentage set out in Table 5:

Table 5

| **Bucket** | **1 and 9** | **2 and 10** | **3 and 11** | **4 and 12** | **5 and 13** | **6 and 14** | **7 and 15** | **8** | **16** | **17** | **18** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1 and 9** | | 75% | 10% | 20% | 25% | 20% | 15% | 10% | 0% | 45% | 45% |
| **2 and 10** | | | 5% | 15% | 20% | 15% | 10% | 10% | 0% | 45% | 45% |
| **3 and 11** | | | | 5% | 15% | 20% | 5% | 20% | 0% | 45% | 45% |
| **4 and 12** | | | | | 20% | 25% | 5% | 5% | 0% | 45% | 45% |
| **5 and 13** | | | | | | 25% | 5% | 15% | 0% | 45% | 45% |
| **6 and** | | | | | | | 5% | 20% | 0% | 45% | 45% |

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| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **14** | | | | | | | | | | | |
| **7 and 15** | | | | | | | | 5% | 0% | 45% | 45% |
| **8** | | | | | | | | | 0% | 45% | 45% |
| **16** | | | | | | | | | | 0% | 0% |
| **17** | | | | | | | | | | | 75% |
| **18** | | | | | | | | | | | |

[Note: This rule corresponds to Article 325aj of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ak** **RISK WEIGHTS FOR CREDIT SPREAD RISK FOR SECURITISATIONS INCLUDED IN THE ACTP**

1. Risk weights for the sensitivities to *CSR* factors for securitisations included in the *ACTP* risk factors shall be the same for all maturities (0.5 years, one year, three years, five years, 10 years) within each bucket and shall be specified for each bucket in Table 6:

Table 6

| Bucket number | Credit quality | Sector | RW |
|---|---|---|---|
| 1 | All | The central government of the *UK* and the *Bank of England* | 4.0% |
| | Investment grade | Central government, including central banks, of a *third country*, *multilateral development banks* and international organisations referred to in Credit Risk: Standardised Approach (CRR) Part Article 117(2) or Article 118 | 4.0% |
| 2 | | Regional or local authority and public sector entities | 4.0% |
| 3 | | Financial sector entities including credit institutions incorporated or established by a central government, a regional government or a local authority and promotional lenders | 8.0% |
| 4 | | Basic materials, energy, industrials, agriculture, | 5.0% |

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| | | | |
|---|---|---|---|
| | | manufacturing, mining and quarrying | |
| 5 | | Consumer goods and services, transportation and storage, administrative and support service activities | 4.0% |
| 6 | | Technology, telecommunications | 3.0% |
| 7 | | Health care, utilities, professional and technical activities | 2.0% |
| 8 | | Covered bonds issued by credit institutions | 6.0% |
| 9 | Non-Investment grade and unrated | Central government, including central banks, of a *third country*, *multilateral development banks* and international organisations referred to in Credit Risk: Standardised Approach (CRR) Part Article 117(2) or Article 118 | 13.0% |
| 10 | | Regional or local authority and public sector entities | 13.0% |
| 11 | | Financial sector entities including credit institutions incorporated or established by a central government, a regional government or a local authority and promotional lenders | 16.0% |
| 12 | | Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying | 10.0% |
| 13 | | Consumer goods and services, transportation and storage, administrative and support service activities | 12.0% |
| 14 | | Technology, telecommunications | 12.0% |

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| | | | |
|---|---|---|---|
| 15 | | Health care, utilities, professional and technical activities | 12.0% |
| 16 | Other Sector | | 13.0% |

2. The assignment of a risk exposure to investment grade or non-investment grade and unrated shall be on the basis of an external credit assessment by a nominated ECAI of the corresponding *issuer*. For an individual *issuer* for which a credit assessment by a nominated ECAI is not available, an institution using the approach referred to in the Credit Risk: Internal Ratings Based Approach (CRR) Part shall map the internal rating of the *issuer* to one of the external credit assessments.

[Note: This rule corresponds to Article 325ak of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325al** **CORRELATIONS FOR CREDIT SPREAD RISK FOR SECURITISATIONS INCLUDED IN THE ACTP**

1. An institution shall derive the delta risk correlation $\rho_{kl}$ in accordance with Article 325ai, except that, for the purposes of this paragraph, $\rho_{kl}{}^{(basis)}$ shall be equal to 1 where the two sensitivities are related to the same curves, otherwise it shall be equal to 99.00%.

2. An institution shall derive $\gamma_{bc}$ in accordance with Article 325aj.

[Note: This rule corresponds to Article 325al of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325am** **RISK WEIGHTS FOR CREDIT SPREAD RISK FOR SECURITISATIONS NOT INCLUDED IN THE ACTP**

1. Risk weights for the sensitivities to *CSR* factors for securitisation not included in the *ACTP* shall be the same for all maturities (0.5 years, one year, three years, five years, 10 years) within each bucket in Table 7 as follows:

Table 7

| **Bucket number** | **Credit quality** | **Sector** | **RW** |
|---|---|---|---|
| 1 | Senior Investment Grade | RMBS - Prime | 0.9% |
| 2 | | RMBS - Mid-prime | 1.5% |
| 3 | | RMBS - Sub-prime | 2.0% |
| 4 | | CMBS | 2.0% |
| 5 | | Asset backed securities (ABS) - Student Loans | 0.8% |
| 6 | | ABS - Credit Cards | 1.2% |
| 7 | | ABS - Auto | 1.2% |

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| | | | |
|---|---|---|---|
| 8 | | Collateralised loan obligations (CLO) non-*ACTP* | 1.4% |
| 9 | Non-senior Investment Grade | RMBS - Prime | 1.125% |
| 10 | | RMBS - Mid-prime | 1.875% |
| 11 | | RMBS - Sub-prime | 2.5% |
| 12 | | CMBS | 2.5% |
| 13 | | ABS - Student Loans | 1.0% |
| 14 | | ABS - Credit Cards | 1.5% |
| 15 | | ABS - Auto | 1.5% |
| 16 | | Collateralised loan obligations (CLO) non-*ACTP* | 1.75% |
| 17 | Non-Investment grade and unrated | RMBS - Prime | 1.575% |
| 18 | | RMBS - Mid-prime | 2.625% |
| 19 | | RMBS - Sub-prime | 3.5% |
| 20 | | CMBS | 3.5% |
| 21 | | ABS - Student Loans | 1.4% |
| 22 | | ABS - Credit Cards | 2.1% |
| 23 | | ABS - Auto | 2.1% |
| 24 | | Collateralised loan obligations (CLO) non-*ACTP* | 2.45% |
| 25 | Other sector | | 3.5% |

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2. To assign a risk exposure to a sector, an institution shall rely on a classification that is commonly used in the market for grouping tranches by sector. An institution shall assign each tranche to one of the sector buckets in Table 7. Risk exposures from any tranche that an institution cannot assign to a sector in such a manner shall be assigned to bucket 25 of Table 7.

3. The assignment of a risk exposure to investment grade or non-investment grade and unrated shall be on the basis of an external credit assessment by a nominated ECAI of the corresponding tranche. For an individual tranche for which a credit assessment by a nominated ECAI is not available, an institution using the approach referred to in the Credit Risk: Internal Ratings Based Approach (CRR) Part shall map the internal rating of the tranche to one of the external credit assessments.

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[Note: This rule corresponds to Article 325am of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325an** **INTRA-BUCKET CORRELATIONS FOR CREDIT SPREAD RISK FOR SECURITISATIONS NOT INCLUDED IN THE ACTP**

1. An institution shall set the correlation parameter $\rho_{kl}$ between two sensitivities $WS_k$ and $WS_l$ within the same bucket as follows:

$$\rho_{kl} = \rho_{kl}^{(tranche)} \cdot \rho_{kl}^{(tenor)} \cdot \rho_{kl}^{(basis)}$$

where:

$\rho_{kl}^{(tranche)}$= 1 where the two names of sensitivities *k* and *l* are within the same bucket and are related to the same securitisation tranche (more than 80% overlap in notional terms), otherwise it shall be equal to 40%;

$\rho_{kl}^{(tenor)}$ = 1 where the two vertices of the sensitivities *k* and *l* are identical, otherwise it shall be equal to 80%;

$\rho_{kl}^{(basis)}$ = 1 where the two sensitivities are related to the same curves, otherwise it shall be equal to 99.90%.

2. The correlation parameters referred to in paragraph 1 shall not apply to bucket 25 in Table 7 of paragraph 1 of Article 325am. The own funds requirement for the delta risk aggregation formula within bucket 25 in Table 7 of paragraph 1 of Article 325am shall be equal to the sum of the absolute values of the net weighted sensitivities allocated to that bucket:

$$K_{b(bucket\ 25)} = \sum_k |WS_k|$$

[Note: This rule corresponds to Article 325an of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ao** **CORRELATIONS ACROSS BUCKETS FOR CREDIT SPREAD RISK FOR SECURITISATIONS NOT INCLUDED IN THE ACTP**

1. An institution shall apply the correlation parameter $\gamma_{bc}$ to the aggregation of sensitivities between different buckets at 0%.

2. An institution shall add the own funds requirement for bucket 25 of Table 7 to the overall risk class level capital, with no diversification or hedging effects recognised with any other bucket.

[Note: This rule corresponds to Article 325ao of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ap** **RISK WEIGHTS FOR EQUITY RISK**

1. Risk weights for the sensitivities to equity and equity *repo* rate risk factors shall be specified for each bucket in Table 8 as follows:

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Table 8

| Bucket number | Market cap | Economy | Sector | Risk weight for equity spot price | Risk weight for equity *repo* rate |
|---|---|---|---|---|---|
| 1 | Large | Emerging market economy | Consumer goods and services, transportation and storage, administrative and support service activities, healthcare, utilities | 55% | 0.55% |
| 2 | | | Telecommunications, industrials | 60% | 0.60% |
| 3 | | | Basic materials, energy, agriculture, manufacturing, mining and quarrying | 45% | 0.45% |
| 4 | | | Financials including government-backed financials, *real estate* activities, technology | 55% | 0.55% |
| 5 | | Advanced economy | Consumer goods and services, transportation and storage, administrative and support service activities, healthcare, utilities | 30% | 0.30% |
| 6 | | | Telecommunications, industrials | 35% | 0.35% |
| 7 | | | Basic materials, energy, agriculture, manufacturing, mining and quarrying | 40% | 0.40% |
| 8 | | | Financials including government-backed financials, *real estate* activities, technology | 50% | 0.50% |
| 9 | Small | Emerging market economy | All sectors described under bucket numbers 1, 2, 3 and 4 | 70% | 0.70% |
| 10 | | Advanced economy | All sectors described under bucket numbers 5, 6, 7 and 8 | 50% | 0.50% |
| 11 | Other sector | | | 70% | 0.70% |
| 12 | Large market cap, advanced economy equity indices | | | 15% | 0.15% |
| 13 | Other equity indices | | | 25% | 0.25% |

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2. For the purposes of this Article, what constitutes a small and a large market capitalisation shall be as specified in paragraph 9 of Market Risk: Internal Model Approach (CRR) Part Article 325bd.

3. For the purpose of applying risk weights for equity risk in this Article, the following countries shall constitute advanced economies:

   (a) Australia;

   (b) Canada;

   (c) Countries that are member states of the European Union and have adopted the Euro as their currency;

   (d) Denmark;

   (e) Hong Kong SAR;

   (f) Japan;

   (g) Mexico;

   (h) New Zealand;

   (i) Norway;

   (j) Singapore;

   (k) Sweden;

   (l) Switzerland;

   (m) The *United Kingdom*; and

   (n) The United States.

   Countries not included in the first sub-paragraph shall constitute emerging markets.

4. When assigning a risk exposure to a sector, an institution shall rely on a classification that is commonly used in the market for grouping *issuers* by sector. An institution shall assign each *issuer* to one of the sector buckets in Table 8 and shall assign all *issuers* from the same industry to the same sector. Risk exposures from any *issuer* that an institution cannot assign to a sector in such a manner shall be assigned to bucket 11 in Table 8. Multinational or multi-sector equity *issuers* shall be assigned to a particular bucket on the basis of the most material region and sector in which the equity *issuer* operates.

[Note: This rule corresponds to Article 325ap(1), (2) and (4) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325aq** **INTRA-BUCKET CORRELATIONS FOR EQUITY RISK**

1. An institution shall set the delta risk correlation parameter $\rho_{kl}$ between two sensitivities $WS_k$ and $WS_l$ within the same bucket at 99.90% where one is a sensitivity to an equity spot price and the other is a sensitivity to an equity *repo* rate and where both sensitivities are related to the same equity *issuer* name.

2. In other cases than the cases referred to in paragraph 1, the correlation parameter $\rho_{kl}$ between two sensitivities $WS_k$ and $WS_l$ to equity spot price within the same bucket shall be set as follows:

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(a) 15% between two sensitivities within the same bucket that fall under the category large market capitalisation, emerging market economy (bucket number 1, 2, 3 or 4 in Table 8);

(b) 25% between two sensitivities within the same bucket that fall under the category large market capitalisation, advanced economy (bucket number 5, 6, 7 or 8 in Table 8);

(c) 7.5% between two sensitivities within the same bucket that fall under the category small market capitalisation, emerging market economy (bucket number 9 in Table 8);

(d) 12.5% between two sensitivities within the same bucket that fall under the category small market capitalisation, advanced economy (bucket number 10 in Table 8); and

(e) 80% between two sensitivities within the same bucket that fall under either index bucket (bucket number 12 or 13 in Table 8).

3. An institution shall set the correlation parameter $\rho_{kl}$ between two sensitivities $WS_k$ and $WS_l$ to equity *repo* rate within the same bucket in accordance with points (a) to (e) in paragraph 2.

4. Between two sensitivities $WS_k$ and $WS_l$ within the same bucket where one is a sensitivity to an equity spot price and the other a sensitivity to an equity *repo* rate and both sensitivities relate to a different equity *issuer* name, an institution shall set the correlation parameter $\rho_{kl}$ to the correlation parameters specified in paragraph 2, multiplied by 99.90%.

5. The correlation parameters specified in paragraphs 1 to 4 shall not apply to bucket 11 in Table 8. An institution shall ensure the own funds requirement for the delta risk aggregation formula within bucket 11 shall be equal to the sum of the absolute values of the net weighted sensitivities allocated to that bucket:

$$K_{b(bucket\ 11)} = \sum_k |WS_k|$$

[Note: This rule corresponds to Article 325aq of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ar CORRELATIONS ACROSS BUCKETS FOR EQUITY RISK**

An institution shall apply the correlation parameter $\gamma_{bc}$ to the aggregation of sensitivities between different buckets.

It shall be set in relation to the buckets of Table 8 in Article 325ap as follows:

(a) 15% where the two buckets fall within buckets 1 to 10;

(b) 0% where either of the two buckets fall within bucket number 11;

(c) 75% where the two buckets fall within bucket number 12 and 13; and

(d) 45% otherwise.

[Note: This rule corresponds to Article 325ar of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325as RISK WEIGHTS FOR COMMODITY RISK**

Risk weights for sensitivities to commodity risk factors shall be specified for each bucket in Table 9:

Table 9

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| Bucket number | Bucket name | Risk weight |
|---|---|---|
| 1 | Energy – solid combustibles | 30% |
| 2 | Energy – liquid combustibles | 35% |
| 3a | Energy – electricity | 60% |
| 3b | Energy – carbon trading | 60% |
| 4 | Freight | 80% |
| 5 | Metals – non-precious | 40% |
| 6 | Gaseous combustibles | 45% |
| 7 | Precious metals (including gold) | 20% |
| 8 | Grains and oilseed | 35% |
| 9 | Livestock and dairy | 25% |
| 10 | Softs and other agricultural commodities | 35% |
| 11 | Other commodities | 50% |

[Note: This rule corresponds to Article 325as of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325at INTRA-BUCKET CORRELATIONS FOR COMMODITY RISK**

1. For the purposes of this Article, any two commodities shall be considered distinct commodities where there exist in the market two contracts that are differentiated only by the underlying commodity to be delivered against each contract.

2. In respect of bucket 3b in Table 10, an institution shall set the correlation parameter $\rho_{kl}$ between two sensitivities $WS_k$ and $WS_l$ within the same bucket as follows:

$$\rho_{kl} = {\rho_{kl}}^{(commodity)} \cdot {\rho_{kl}}^{(tenor)} \cdot {\rho_{kl}}^{(basis)}$$

where:

${\rho_{kl}}^{(commodity)}$ = 1 where the two commodities of sensitivities *k* and *l* are identical, otherwise it shall be equal to the intra-bucket correlations in Table 10;

${\rho_{kl}}^{(tenor)}$ = 1 where the two vertices of the sensitivities k and l are identical, otherwise it shall be equal to 99%;

${\rho_{kl}}^{(basis)}$ = 1 where the two sensitivities are identical in the delivery location of a commodity, otherwise it shall be equal to 99.90%.

2A. In respect of all other buckets in Table 10 (other than bucket 3b), an institution shall set the correlation parameter $\rho_{kl}$ between two sensitivities $WS_k$ and $WS_l$ within the same bucket as follows:

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$$\rho_{kl} = \rho_{kl}^{(commodity)} \cdot \rho_{kl}^{(tenor)} \cdot \rho_{kl}^{(basis)}$$

where:

$\rho_{kl}^{(commodity)}$ = 1 where the two commodities of sensitivities *k* and *l* are identical, otherwise it shall be equal to the intra-bucket correlations in Table 10;

$\rho_{kl}^{(tenor)}$ = 1 where the two vertices of the sensitivities *k* and *l* are identical, otherwise it shall be equal to 99%;

$\rho_{kl}^{(basis)}$ = 1 where the two sensitivities are identical in the delivery location of a commodity, otherwise it shall be equal to 99.90%.

3. The intra-bucket correlations $\rho_{kl}^{(commodity)}$ are:

Table 10

| **Bucket number** | **Bucket name** | **Correlation $\rho_{kl}$ (commodity)** |
|---|---|---|
| 1 | Energy - solid combustibles | 55% |
| 2 | Energy - liquid combustibles | 95% |
| 3a | Energy - electricity | 40% |
| 3b | Energy - carbon trading | 40% |
| 4 | Freight | 80% |
| 5 | Metals – non-precious | 60% |
| 6 | Gaseous combustibles | 65% |
| 7 | Precious metals (including gold) | 55% |
| 8 | Grains and oilseed | 45% |
| 9 | Livestock and dairy | 15% |
| 10 | Softs and other agricultural commodities | 40% |
| 11 | Other commodity | 15% |

4. Notwithstanding paragraph 1, the following provisions apply:

(a) two risk factors that are allocated to bucket 3a in Table 10 and that concern electricity which is generated in different regions or is delivered at different periods under the contractual agreement shall be considered distinct commodity risk factors; and

(b) two risk factors that are allocated to bucket 4 in Table 10 and that concern freight where the freight route or week of delivery differ shall be considered distinct commodity risk factors.

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[Note: This rule corresponds to Article 325at of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325au CORRELATIONS ACROSS BUCKETS FOR COMMODITY RISK**

1. An institution shall set the correlation parameter $\gamma_{bc}$ applying to the aggregation of sensitivities between different buckets at:

   (a) 20% where the two buckets fall within bucket numbers 1 to 10 in Table 10; and

   (b) 0% where either of the two buckets is bucket number 11 in Table 10.

[Note: This rule corresponds to Article 325au of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325av RISK WEIGHTS FOR FOREIGN EXCHANGE RISK**

1. An institution shall apply a risk weight of 15% to all sensitivities of foreign exchange risk factors.

2. [Note: Provision left blank]

3. [Note: Provision left blank]

4. The risk weight of the foreign exchange risk factors included in the most liquid currency pairs sub-category as referred to in point (b) of Market Risk: Internal Model Approach (CRR) Part Article 325bd(8) shall be the risk weight referred to in paragraph 1 divided by $\sqrt{2}$.

5. [Note: Provision left blank]

[Note: Paragraph 1 and paragraph 4 of this rule correspond to paragraph 1 and paragraph 4 of Article 325av of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325aw CORRELATIONS FOR FOREIGN EXCHANGE RISK**

1. An institution must ensure a uniform correlation parameter $\gamma_{bc}$ equal to 60% is applied to the aggregation of sensitivities to foreign exchange risk factors.

[Note: This rule corresponds to Article 325aw of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 VEGA AND CURVATURE RISK WEIGHTS AND CORRELATIONS**

**Article 325ax VEGA AND CURVATURE RISK WEIGHTS**

1. Vega risk factors shall use the delta buckets referred to in Sub-section 1 of Section 3, other than in respect of foreign exchange risk, where the buckets shall be as set out in paragraph 2 of Article 325q of this Part.

2. Risk weights for sensitivities to vega risk factors shall be assigned in accordance with the following table:

Table 11

| **Risk class** | **Risk weights** |
|---|---|
| *GIRR* | 100% |

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| | |
|---|---|
| *CSR* non-securitisations | 100% |
| *CSR* securitisations (*ACTP*) | 100% |
| *CSR* securitisations (non-*ACTP*) | 100% |
| Equity (large cap and indices) | 77.78% |
| Equity (small cap and other sector) | 100% |
| Commodity | 100% |
| Foreign exchange | 100% |

3. An institution shall use buckets in the context of delta risk in Sub-section 1 in the curvature risk context, unless specified otherwise in this Part.

4. For foreign exchange and equity curvature risk factors, the curvature risk weights shall be relative shifts equal to the delta risk weights referred to in Sub-section 1.

5. For *GIRR*, *CSR* and commodity curvature risk factors, the curvature risk weight shall be the parallel shift of all the vertices for each curve on the basis of the highest prescribed delta risk weight referred to in Sub-section 1 for the relevant bucket.

[Note: This rule corresponds to Article 325ax of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 325ay VEGA AND CURVATURE RISK CORRELATIONS**

1. Between vega risk sensitivities within the same bucket of the *GIRR* class, an institution shall set the correlation parameter $\rho_{kl}$ as follows:

$$\rho_{kl} = min\left\{{\rho_{kl}}^{(option\ maturity)} \cdot {\rho_{kl}}^{(underlying\ maturity)}; 1\right\}$$

where:

${\rho_{kl}}^{(option\ maturity)} = e^{-\alpha \cdot \frac{(|T_k - T_l|)}{(min\{T_k; T_l\})}}$ where $\alpha$ shall be set at 1%, $T_k$ and $T_l$ shall be equal to the maturities of the options for which the vega sensitivities are derived, expressed as a number of years;

${\rho_{kl}}^{(underlying\ maturity)} = e^{-\alpha \cdot \frac{(|{T^U}_k - {T^U}_l|)}{(min\{{T^U}_k; {T^U}_l\})}}$ where $\alpha$ is set at 1%, ${T^U}_k$ and ${T^U}_l$ shall be equal to the maturities of the underlyings of the options for which the vega sensitivities are derived, minus the maturities of the corresponding options, expressed in both cases as a number of years.

2. Between vega risk sensitivities within a bucket of the other risk classes, an institution shall set the correlation parameter $\rho_{kl}$ as follows:

$$\rho_{kl} = min\left\{{\rho_{kl}}^{(DELTA)} \cdot {\rho_{kl}}^{(option\ maturity)}; 1\right\}$$

where:

${\rho_{kl}}^{(DELTA)}$ = the delta intra-bucket correlation corresponding to the bucket to which vega risk factors *k and l* would be allocated;

${\rho_{kl}}^{(option\ maturity)}$ shall be set in accordance with paragraph 1.

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3. With regard to vega risk sensitivities between buckets within a risk class (*GIRR* and non-*GIRR*), the same correlation parameters for $\gamma_{bc}$, as specified for delta correlations for each risk class in Section 4, shall be used in the vega risk context.

4. There shall be no diversification or hedging benefit recognised in the standardised approach between vega risk factors and delta risk factors. Vega risk charges and delta risk charges shall be aggregated by simple summation.

5. The curvature risk correlations shall be the square of corresponding delta risk correlations $\rho_{kl}$ and $\gamma_{bc}$ referred to in Sub-section 1.

[Note: This rule corresponds to Article 325ay of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Annex J**

**Market Risk: Simplified Standardised Approach (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# MARKET RISK: SIMPLIFIED STANDARDISED APPROACH (CRR)

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 For the purposes of this Part, the following definitions apply:

*convertible bond*

means a *security* which gives the investor the right to convert the *security* into a *share* at an agreed price on an agreed basis.

*FRA*

means a forward-rate agreement.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution shall comply with this Part on an individual basis.

[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: This rule sets out Article 11(6) of *CRR* that it applies to this Part]

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## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

3.2 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 4 OWN FUNDS REQUIREMENTS FOR POSITION RISK (CHAPTER 2 OF TITLE IV OF PART THREE OF CRR)

### SECTION 1 GENERAL PROVISIONS AND SPECIFIC INSTRUMENTS

#### Article 326 OWN FUNDS REQUIREMENTS FOR POSITION RISK

1. An institution's own funds requirement for position risk shall be the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments. Securitisation positions in the trading book shall be treated as debt instruments.

[Note: This rule corresponds to Article 326 of *CRR* as it applied immediately before revocation by the *Treasury*]

#### Article 327 NETTING

1. An institution shall calculate its net position in instruments on the basis that the absolute value of the excess of an institution's long (short) positions over its short (long) positions in the same equity, debt and convertible issues and identical financial futures, options, warrants and covered warrants shall be its net position in each of those different instruments. In calculating the net position, an institution shall treat positions in derivative instruments as laid down in Articles 328 to 330. An institution shall disregard its holdings of its own debt instruments in calculating specific risk capital requirements under Article 336.

2. An institution shall not net between a *convertible bond* and an offsetting position in the instrument underlying it, unless the institution:

   (a) treats the *convertible bond* as a position in the equity into which it converts; and

   (b) adjusts its own funds requirement for the general and specific risk in its equity instruments by making:

      (i) an addition equal to the current value of any loss which the institution would make if it did convert to equity; or

      (ii) a deduction equal to the current value of any profit which the institution would make if it did convert to equity (subject to a maximum deduction equal to the own funds requirements on the notional position underlying the *convertible bond*).

3. An institution shall convert all net positions, irrespective of their signs, on a daily basis into the institution's reporting currency at the prevailing spot exchange rate before their aggregation.

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[Note: This rule corresponds to Article 327 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 328 INTEREST RATE FUTURES AND FORWARDS**

1. An institution shall treat interest rate futures, *FRAs* and forward commitments to buy or sell debt instruments as combinations of long and short positions. Thus an institution shall treat a long interest rate futures position as a combination of a borrowing maturing on the delivery date of the futures contract and a holding of an asset with maturity date equal to that of the instrument or notional position underlying the futures contract in question. Similarly an institution shall treat a sold *FRA* as a long position with a maturity date equal to the settlement date plus the contract period, and a short position with maturity equal to the settlement date. Both the borrowing and the asset holding shall be included in the first category set out in Table 1 in Article 336 in order to calculate the own funds requirement for specific risk for interest rate futures and *FRAs*. A forward commitment to buy a debt instrument shall be treated as a combination of a borrowing maturing on the delivery date and a long (spot) position in the debt instrument itself. The borrowing shall be included in the first category set out in Table 1 in Article 336 for the purposes of specific risk, and the debt instrument under whichever column is appropriate for it in the same table.

2. For the purposes of this Article, 'long position' means a position in which an institution has fixed the interest rate it will receive at some time in the future, and 'short position' means a position in which it has fixed the interest rate it will pay at some time in the future.

[Note: This rule corresponds to Article 328 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 329 OPTIONS AND WARRANTS**

1. An institution shall treat options and warrants on interest rates, debt instruments, equities, equity indices, financial futures, swaps and foreign currencies as if they were positions equal in value to the amount of the underlying instrument to which the option refers, multiplied by its delta for the purposes of Articles 326 to 350. The institution may net off the latter positions against any offsetting positions in the identical underlying securities or derivatives. The institution shall use the delta of the exchange concerned.

   For OTC-options, or where the delta is not available from the exchange concerned, an institution may with the prior permission of the *PRA* calculate the delta itself using a model to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that it is using an appropriate model which estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying.

   An institution that has been granted the permission set out in the second sub-paragraph shall comply with the requirements set out in that second sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. An institution shall adequately reflect other risks, apart from the delta risk, associated with options in the own funds requirements in accordance with Article 352a.

3. [Note: Provision left blank]

[Note: Paragraphs 1 and 2 of this rule correspond to paragraphs 1 and 2 of Article 329 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 330 SWAPS**

1. An institution shall treat swaps for interest rate risk purposes on the same basis as on-balance-sheet instruments. Therefore, an institution shall treat an interest rate swap under which an institution receives floating-rate interest and pays fixed-rate interest as equivalent to a long position in a floating-rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument with the same maturity as the swap itself.

[Note: This rule corresponds to Article 330 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 331 INTEREST RATE RISK ON DERIVATIVE INSTRUMENTS**

1. An institution which marks to market and manages the interest rate risk on the derivative instruments covered in Articles 328 to 330 on a discounted-cash-flow basis may with the prior permission of the *PRA* use sensitivity models to calculate the positions referred to in those Articles and may use them for any bond which is amortised over its residual life rather than via one final repayment of principal to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that the models it uses:

   (a) generate positions which have the same sensitivity to interest rate changes as the underlying cash-flows; and

   (b) assesses sensitivity with reference to independent movements in sample rates across the yield curve, with at least one sensitivity point in each of the maturity bands set out in Table 2 in Article 339.

   An institution that has been permitted to use sensitivity models as set out in the first sub-paragraph shall:

      (i) include the positions in the calculation of own funds requirements for general risk of debt instruments; and

      (ii) comply with the requirements set out in that first sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. An institution which does not use models under paragraph 1 may treat as fully offsetting any positions in derivative instruments covered in Articles 328 to 330 which meet the following conditions at least:

   (a) the positions are of the same value and denominated in the same currency;

   (b) the reference rate (for floating-rate positions) or coupon (for fixed-rate positions) is closely matched; and

   (c) the next interest-fixing date or, for fixed coupon positions, residual maturity corresponds with the following limits:

      (i) less than one *month* hence: same day;

      (ii) between one *month* and one year hence: within seven days;

      (iii) over one year hence: within 30 days.

[Note: This rule corresponds to Article 331 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 332 CREDIT DERIVATIVES**

1. When an institution that is the party who assumes the credit risk (the 'protection seller') calculates an own funds requirement for general and specific risk, unless specified differently, that institution shall use the notional amount of the credit derivative contract. Notwithstanding the first sentence, the institution may elect to replace the notional value by the notional value plus the net market value change of the credit derivative since trade inception, a net downward change from the protection seller's perspective carrying a negative sign. For the purpose of calculating the specific risk charge, other than for total return swaps, the institution shall apply the maturity of the credit derivative contract, rather than the maturity of the obligation. An institution shall determine positions as follows:

   (a) a total return swap creates a long position in the general risk of the reference obligation and a short position in the general risk of a government bond with a maturity equivalent to the period until the next interest fixing and which is assigned a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part. It also creates a long position in the specific risk of the reference obligation;

   (b) a credit default swap does not create a position for general risk. For the purposes of specific risk, the institution shall record a synthetic long position in an obligation of the reference entity, unless the derivative is rated externally and meets the conditions for a qualifying debt item, in which case a long position in the derivative is recorded. If premium or interest payments are due under the product, these cash-flows shall be represented as notional positions in government bonds;

   (c) a single name credit linked note creates a long position in the general risk of the note itself, as an interest rate product. For the purpose of specific risk, a synthetic long position is created in an obligation of the reference entity. An additional long position is created in the issuer of the note. Where the credit linked note has an external rating and meets the conditions for a qualifying debt item, a single long position with the specific risk of the note need only be recorded;

   (d) in addition to a long position in the specific risk of the issuer of the note, a multiple name credit linked note providing proportional protection creates a position in each reference entity, with the total notional amount of the contract assigned across the positions according to the proportion of the total notional amount that each exposure to a reference entity represents. Where more than one obligation of a reference entity can be selected, the obligation with the highest risk weighting determines the specific risk;

   (e) a first-asset-to-default credit derivative creates a position for the notional amount in an obligation of each reference entity. If the size of the maximum credit event payment is lower than the own funds requirement under the method in the first sentence of this point, the maximum payment amount may be taken as the own funds requirement for specific risk;

   (f) an n-th-asset-to-default credit derivative creates a position for the notional amount in an obligation of each reference entity less the n-1 reference entities with the lowest specific risk own funds requirement. If the size of the maximum credit event payment is lower than the own funds requirement under the method in the first sentence of this point, this amount may be taken as the own funds requirement for specific risk. Where an n-th-to-default credit derivative is externally rated, the protection seller shall calculate the specific risk own funds requirement using the rating of the derivative and apply the respective securitisation risk weights as applicable.

2. An institution which is the party who transfers credit risk (the 'protection buyer'), shall determine the positions as the mirror principle of the protection seller, with the exception of a credit linked

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note (which entails no short position in the issuer). When calculating the own funds requirement for the protection buyer, the institution shall use the notional amount of the credit derivative contract. Notwithstanding the first sentence, an institution may elect to replace the notional value by the notional value plus the net market value change of the credit derivative since trade inception, a net downward change from the protection seller's perspective carrying a negative sign. If at a given moment there is a call option in combination with a step-up, the institution shall treat such moment as the maturity of the protection.

3. [Note: Provision left blank]

[Note: This rule corresponds to Article 332 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 333 SECURITIES SOLD UNDER A REPURCHASE AGREEMENT OR LENT

1. An institution that is the transferor of securities or guaranteed rights relating to title to securities in a repurchase agreement and the lender of securities in a securities lending shall include those securities in the calculation of its own funds requirement under Articles 326 to 350 provided that such securities are trading book positions.

[Note: This rule corresponds to Article 333 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 2 DEBT INSTRUMENTS

### Article 334 NET POSITIONS IN DEBT INSTRUMENTS

1. An institution shall classify net positions according to the currency in which they are denominated and shall calculate the own funds requirement for general and specific risk in each individual currency separately.

[Note: This rule corresponds to Article 334 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SUB-SECTION 1 SPECIFIC RISK

### Article 335 CAP ON THE OWN FUNDS REQUIREMENT FOR A NET POSITION

1. An institution may cap the own funds requirement for specific risk of a net position in a debt instrument at the maximum possible default-risk related loss. For a short position, that limit may be calculated as a change in value due to the instrument or, where relevant, the underlying names immediately becoming default risk-free.

[Note: This rule corresponds to Article 335 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 336 OWN FUNDS REQUIREMENT FOR NON-SECURITISATION DEBT INSTRUMENTS

1. An institution shall assign its net positions in the trading book in instruments that are not securitisation positions as calculated in accordance with Article 327 to the appropriate categories in Table 1 of this Article on the basis of their issuer or obligor, external or internal credit assessment, and residual maturity, and then multiply them by the weightings shown in that table. It shall sum its weighted positions resulting from the application of this Article regardless of whether they are long or short in order to calculate its own funds requirement against specific risk.

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Table 1

| Categories | Specific risk own funds requirement |
|---|---|
| Debt securities which would receive a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part. | 0% |
| Debt securities which would receive a risk weight greater than 0% and less than or equal to 50% under the Credit Risk: Standardised Approach (CRR) Part. | 0.25% (residual term to final maturity six *months* or less)<br>1.00% (residual term to final maturity greater than six *months* and up to and including 24 *months*)<br>1.60% (residual term to maturity exceeding 24 *months*) |
| Debt securities which would receive a risk weight greater than 50% and less than or equal to 100% under the Credit Risk: Standardised Approach (CRR) Part. | 8% |
| Debt securities which would receive risk weight greater than 100% under the Credit Risk: Standardised Approach (CRR) Part. | 12% |

2. For institutions which apply the approach set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part to the exposure class of which the issuer of the debt instrument forms part, to qualify for a risk weight as set out in paragraph 1, the issuer of the exposure shall have an internal rating with a *probability of default* (*PD*) equivalent to or lower than that associated with the appropriate credit quality step under the Credit Risk: Standardised Approach (CRR) Part.

3. Institutions may calculate the specific risk requirements for any bonds that qualify for a 10% risk weight in accordance with the treatment set out in paragraphs 4, 5 and 6 of Credit Risk: Standardised Approach (CRR) Part Article 129 as half of the applicable specific risk own funds requirement for the second category in Table 1 of this Article.

4. Other qualifying items are:

   (a) long and short positions in assets for which a credit assessment by a nominated ECAI is not available and which meet all of the following conditions:

      (i) they are considered by the institution concerned to be sufficiently liquid;

      (ii) their investment quality is, according to the institution's own discretion, at least equivalent to that of the assets referred to under Table 1 of this Article, second row; and

      (iii) they are listed on at least one regulated market in the *United Kingdom* or on a stock exchange in a *third country* provided that the exchange is recognised by the competent authorities of the *United Kingdom*;

   (b) long and short positions in assets issued by institutions subject to the own funds requirements set out in *CRR* and *CRR rules* which are considered by the institution concerned to be sufficiently liquid and whose investment quality is, according to the institution's own discretion, at least equivalent to that of the assets referred to under Table 1 of this Article, second row; and

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(c) securities issued by institutions that are deemed to be of equivalent, or higher, credit quality than those associated with credit quality step 2 of exposures to institutions and that are subject to supervisory and regulatory arrangements comparable to those applicable to institutions under *CRR*, *CRR rules* and Directive 2013/36/EU UK law.

Institutions that make use of point (a) or (b) shall have a documented methodology in place to assess whether assets meet the requirements in those points and shall notify this methodology to the *PRA*.

[Note: This rule corresponds to Article 336 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 337 OWN FUNDS REQUIREMENT FOR SECURITISATION INSTRUMENTS**

1. For instruments in the trading book that are securitisation positions, an institution shall weight the net positions as calculated in accordance with paragraph 1 of Article 327 with 8% of the risk weight the institution would apply to the position in its non-trading book according to Section 3 of Chapter 5 of Title II of Part 3 of *CRR*.

2. [Note: Provision left blank]

3. For securitisation positions that are subject to an additional risk weight in accordance with Article 247(6) of *CRR*, an institution shall apply 8% of the total risk weight.

4. An institution shall sum its weighted positions resulting from the application of paragraphs 1, 2 and 3 regardless of whether they are long or short, in order to calculate its own funds requirement against specific risk.

5. Where an originator institution of a traditional securitisation does not meet the conditions for significant risk transfer set out in Article 244 of *CRR*, the originator institution shall include the exposures underlying the securitisation in its calculation of own funds requirement as if those exposures had not been securitised.

   Where an originator institution of a synthetic securitisation does not meet the conditions for significant risk transfer set out Article 245 of *CRR*, the originator institution shall include the exposures underlying the securitisation in its calculation of own funds requirements as if those exposures had not been securitised and shall ignore the effect of the synthetic securitisation for credit protection purposes.

[Note: Paragraphs 1, 3, 4 and 5 of this rule correspond to Article 337(1), (3), (4) and (5) of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 338 OWN FUNDS REQUIREMENTS FOR THE CORRELATION TRADING PORTFOLIO**

[Note: Provision left blank]

**SUB-SECTION 2 GENERAL RISK**

**Article 339 MATURITY-BASED CALCULATION OF GENERAL RISK**

1. In order to calculate own funds requirements against general risk an institution shall assign a risk weight to all positions according to maturity as explained in paragraph 2 in order to compute the amount of own funds required against them. This requirement shall be reduced when a weighted position is held alongside an opposite weighted position within the same maturity band. A reduction in the requirement shall also be made when the opposite weighted positions fall into different maturity bands, with the size of this reduction depending both on

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whether the two positions fall into the same zone, or not, and on the particular zones they fall into.

2. An institution shall assign its net positions to the appropriate maturity bands in column 2 or 3, as appropriate, in Table 2 in paragraph 4. It shall do so on the basis of residual maturity in the case of fixed-rate instruments and on the basis of the period until the interest rate is next set in the case of instruments on which the interest rate is variable before final maturity. It shall also distinguish between debt instruments with a coupon of 3% or more and those with a coupon of less than 3% and thus allocate them to column 2 or column 3 in Table 2. It shall then multiply each of them by the weighting for the maturity band in question in column 4 in Table 2.

3. An institution shall then work out the sum of the weighted long positions and the sum of the weighted short positions in each maturity band. The amount of the former which are matched by the latter in a given maturity band shall be the matched weighted position in that band, while the residual long or short position shall be the unmatched weighted position for the same band. The total of the matched weighted positions in all bands shall then be calculated.

4. An institution shall compute the totals of the unmatched weighted long positions for the bands included in each of the zones in Table 2 in order to derive the unmatched weighted long position for each zone. Similarly, the sum of the unmatched weighted short positions for each band in a particular zone shall be summed to compute the unmatched weighted short position for that zone. That part of the unmatched weighted long position for a given zone that is matched by the unmatched weighted short position for the same zone shall be the matched weighted position for that zone. That part of the unmatched weighted long or unmatched weighted short position for a zone that cannot be thus matched shall be the unmatched weighted position for that zone.

Table 2

| **Zone** | **Maturity band** | | **Weighting (in %)** | **Assumed interest rate change (in %)** |
|---|---|---|---|---|
| | **Coupon of 3% or more** | **Coupon of less than 3%** | | |
| One | 0 ≤ 1 *month* | 0 ≤ 1 *month* | 0.00 | — |
| | > 1 ≤ 3 *months* | > 1 ≤ 3 *months* | 0.20 | 1.00 |
| | > 3 ≤ 6 *months* | > 3 ≤ 6 *months* | 0.40 | 1.00 |
| | > 6 ≤ 12 *months* | > 6 ≤ 12 *months* | 0.70 | 1.00 |
| Two | > 1 ≤ 2 years | > 1.0 ≤ 1.9 years | 1.25 | 0.90 |
| | > 2 ≤ 3 years | > 1.9 ≤ 2.8 years | 1.75 | 0.80 |
| | > 3 ≤ 4 years | > 2.8 ≤ 3.6 years | 2.25 | 0.75 |
| Three | > 4 ≤ 5 years | > 3.6 ≤ 4.3 years | 2.75 | 0.75 |
| | > 5 ≤ 7 years | > 4.3 ≤ 5.7 years | 3.25 | 0.70 |
| | > 7 ≤ 10 years | > 5.7 ≤ 7.3 years | 3.75 | 0.65 |
| | > 10 ≤ 15 years | > 7.3 ≤ 9.3 years | 4.50 | 0.60 |
| | > 15 ≤ 20 years | > 9.3 ≤ 10.6 years | 5.25 | 0.60 |

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| | | | | |
|---|---|---|---|---|
| | > 20 years | > 10.6 ≤ 12.0 years | 6.00 | 0.60 |
| | | > 12.0 ≤ 20.0 years | 8.00 | 0.60 |
| | | > 20 years | 12.50 | 0.60 |

5. The amount of the unmatched weighted long or short position in zone one which is matched by the unmatched weighted short or long position in zone two shall then be the matched weighted position between zones one and two. The same calculation shall then be undertaken with regard to that part of the unmatched weighted position in zone two which is left over and the unmatched weighted position in zone three in order to calculate the matched weighted position between zones two and three.

6. An institution may reverse the order in paragraph 5 so as to calculate the matched weighted position between zones two and three before calculating that position between zones one and two.

7. The remainder of the unmatched weighted position in zone one shall then be matched with what remains of that for zone three after the latter's matching with zone two in order to derive the matched weighted position between zones one and three.

8. Residual positions, following the three separate matching calculations in paragraphs 5, 6 and 7 shall be summed.

9. An institution shall calculate its own funds requirement as the sum of:

   (a) 10% of the sum of the matched weighted positions in all maturity bands;

   (b) 40% of the matched weighted position in zone one;

   (c) 30% of the matched weighted position in zone two;

   (d) 30% of the matched weighted position in zone three;

   (e) 40% of the matched weighted position between zones one and two and between zones two and three;

   (f) 150% of the matched weighted position between zones one and three; and

   (g) 100% of the residual unmatched weighted positions.

[Note: This rule corresponds to Article 339 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 340 DURATION-BASED CALCULATION OF GENERAL RISK**

1. An institution may use an approach for calculating the own funds requirement for the general risk on debt instruments which reflects duration, instead of the approach set out in Article 339, provided that the institution does so on a consistent basis.

2. Under the duration-based approach referred to in paragraph 1, an institution shall take the market value of each fixed-rate debt instrument and hence calculate its yield to maturity, which is implied discount rate for that instrument. In the case of floating-rate instruments, the institution shall take the market value of each instrument and hence calculate its yield on the assumption that the principal is due when the interest rate can next be changed.

3. An institution shall then calculate the modified duration of each debt instrument on the basis of the following formula:

$$modified\ duration = \frac{D}{1+R}$$

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where:

$D$ = duration calculated according to the following formula:

$$D = \frac{\sum_{t=1}^{M} \frac{t \times C_t}{(1-R)^t}}{\sum_{t=1}^{M} \frac{C_t}{(1-R)^t}}$$

where:

$R$ = yield to maturity;

$C_t$= cash payment in time $t$;

$M$ = total maturity.

4. An institution shall then allocate each debt instrument to the appropriate zone in Table 3. It shall do so on the basis of the modified duration of each instrument.

Table 3

| Zone | Modified duration (in years) | Assumed interest (change in %) |
|---|---|---|
| One | > 0 ≤ 1.0 | 1.0 |
| Two | > 1.0 ≤ 3.6 | 0.85 |
| Three | > 3.6 | 0.7 |

5. An institution shall then calculate the duration-weighted position for each instrument by multiplying its market price by its modified duration and by the assumed interest rate change for an instrument with that particular modified duration (see column 3 in Table 3).

6. An institution shall calculate its duration-weighted long and its duration-weighted short positions within each zone. The amount of the former which are matched by the latter within each zone shall be the matched duration-weighted position for that zone.

   The institution shall then calculate the unmatched duration-weighted positions for each zone. It shall then follow the procedures laid down for unmatched weighted positions in paragraphs 5 to 8 of Article 339.

7. An institution shall calculate its own funds requirement as the sum of the following:

   (a) 2% of the matched duration-weighted position for each zone;

   (b) 40% of the matched duration-weighted positions between zones one and two and between zones two and three;

   (c) 150% of the matched duration-weighted position between zones one and three; and

   (d) 100% of the residual unmatched duration-weighted positions.

[Note: This rule corresponds to Article 340 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## SECTION 3 EQUITIES

### Article 341 NET POSITIONS IN EQUITY INSTRUMENTS

1. An institution shall separately sum all its net long positions and all its net short positions in accordance with Article 327. The sum of the absolute values of the two figures shall be its overall gross position.

2. An institution shall calculate, separately for each market, the difference between the sum of the net long and the net short positions. The sum of the absolute values of those differences shall be its overall net position.

3. For the purposes of paragraph 2, the term 'market' shall mean all equities listed in stock markets located within a national jurisdiction.

[Note: This rule corresponds to Article 341(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 342 SPECIFIC RISK OF EQUITY INSTRUMENTS

1. An institution shall multiply its overall gross position by 8% in order to calculate its own funds requirement against specific risk.

[Note: This rule corresponds to Article 342 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 343 GENERAL RISK OF EQUITY INSTRUMENTS

1. An institution shall multiply its overall net position by 8% in order to calculate its own funds requirement against general risk.

[Note: This rule corresponds to Article 343 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 344 STOCK INDICES

1. For the purposes of paragraph 4, an institution may only determine that the exchange-traded index is appropriately diversified if the index meets the following criteria:

   (a) Number:

      (i) A diversified index shall contain at least 20 equities;

   (b) Concentration:

      (i) By equity: no single equity shall represent more than 25% of the total index;

      (ii) By group of equities: 10% of the largest equities (rounded up to the next whole number) shall represent less than 60% of the total index;

   (c) Diversification:

      (i) By geography: the index shall encompass equities from at least one national market; no regional indices shall be recognised as appropriately diversified;

      (ii) By industry: the index shall comprise equities from at least four of the following industries:

         (1) Oil and Gas

         (2) Basic Materials

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(3) Industrials

(4) Consumer Goods

(5) Health Care

(6) Consumer Services

(7) Telecommunications

(8) Utilities

(9) Financials

(10) Technology

2. [Note: Provision left blank]

3. An institution may break down stock-index futures, the delta-weighted equivalents of options in stock-index futures and stock indices (collectively referred to hereafter as 'stock-index futures'), into positions in each of their constituent equities. The institution may treat these positions as underlying positions in the equities in question, and may, be netted against opposite positions in the underlying equities themselves. The institution shall notify the *PRA* of the use they make of that treatment.

4. Where a stock-index future is not broken down into its underlying positions, an institution shall treat it as if it were an individual equity. However, the institution may ignore the specific risk on this individual equity if the stock-index future in question is exchange traded and represents a relevant appropriately diversified index.

[Note: Paragraphs 3 and 4 of this rule correspond to Article 344(3) and (4) of *CRR* as it applied immediately before revocation by the *Treasury*]

**SECTION 4 UNDERWRITING**

**Article 345 REDUCTION OF NET POSITIONS**

1. In the case of the underwriting of debt and equity instruments, an institution may use the following procedure in calculating its own funds requirements. An institution shall first calculate the net positions by deducting the underwriting positions which are subscribed or sub-underwritten by third parties on the basis of formal agreements. An institution shall then reduce the net positions by the reduction factors in Table 4 and calculate its own funds requirements using the reduced underwriting positions.

Table 4

| | |
|---|---|
| **Working day 0** | 100% |
| **Working day 1** | 90% |
| **Working days 2 to 3** | 75% |
| **Working day 4** | 50% |
| **Working day 5** | 25% |
| **After working day 5** | 0% |

'Working day 0' shall be the working day on which the institution becomes unconditionally committed to accepting a known quantity of securities at an agreed price.

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2. An institution shall notify the *PRA* to the extent it makes use of the process set out in paragraph 1.

[Note: This rule corresponds to Article 345 of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 5 SPECIFIC RISK OWN FUND REQUIREMENTS FOR POSITIONS HEDGED BY CREDIT DERIVATIVES

### Article 346 ALLOWANCES FOR HEDGES BY CREDIT REDUCTION OF NET POSITIONS

1. An institution may give allowance for hedges provided by credit derivatives, in accordance with the principles set out in paragraphs 2 to 6.

2. An institution shall treat the position in the credit derivative as one 'leg' and the hedged position that has the same nominal, or, where applicable, notional amount, as the other 'leg'.

3. An institution shall give full allowance when the values of the two legs always move in the opposite direction and broadly to the same extent. This will be the case in the following situations:

   (a) the two legs consist of completely identical instruments;

   (b) a long cash position is hedged by a total rate of return swap (or vice versa) and there is an exact match between the reference obligation and the underlying exposure (i.e. the cash position). The maturity of the swap itself may be different from that of the underlying exposure.

   In these situations, a specific risk own funds requirement shall not be applied to either side of the position.

4. An institution shall apply an 80% offset when the values of the two legs always move in the opposite direction and where there is an exact match in terms of the reference obligation, the maturity of both the reference obligation and the credit derivative, and the currency of the underlying exposure. In addition, key features of the credit derivative contract shall not cause the price movement of the credit derivative to materially deviate from the price movements of the cash position. To the extent that the transaction transfers risk, an institution shall apply an 80% specific risk offset to the side of the transaction with the higher own funds requirement, while the specific risk requirements on the other side shall be zero.

5. An institution shall give partial allowances, absent the situations in paragraphs 3 and 4, in the following situations:

   (a) the position falls under point (b) of paragraph 3 but there is an asset mismatch between the reference obligation and the underlying exposure. However, the positions meet the following requirements:

      (i) the reference obligation ranks pari passu with or is junior to the underlying obligation; and

      (ii) the underlying obligation and reference obligation share the same obligor and have legally enforceable cross-default or cross-acceleration clauses;

   (b) the position falls under point (a) of paragraph 3 or paragraph 4 but there is a currency or maturity mismatch between the credit protection and the underlying asset. Such currency mismatch shall be included in the own funds requirement for foreign exchange risk;

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(c) the position falls under paragraph 4 but there is an asset mismatch between the cash position and the credit derivative. However, the underlying asset is included in the (deliverable) obligations in the credit derivative documentation.

In order to give partial allowance, rather than adding the specific risk own funds requirements for each side of the transaction, the institution shall apply only the higher of the two own funds requirements.

6. In all situations not falling under paragraphs 3 to 5, an institution shall calculate an own funds requirement for specific risk for both sides of the positions separately.

[Note: This rule corresponds to Article 346 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 347 ALLOWANCE FOR HEDGES BY FIRST AND NTH-TO DEFAULT CREDIT DERIVATIVES**

1. In the case of first-to-default credit derivatives and nth-to-default credit derivatives, an institution shall apply the following treatment for the purposes of giving the allowance in accordance with Article 346:

(a) where an institution obtains credit protection for a number of reference entities underlying a credit derivative under the terms that the first default among the assets shall trigger payment and that this credit event shall terminate the contract, the institution may offset specific risk for the reference entity to which the lowest specific risk percentage charge among the underlying reference entities applies in accordance with Table 1 in Article 336;

(b) where the nth default among the exposures triggers payment under the credit protection, the protection buyer may only offset specific risk if protection has also been obtained for defaults 1 to n-1 or when n-1 defaults have already occurred. In such cases, the methodology set out in point (a) for first-to-default credit derivatives shall be followed appropriately amended for nth-to-default products.

[Note: This rule corresponds to Article 347 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SECTION 6 OWN FUNDS REQUIREMENTS FOR CIUS**

**Article 348 OWN FUNDS REQUIREMENTS FOR CIUS**

1. Without prejudice to other provisions in this Section (including, without limitation, paragraph 3), an institution must hold an own funds requirement for position risk for positions in CIUs, comprising specific and general risk, of 32%. Without prejudice to Article 353, taken together with the amended gold treatment set out in paragraph 4 of Article 352, and without prejudice to paragraph 3, an institution must hold an own funds requirement for position risk for positions in CIUs, comprising specific and general risk, and foreign-exchange risk of 40%.

2. Unless otherwise provided for in Article 350, an institution may not net between the underlying investments of a CIU and other positions held by the institution.

3. An institution shall treat a position in a CIU which is also a closed-ended investment fund as an equity position in accordance with this Part. For the purposes of this paragraph, the term ‘closed-ended investment fund’ shall have the meaning given to the term in the *FCA Handbook*.

[Note: This rule corresponds to Article 348 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 349 GENERAL CRITERIA FOR CIUS**

1. An institution may apply the approach set out in Article 350 to a position in a CIU, where all the following conditions are met:

   (a) the CIU's prospectus or equivalent document includes all of the following:

      (i) the categories of assets in which the CIU is authorised to invest;

      (ii) where investment limits apply, the relative limits and the methodologies to calculate them;

      (iii) where leverage is allowed, the maximum level of leverage; and

      (iv) where concluding OTC financial derivatives transactions or repurchase transactions or securities borrowing or lending is allowed, a policy to limit counterparty risk arising from these transactions;

   (b) the business of the CIU is reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period;

   (c) the shares or units of the CIU are redeemable in cash, out of the undertaking's assets, on a daily basis at the request of the unit holder;

   (d) investments in the CIU are segregated from the assets of the CIU manager;

   (e) there are adequate risk assessment of the CIU, by the investing institution; and

   (f) CIUs are managed by persons supervised in accordance with *United Kingdom* legislation which implemented Directive 2009/65/EC or equivalent legislation.

[Note: This rule corresponds to Article 349 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 350 SPECIFIC METHODS FOR CIUS**

1. Where an institution is aware of the underlying investments of the CIU on a daily basis, the institution may look through to those underlying investments in order to calculate the own funds requirements for position risk, comprising specific and general risk. Under such an approach, an institution shall treat positions in CIUs as positions in the underlying investments of the CIU. Netting shall be permitted between positions in the underlying investments of the CIU and other positions held by the institution, provided that the institution holds a sufficient quantity of shares or units to allow for redemption/creation in exchange for the underlying investments.

2. An institution may calculate the own funds requirements for position risk, comprising specific and general risk, for positions in CIUs by assuming positions representing those necessary to replicate the composition and performance of the externally generated index or fixed basket of equities or debt securities referred to in point (a), subject to the following conditions:

   (a) the purpose of the CIU's mandate is to replicate the composition and performance of an externally generated index or fixed basket of equities or debt securities; and

   (b) a minimum correlation coefficient between daily returns on the CIU and the index or basket of equities or debt securities it tracks of 0.9 can be clearly established over a minimum period of six *months*.

3. Where the institution is not aware of the underlying investments of the CIU on a daily basis, the institution may calculate the own funds requirements for position risk, comprising specific and general risk, subject to the following conditions:

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(a) it will be assumed that the CIU first invests to the maximum extent allowed under its mandate in the asset classes attracting the highest own funds requirement for specific and general risk separately, and then continues making investments in descending order until the maximum total investment limit is reached. The position in the CIU will be treated as a direct holding in the assumed position;

(b) institutions shall take account of the maximum indirect exposure that they could achieve by taking leveraged positions through the CIU when calculating their own funds requirement for specific and general risk separately, by proportionally increasing the position in the CIU up to the maximum exposure to the underlying investment items resulting from the mandate; and

(c) if the own funds requirement for specific and general risk together in accordance with this paragraph exceed that set out in paragraph 1 of Article 348 the own funds requirement shall be capped at that level.

4. An institution may rely on the following third parties to calculate and report own funds requirements for position risk for positions in CIUs falling under paragraphs 1 to 3, in accordance with the methods set out in Articles 326 to 350:

(a) the depository of the CIU, provided that the CIU exclusively invests in securities and deposits all securities at this depository;

(b) for other CIUs, the CIU management company, provided that the CIU management company is managed by a company that is subject to supervision in the *United Kingdom* or, in the case of *third country* CIU, where the CIU is established in a *third country* that carries out activities similar to those carried out by a CIU and which is subject to supervision pursuant to legislation of a *third country* which applies supervisory and regulatory requirements which are at least equivalent to those applied in the *UK* to *UK* CIUs.

An institution shall ensure the correctness of the calculation is confirmed by an external auditor.

[Note: This rule corresponds to Article 350 of *CRR* as it applied immediately before revocation by the *Treasury*]

## 5 OWN FUNDS REQUIREMENTS FOR FOREIGN-EXCHANGE RISK (PART THREE, TITLE IV, CHAPTER THREE CRR)

### Article 351 DE MINIMIS AND WEIGHTING FOR FOREIGN EXCHANGE FACTORS

1. If the sum of an institution's overall net foreign-exchange position and its net gold position, calculated in accordance with the procedure set out in Article 352, including for any foreign exchange and gold positions for which own funds requirements are calculated using an internal model, exceeds 2% of its total own funds, the institution shall calculate an own funds requirement for foreign exchange risk. The own funds requirement for foreign exchange risk shall be the sum of its overall net foreign-exchange position and its net gold position in the reporting currency, multiplied by 8%.

[Note: This rule corresponds to Article 351 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Article 352 CALCULATION OF THE OVERALL NET FOREIGN EXCHANGE POSITION**

1. An institution's net open position in each currency (including the reporting currency) and in gold shall be calculated as the sum of the following elements (positive or negative):

   (a) the net spot position (i.e. all asset items less all liability items, including accrued interest, in the currency in question or, for gold, the net spot position in gold);

   (b) the net forward position, which are all amounts to be received less all amounts to be paid under forward exchange and gold transactions, including currency and gold futures and the principal on currency swaps not included in the spot position;

   (c) irrevocable guarantees and similar instruments that are certain to be called and likely to be irrecoverable;

   (d) the net delta, or delta-based, equivalent of the total book of foreign-currency and gold options; and

   (e) the market value of other options.

   The delta used for the purposes of point (d) shall be that of the exchange concerned. For OTC options, or where delta is not available from the exchange concerned, the institution may with the prior permission of the *PRA* calculate delta itself to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that it is using an appropriate model which estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying.

   An institution that has been permitted to calculate delta itself as set out in the second sub-paragraph:

   (i) may include net future income/expenses not yet accrued but already fully hedged if it does so consistently; and

   (ii) may break down net positions in composite currencies into the component currencies in accordance with the quotas in force.

   An institution that has been permitted to calculate delta itself as set out in the second sub-paragraph shall comply with the requirements set out in that second sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. [Note: Provision left blank]

3. An institution may use the net present value when calculating the net open position in each currency and in gold provided that the institution applies this approach consistently.

4. An institution shall convert net short and long positions in each currency other than the reporting currency and the net long or short position in gold at spot rates into the reporting currency. They shall then be summed separately to form the total of the net short positions and the total of the net long positions respectively. The higher of these two totals shall be the institution's overall net foreign-exchange position.

5. An institution shall adequately reflect other risks associated with options, apart from the delta risk, in the own funds requirements in accordance with Article 352a.

6. [Note: Provision left blank]

[Note: Paragraphs 1, 3, 4 and 5 of this rule correspond to Article 352(1), (3), (4) and (5) of *CRR* as applied immediately before revocation by the *Treasury*]

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## Article 352a DETERMINATION OF OWN FUNDS REQUIREMENTS FOR NON-DELTA RISK OF OPTIONS AND WARRANTS

1. An institution shall calculate their own funds requirements for market risk in relation to the non-delta risk of options or warrants as required by paragraph 2 of Article 329, paragraph 5 of Article 352 and paragraph 3 of Article 358, according to one of the following approaches:

   (a) the simplified approach as set out in paragraphs 4 and 5;

   (b) the delta plus approach as set out in paragraphs 6, 7 and 8; or

   (c) the scenario approach as set out in paragraphs 9, 10 and 11.

2. When calculating own funds requirements on a consolidated basis an institution may combine the use of different approaches. On an individual basis, an institution may only combine the scenario approach and the delta plus approach subject to the conditions established in paragraphs 6 to 11.

3. For the purposes of the calculation referred to in paragraph 1, an institution shall take the following steps:

   (a) break down baskets of options or warrants into their fundamental components;

   (b) break down caps and floors or other options which relate to interest rates at various dates, into a chain of independent options referring to different time periods (e.g. 'caplets' and 'floorlets');

   (c) treat options or warrants on fixed-to-floating interest rates swaps as options or warrants on the fixed interest leg of the swap; and

   (d) treat options or warrants that relate to more than one underlying among those described in point (c) of paragraph 7, as a basket of options or warrants where each option has a single distinct underlying.

**The simplified approach**

4. Only an institution that exclusively purchases options and warrants may use the simplified approach set out in paragraph 5.

5. An institution shall determine its own funds requirements under the simplified approach in accordance with the following:

   (a) an institution applying the simplified approach shall calculate the own funds requirements relative to non-delta risks of call and put options or warrants as the higher amount between zero and the difference between the following values:

      (i) the gross amount, as described in points (b) to (e);

      (ii) the risk-weighted delta equivalent amount, which it shall calculate as the market value of the underlying instrument, multiplied by the delta and then multiplied by one of the following relevant weightings:

         (1) for specific and general equity risk or interest rate risk, according to Articles 326 to 350;

         (2) for commodity risk, according to Articles 355 to 361; and

         (3) for foreign exchange risk, according to Articles 351, 352, 352a, 353 and 354;

   (b) for options or warrants which fall under one of the following two categories, an institution shall determine the gross amount referred to in point (a) according to points (c) to (d):

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(i) where the buyer has the unconditional right to buy the underlying asset at a predetermined price at the expiration date or at any time before the expiration date, and where the seller has the obligation to fulfil the buyer's demand (e.g. 'simple call options or warrants');

(ii) where the buyer has the unconditional right to sell the underlying asset in the same manner as described in point (i) (e.g. 'simple put options or warrants');

(c) an institution shall calculate the gross amount referred to in point (a) as the maximum between zero and the market value of the underlying *security* multiplied by the sum of specific and general market risk own funds requirements for the underlying minus the amount of the profit, if any, resulting from the instant execution of the option (e.g. 'in the money'), where one of the following conditions is met:

(i) the option or warrant incorporates a right to sell the underlying asset (e.g. 'long put') and is combined with holdings in the underlying asset (e.g. 'long position in the underlying instrument'); or

(ii) the option or warrant incorporates a right to buy the underlying asset (e.g. 'long call') and is combined with the promise to sell holdings in the underlying instrument (e.g. 'short position in the underlying asset');

(d) where the option or warrant incorporates a right to buy the underlying asset (e.g. 'long call') or a right to sell the underlying asset (e.g. 'long put'), the gross amount referred to in point (a) shall be the lesser of the following two amounts:

(i) the market value of the underlying *security* multiplied by the sum of specific and general market risk requirements for the underlying asset; and

(ii) the value of the position determined by the mark-to-market method or the mark-to-model method as provided in points (b) and (c) of paragraph 1 of Trading Book (CRR) Part Article 103 (e.g. 'market value of the option or warrant');

(e) for all types of options or warrants which do not have the characteristics referred to in point (b), the gross amount referred to in point (a) shall be the market value of the option or warrant.

**The Delta-plus approach: overview**

6. An institution shall determine own funds requirements under the Delta-plus approach in accordance with the following:

(a) where institutions opt to apply the Delta-plus approach, for options and warrants whose gamma is a continuous function in the price of the underlying and whose vega is a continuous function in the implied volatility (e.g. 'continuous options and warrants'), the own funds requirements for non-delta risks on options or warrants shall be calculated as the sum of the following requirements:

(i) the own funds requirements relating to the partial derivative of delta with reference to the price of the underlying which, for bond options or warrants is the partial derivative of delta with reference to the yield-to-maturity of the underlying bond, and for swaptions is the partial derivative of the delta with reference to the swap rate;

(ii) the requirement relating to the first partial derivative of the value of an option or warrant, with reference to the implied volatility;

(b) implied volatility shall be taken to be the value of the volatility in the option or warrant pricing formula for which, given a certain pricing model and given the level of all other observable pricing parameters, the theoretical price of the option or warrant is equal to its

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market value, where 'market value' is understood in the manner described in point (d) of paragraph 5; and

(c) the own funds requirements for non-delta risks related to non-continuous options or warrants shall be determined as follows:

(i) where the options or warrants have been bought, as the maximum amount between zero and the difference between the following values:

(1) the market value of the option or warrant, understood in the manner described in point (d) of paragraph 5; and

(2) the risk-weighted delta equivalent amount, understood in the manner described in point (a)(ii) of paragraph 5;

(ii) where the options or warrants have been sold, as the maximum between zero and the difference between the following amounts:

(1) the relevant market value of the underlying asset, which shall be taken to be either the maximum possible payment at expiry date, if it is contractually fixed, or the market value of the underlying asset or the effective notional value if no maximum possible payment is contractually fixed; and

(2) the risk-weighted delta equivalent amount, understood in the manner described in point (a)(ii) of paragraph 5; and

(d) the value for gamma and vega used in the calculation of own funds requirements shall be calculated using an appropriate pricing model as referred to in Article 329(1), Article 352(1) and Article 358(3). Where either gamma or vega cannot be calculated in accordance with this point (d), the capital requirement on non-delta risks shall be calculated according to point (c) of this paragraph.

**The Delta-plus approach: gamma risk**

7. An institution shall determine own funds requirements for gamma risk under the Delta-plus approach in accordance with the following:

(a) for the purposes of point (a)(i) of paragraph 6, an institution shall calculate the own funds requirements for gamma risk by a process consisting of the following sequence of steps:

(i) for each individual option or warrant a gamma impact shall be calculated;

(ii) the gamma impacts of individual options or warrants which refer to the same distinct underlying type shall be summed up; and

(iii) the absolute value of the sum of all of the negative values resulting from step (ii) shall provide the own funds requirements for gamma risk. Positive values resulting from step (ii) shall be disregarded;

(b) for the purpose of the step in point (a)(i), an institution shall calculate gamma impacts in accordance with the following formula:

$$Gamma\ impact = \frac{1}{2} \times Gamma \times VU^2$$

where *VU*:

(i) for options or warrants on interest rates or bonds is equal to the assumed change in yield indicated in column 5 of Table 2 of Article 339;

(ii) for equity options or warrants and equity indices the market value of the underlying multiplied by the weighting indicated in Article 343;

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(iii) for foreign exchange and gold options or warrants is equal to the market value of the underlying, calculated in the reporting currency and multiplied by the weighting indicated in Article 351 or, if it meets the conditions for such approach, the weighting indicated in Article 354;

(iv) for commodity options or warrants is equal to the market value of the underlying, multiplied by the weighting indicated in point (a) of Article 360(1);

(c) for the purposes of the step in point (a)(ii), a distinct underlying type shall be:

(i) for interest rates in the same currency: each maturity time band as set out in Table 2 of Article 339;

(ii) for equities and stock indices: each market as defined in paragraph 3 of Article 341;

(iii) for foreign currencies and gold: each currency pair and gold; and

(iv) for commodities: commodities considered identical as defined in paragraph 4 of Article 357.

**The Delta-plus approach: vega risk**

8. For the purposes of point (a)(ii) of paragraph 6, an institution shall calculate the own funds requirement for vega risk by a process consisting of the following sequence of steps:

(a) for each individual option the value of vega shall be determined;

(b) for each individual option an assumed plus/minus 25% shift in the implied volatility shall be calculated, where implied volatility shall be understood in the manner described in point (b) of paragraph 6;

(c) for each individual option the vega value resulting from the step in point (a) shall be multiplied by the assumed shift in implied volatility resulting from the step in point (b);

(d) for each distinct underlying type, understood in the manner described in point (c) of paragraph 7, the values resulting from the step in point (c) shall be summed up; and

(e) the sum of absolute values resulting from the step in point (d) shall provide the total own funds requirement for vega risk.

**Conditions of application of the scenario approach**

9. An institution may use the scenario approach where they fulfil all of the following requirements:

(a) it has established a risk control unit that monitors the risk of the options portfolio of the institutions and reports the results to the management;

(b) it has notified the *PRA* of a predefined scope of exposures to be covered by this approach consistently over time; and

(c) it integrates the results of the scenario approach in the internal reporting to the management of the institution.

For the purposes of point (b), an institution shall define the precise positions that are subject to the scenario approach, including the type of product or identified desk and portfolio, the distinctive risk management approach that applies to such positions, the dedicated IT application that applies to such positions, and a justification for the allocation of those positions to the scenario approach, with regard to those positions allocated to other approaches.

**Definition of the scenario matrix according to the scenario approach**

10. An institution shall define the scenario matrix in accordance with the following requirements:

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(a) for each distinct underlying type, as referred to in point (c) of paragraph 7, an institution shall define a scenario matrix which contains a set of scenarios;

(b) the first dimension of the scenario matrix shall be the price changes in the underlying above and below its current value. That range of changes shall consist of the following:

(i) for interest rate options or warrants, plus/minus the assumed change in interest rates set out in column 5 of Table 2 of Article 339;

(ii) for options or warrants on equity or equity indices, plus/minus the weighting provided in Article 343;

(iii) for foreign exchange and gold options or warrants, plus/minus the weighting indicated in Article 351 where appropriate, plus/minus the weighting indicated in Article 354; and

(iv) for commodity options (warrants), plus/minus the weighting indicated in point (a) of paragraph 1 of Article 360;

(c) the price change scenarios in the underlying shall be defined by a grid of at least seven points which includes the current observation and divides the range indicated in point (b) in equally spaced intervals;

(d) the second dimension of the scenario matrix shall be defined by volatility changes. The range of changes in volatilities shall be between plus/minus 25% of the implied volatility, where implied volatility shall be understood as referred to in paragraph 6(b). That range shall be divided into a grid of at least three points which include a 0% change and where the range is divided into equally spaced intervals; and

(e) the scenario matrix is determined by all possible combinations of points, as referred to in points (c) and (d). Each combination shall constitute a single scenario.

**Determination of the own funds requirements according to the scenario approach**

11. According to the scenario approach, an institution shall calculate the own funds requirement on non-delta risk of options or warrants through a process consisting of the following sequence of steps:

(a) for each individual option or warrant, all the scenarios referred to in paragraph 10 shall be applied to calculate simulated net loss or gain corresponding to each scenario. That simulation shall be done using full revaluation methods, by simulating the price changes by the use of pricing models and without relying to local approximations of those models;

(b) for each distinct underlying type, as referred to in point (c) of paragraph 7, the values obtained as a result of the calculation in point (a) and referring to the individual scenarios, shall be aggregated;

(c) for each distinct underlying type as referred to in point (c) of paragraph 7, the 'relevant scenario' shall be calculated as the scenario for which the values determined in step (b) result in the largest loss, or the lowest gain if there are no losses;

(d) for each distinct underlying type, as referred to in point (c) of paragraph 7, the own funds requirements shall be calculated in accordance with the following formula:

$$Own\ funds\ requirement = -\min(0, PC - DE)$$

where:

*PC* (Price Change) = the sum of price changes of the options with the same distinct underlying type understood in the manner described in point (c) of paragraph 7 (negative sign for losses and positive sign for gains) and corresponding to the relevant scenario determined in step (c) of paragraph 11;

*DE* = the delta effect, calculated as follows:

$$DE = ADEV \times PPCU$$

where:

*ADEV* (aggregated delta equivalent value) = the sum of negative or positive deltas, multiplied by the market value of the underlying of the contract, of options that have the same distinct underlying type understood in the manner described in point (c) of paragraph 7;

*PPCU* (percentage price change of the underlying) = the percentage price change of the underlying understood in the manner described in point (c) of paragraph 7, corresponding to the relevant scenario determined in step (c) of paragraph 11; and

(e) the total own funds requirement in the case of non-delta risk of options or warrants shall be the sum of the own fund requirements obtained from the calculation referred to in step (d) for all distinct underlying types as referred to in point (c) of paragraph 7.

**Article 353 FOREIGN EXCHANGE RISK OF CIUS**

1. For the purposes of Article 352, an institution shall, in respect of CIUs take the actual foreign exchange positions of the CIU into account.

2. An institution may rely on the following third parties' reporting of the foreign exchange positions in the CIU:

   (a) the depository institution of the CIU provided that the CIU exclusively invests in securities and deposits all securities at this depository institution; and

   (b) for other CIUs, the CIU management company, provided that the CIU management company is managed by a company that is subject to supervision in the *United Kingdom* or, in the case of *third country* CIU, where the CIU is established in a *third country* that carries out activities similar to those carried out by a CIU and which is subject to supervision pursuant to legislation of a *third country* which applies supervisory and regulatory requirements which are at least equivalent to those applied in the *UK* to *UK* CIUs.

   The correctness of the calculation shall be confirmed by an external auditor.

3. Where an institution is not aware of the foreign exchange positions in a CIU, it shall assume that the CIU is invested up to the maximum extent allowed under the CIU's mandate in foreign exchange and the institution shall, for trading book positions, take account of the maximum indirect exposure that it could achieve by taking leveraged positions through the CIU when calculating their own funds requirement for foreign exchange risk. To do this, the institution shall proportionally increase the position in the CIU up to the maximum exposure to the underlying investment items resulting from the investment mandate. The institution shall treat the assumed position of the CIU in foreign exchange as a separate currency according to the treatment of investments in gold, subject to the addition of the total long position to the total long open foreign exchange position and the total short position to the total short open foreign exchange position where the direction of the CIU's investment is available. The institution shall not net between such positions prior to the calculation.

[Note: This rule corresponds to Article 353 of *CRR* as it applied immediately before revocation by the *Treasury*]

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### Article 354 CLOSELY CORRELATED CURRENCIES

1. An institution may provide lower own funds requirements against positions in relevant closely correlated currencies. A pair of currencies is deemed to be closely correlated only if the likelihood of a loss, calculated on the basis of daily exchange-rate data for the preceding three or five years, occurring on equal and opposite positions in such currencies over the following 10 working days, which is 4% or less of the value of the matched position in question (valued in terms of the reporting currency) has a probability of at least 99%, when an observation period of three years is used, and 95%, when an observation period of five years is used. The own-funds requirement on the matched position in two closely correlated currencies shall be 4% multiplied by the value of the matched position.

2. In calculating the requirements of Articles 351 to 354, an institution may disregard positions in currencies, which are subject to a legally binding intergovernmental agreement to limit its variation relative to other currencies covered by the same agreement. It shall calculate the matched positions in such currencies and subject them to an own funds requirement no lower than half of the maximum permissible variation laid down in the intergovernmental agreement in question in respect of the currencies concerned.

3. An institution may determine the list of currencies for which the treatment set out in paragraph 1 is available, based on the following criteria:

   (a) daily percent currency movement shall be calculated on the basis of the following formula:

   $$\%\ Change = \ln(exchange_t) - \ln(exchange_{t-1})$$

   where:

   $exchange$ = relevant currency pair;

   (b) the resulting percentage shall be compared to the threshold of the maximum daily change in value within a pair of currencies of 1.265%. Any values exceeding this threshold shall be treated as breaches of the 4%, 10-day maximum loss;

   (c) only the unmatched positions in currencies shall be incorporated into the overall net open position in accordance with paragraph 4 of Article 352.

[Note: This rule corresponds to Article 354 of *CRR* as it applied immediately before revocation by the *Treasury*]

## 6. OWN FUNDS REQUIREMENTS FOR COMMODITIES RISK (PART THREE, TITLE IV, CHAPTER FOUR CRR)

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### Article 355 CHOICE OF METHOD FOR COMMODITIES RISK

1. Subject to Articles 356 to 358, an institution shall calculate the own funds requirement for commodities risk with one of the methods set out in Articles 359, 360 or 361.

[Note: This rule corresponds to Article 355 of *CRR* as it applied immediately before revocation by the *Treasury*]

### Article 356 ANCILLARY COMMODITIES BUSINESS

1. An institution with ancillary agricultural commodities business may determine the own funds requirements for their physical commodity stock at the end of each year for the following year where all of the following conditions are met:

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(a) at any time of the year it holds own funds for this risk which are not lower than the average own funds requirement for that risk estimated on a conservative basis for the coming year;

(b) it estimates on a conservative basis the expected volatility for the figure calculated under point (a);

(c) its average own funds requirement for this risk does not exceed 5% of its own funds or GBP 880,000 and, taking into account the volatility estimated in accordance with (b), the expected peak own funds requirements do not exceed 6.5% of its own funds; and

(d) the institution monitors on an ongoing basis whether the estimates carried out under points (a) and (b) still reflect the reality.

2. An institution shall notify to the *PRA* the use they make of the option provided in paragraph 1.

[Note: This rule corresponds to Article 356 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 357 POSITIONS IN COMMODITIES**

1. An institution shall express:

(a) each position in commodities or commodity derivatives in terms of the standard unit of measurement; and

(b) the spot price in each commodity in the reporting currency.

2. An institution shall treat positions in gold or gold derivatives as subject to foreign-exchange risk and treat these positions in accordance with Articles 351 to 354 for the purpose of calculating commodities risk.

3. For the purpose of paragraph 1 of Article 360, the institution shall calculate its net position in each commodity as the excess of an institution's long positions over its short positions, or vice versa, in the same commodity and identical commodity futures, options and warrants. It shall treat derivative instruments, as laid down in Article 358, as positions in the underlying commodity.

4. For the purposes of calculating a position in a commodity, an institution shall treat the following positions as positions in the same commodity:

(a) positions in different sub-categories of commodities in cases where the sub-categories are deliverable against each other; and

(b) positions in similar commodities if they are close substitutes and where a minimum correlation of 0.9 between price movements can be clearly established over a minimum period of one year.

[Note: This rule corresponds to Article 357 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 358 PARTICULAR INSTRUMENTS**

1. An institution shall incorporate commodity futures and forward commitments to buy or sell individual commodities in the measurement system as notional amounts in terms of the standard unit of measurement and assigned a maturity with reference to expiry date.

2. An institution shall treat commodity swaps where one side of the transaction is a fixed price and the other the current market price, as a series of positions equal to the notional amount of the contract, with, where relevant, one position corresponding with each payment on the swap and slotted into the maturity bands in paragraph 1 of Article 359. The positions shall be long positions if the institution is paying a fixed price and receiving a floating price and short

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positions if the institution is receiving a fixed price and paying a floating price. An institution shall report commodity swaps in which the sides of the transaction are in different commodities in the relevant reporting ladder for the maturity ladder approach.

3. An institution shall treat options and warrants on commodities or on commodity derivatives as if they were positions equal in value to the amount of the underlying to which the option refers, multiplied by its delta for the purposes of this Chapter. The latter positions may be netted off against any offsetting positions in the identical underlying commodity or commodity derivative. The delta used shall be that of the exchange concerned. For OTC options, or where delta is not available from the exchange concerned the institution may with the prior permission of the *PRA* calculate delta itself to the extent and subject to any modifications set out in the permission if, on applying for such permission, it is able to demonstrate to the satisfaction of the *PRA* that it is using an appropriate model which estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying.

   An institution that has been permitted to calculate delta itself as set out in the first sub-paragraph shall:

   (i) adequately reflect other risks associated with options, apart from the delta risk, in the own funds requirements in accordance with Article 352a; and

   (ii) comply with the requirements set out in that first sub-paragraph.

[Note: This is a permission created under sections 144G(2) and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

4. [Note: Provision left blank]

5. Where an institution is either of the following, it shall include the commodities concerned in the calculation of its own funds requirement for commodities risk:

   (a) the transferor of commodities or guaranteed rights relating to title to commodities in a repurchase agreement; or

   (b) the lender of commodities in a commodities lending agreement.

[Note: Paragraphs 1, 2, 3 and 5 of this rule correspond to Article 358(1), (2), (3) and (5) of *CRR* as applied immediately before revocation by the *Treasury*]

**Article 359 MATURITY LADDER APPROACH**

1. An institution shall use a separate maturity ladder in line with Table 1 of this Article for each commodity. All positions in that commodity shall be assigned to the appropriate maturity bands. Physical stocks shall be assigned to the first maturity band between 0 and up to and including one *month*.

Table 1

| **Maturity band (1)** | **Spread rate (in %) (2)** |
|---|---|
| 0 ≤ 1 *month* | 1.50 |
| > 1 ≤ 3 *months* | 1.50 |
| > 3 ≤ 6 *months* | 1.50 |
| > 6 ≤ 12 *months* | 1.50 |
| > 1 ≤ 2 years | 1.50 |

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| | |
|---|---|
| > 2 ≤ 3 years | 1.50 |
| > 3 years | 1.50 |

2. An institution may offset and assign positions in the same commodity to the appropriate maturity bands on a net basis for the following:

   (a) positions in contracts maturing on the same date; and

   (b) positions in contracts maturing within 10 days of each other if the contracts are traded on markets which have daily delivery dates.

3. The institution shall then calculate the sum of the long positions and the sum of the short positions in each maturity band. The amount of the former which are matched by the latter in a given maturity band shall be the matched positions in that band, while the residual long or short position shall be the unmatched position for the same band.

4. An institution shall treat that part of the unmatched long position for a given maturity band that is matched by the unmatched short position, or vice versa, for a maturity band further out as the matched position between two maturity bands. That part of the unmatched long or unmatched short position that cannot be thus matched shall be the unmatched position.

5. The institution shall calculate its own funds requirement for each commodity on the basis of the relevant maturity ladder as the sum of the following:

   (a) the sum of the matched long and short positions, multiplied by the appropriate spread rate as indicated in the second column of Table 1 of this Article for each maturity band and by the spot price for the commodity;

   (b) the matched position between two maturity bands for each maturity band into which an unmatched position is carried forward, multiplied by 0.6%, which is the carry rate and by the spot price for the commodity; and

   (c) the residual unmatched positions, multiplied by 15% which is the outright rate and by the spot price for the commodity.

6. The institution's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph 5.

[Note: This rule corresponds to Article 359 of *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 360 SIMPLIFIED APPROACH**

1. An institution's own funds requirement for each commodity shall be calculated as the sum of the following:

   (a) 15% of the net position, long or short, multiplied by the spot price for the commodity; and

   (b) 3% of the gross position, long plus short, multiplied by the spot price for the commodity.

2. An institution's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph 1.

[Note: This rule corresponds to Article 360 of *CRR* as it applied immediately before revocation by the *Treasury*]

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## Article 361 EXTENDED MATURITY LADDER APPROACH

1. An institution may use the minimum spread, carry and outright rates set out in Table 2 of this Article instead of those indicated in Article 359 provided that the institution:

   (a) undertakes significant commodities business;

   (b) has an appropriately diversified commodities portfolio; and

   (c) is not yet in a position to use internal models for the purpose of calculating the own funds requirement for commodities risk.

Table 2

| | **Precious metals (except gold)** | **Base metals** | **Agricultural products (softs)** | **Other, including energy products** |
|---|---|---|---|---|
| **Spread rate (%)** | 1.0 | 1.2 | 1.5 | 1.5 |
| **Carry rate (%)** | 0.3 | 0.5 | 0.6 | 0.6 |
| **Outright rate (%)** | 8 | 10 | 12 | 15 |

2. An institution shall notify the use they make of this Article to the *PRA* together with evidence of their efforts to implement an internal model for the purpose of calculating the own funds requirement for commodities risk.

[Note: This rule corresponds to Article 361 of *CRR* as it applied immediately before revocation by the *Treasury*]

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**Annex K**

**Credit Valuation Adjustment Risk Part**

In this Annex the text is all new and is not underlined.

**Part**

# CREDIT VALUATION ADJUSTMENT RISK

**Chapter content**

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. GENERAL PROVISIONS
4. BASIC APPROACH
5. STANDARDISED APPROACH
6. ALTERNATIVE APPROACH
7. TRANSITIONAL PROVISIONS

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## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

*aggregate CVA*

means the sum of *regulatory CVA* for all *covered transactions*.

*clearing member*

has the definition in Counterparty Credit Risk (CRR) Part 1.3.

*client*

has the definition in Counterparty Credit Risk (CRR) Part 1.3.

*commodity delta risk factor*

means the *risk factor* set in accordance with 5.30(3).

*commodity vega risk factor*

means the *risk factor* set in accordance with 5.30(4).

*counterparty credit spread risk delta risk factor*

means the *risk factor* set in accordance with 5.27(3).

*covered transaction*

means:

(1) a derivative transaction, but excluding:

(a) derivatives transacted directly with a qualifying central counterparty;

(b) derivatives transacted with a *clearing member*, where either:

(i) the *clearing member* acts as financial intermediary between the *firm* and the qualifying central counterparty; or

(ii) the *clearing member* guarantees the performance of the *firm's* exposure to the qualifying central counterparty;

(c) derivatives transacted with a qualifying central counterparty where the *firm* is a *clearing member* acting as a financial intermediary between a *client* and the qualifying central counterparty;

(d) derivatives transacted with a *client*, where the *firm* is a *clearing member* acting as financial intermediary between the *client* and the qualifying central counterparty; and

(e) transactions giving rise to exposures with counterparties meeting the conditions in 3.2;

(2) a securities financing transaction, if:

(a) it is fair-valued by the *firm* under the *firm's* applicable accounting framework; and

(b) the *firm's CVA risk* arising from the transaction is material.

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*CVA portfolio*

means a *firm's* portfolio of *covered transactions* and *eligible CVA hedges*.

*eligible BA-CVA hedge*

means a transaction used for the purpose of mitigating the counterparty credit spread component of *CVA risk* and managed as such, and that is either:

(1) a single-name credit default swap or a single-name contingent credit default swap which must reference:

(a) the counterparty directly;

(b) an entity *legally related* to the counterparty; or

(c) an entity that belongs to the same sector and region as the counterparty; or

(2) an index credit default swap.

*eligible CVA hedge*

has the same meaning as:

(1) *eligible BA-CVA hedge* if a *firm* uses *BA-CVA*; or

(2) *eligible SA-CVA hedge* if a *firm* uses *SA-CVA*.

*eligible SA-CVA hedge*

means a transaction used for the purposes of mitigating *CVA risk* that:

(1) is not split into several effective transactions;

(2) either:

(a) hedges variability of the counterparty credit spread; or

(b) hedges variability of the exposure component of *CVA risk*; and

(3) is eligible for the internal models approach for *market risk* in accordance with Market Risk: Internal Model Approach (CRR) Part 1.1.

*equity delta risk factor*

means the *risk factor* set in accordance with 5.29(3).

*equity vega risk factor*

means the *risk factor* set in accordance with 5.29(7).

*external CVA hedge*

means a transaction used for the purpose of mitigating *CVA risk* entered into with a third party.

*foreign exchange delta risk factor*

means the *risk factor* set in accordance with 5.26(3).

*foreign exchange vega risk factor*

means the *risk factor* set in accordance with 5.26(6).

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*interest rate delta risk factor*

means the *risk factor* set for the following currencies: USD, EUR, GBP, AUD, CAD, SEK or JPY in accordance with 5.25(3).

*interest rate vega risk factor*

means the *risk factor* set in accordance with 5.25(10).

*internal CVA hedge*

means a transaction used for the purpose of mitigating *CVA risk* entered into with the *firm's* own trading desk.

*legally related*

means cases where the reference name and the counterparty are either a parent undertaking and its subsidiary or two subsidiaries of a common parent undertaking.

*loss given default*

means the ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default.

*margin period of risk*

has the meaning in Counterparty Credit Risk (CRR) Part 1.3.

*margin threshold*

has the meaning in Counterparty Credit Risk (CRR) Part 1.3.

*market risk Parts*

means the:

(1) Market Risk: General Provisions (CRR) Part;

(2) Market Risk: Simplified Standardised Approach (CRR) Part;

(3) Market Risk: Advanced Standardised Approach (CRR) Part; and

(4) Market Risk: Internal Model Approach (CRR) Part.

*netting set*

has the meaning in Article 272(4) of *CRR*.

*other currencies interest rate delta risk factor*

means the *risk factor* set for currencies other than USD, EUR, GBP, AUD, CAD, SEK and JPY in accordance with 5.25(3).

*probability of default*

means the probability of default of a counterparty.

*qualified index*

means:

(1) for delta risk, a credit or equity index that satisfies liquidity and diversification conditions specified in paragraph 3 of Market Risk: Advanced Standardised Approach (CRR) Part Article 325i; and

(2) for vega risk, any credit or equity index.

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*reference credit spread delta risk factor*

means the *risk factor* set in accordance with 5.28(3).

*reference credit spread vega risk factor*

means the *risk factor* set in accordance with 5.28(6).

*regulatory CVA*

means a *CVA* calculated in line with the requirements in 5.5 to 5.12.

*reporting currency*

means the currency in which the *firm's* annual reports are prepared.

*risk class*

means:

(1) for delta risk, the categories of risk listed in 5.15; and

(2) for vega risk, the categories of risk listed in 5.17.

*risk factor*

means any of the risk drivers of *CVA risk*, being the *commodity delta risk factor*, the *commodity vega risk factor*, the *counterparty credit spread risk delta risk factor*, the *equity delta risk factor*, the *equity vega risk factor*, the *foreign exchange delta risk factor*, the *foreign exchange vega risk factor*, the *interest rate delta risk factor*, the *interest rate vega risk factor*, the *other currencies interest rate delta risk factor*, the *reference credit spread delta risk factor*, and the *reference credit spread vega risk factor*, and *risk factors* relating to *qualified index* instruments in accordance with 5.21.

*sensitivity*

means the ratio of the change of *aggregate CVA* or the market value of all *eligible SA-CVA hedges* caused by a small change of the *risk factor's* current value to the size of the change, calculated for each *risk factor* in accordance with 5.25 to 5.30 and the prudent valuation standards set out in the Trading Book (CRR) Part Article 105.

## 2 LEVEL OF APPLICATION

2.1 A *firm* must comply with this Part on an individual basis.

2.2 Where a *firm* has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.

2.3 A *CRR consolidation entity* must comply with this Part on the basis of its consolidated situation.

2.4 For the purposes of 2.3, references to a *firm* in this Part (other than in 1.1 and 2.1) mean a *CRR consolidation entity*.

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

2.6 A *firm* which is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis must comply with this Part on the same basis.

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**Organisational Structure and Control Mechanisms**

2.7 A *CRR consolidation entity* and a *firm* shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

2.8 A *CRR consolidation entity* and a *firm* shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

## 3 GENERAL PROVISIONS

3.1 A *firm* must calculate its own funds requirements for *CVA risk* using the following approaches:

(1) if it has permission to use *SA-CVA*, in accordance with Chapter 5;

(2) if it does not have permission to use *SA-CVA*:

(a) if 4.1 applies, *BA-CVA* under Chapter 4; or

(b) if 6.1 applies, the alternative approach under Chapter 6.

3.2 In addition to transactions that must be excluded under point (b) of Article 382(4) of *CRR*, a *firm* may exclude from its calculation of own funds requirements for *CVA risk* transactions that meet the following conditions:

(1) the counterparty is:

(a) included in the *firm's* prudential *consolidation group* on a full basis; or

(b) an entity in the *firm's group* and the transaction between the counterparty and the *firm* is eliminated on accounting consolidation under the applicable accounting framework or the accounting standards applicable to the *firm's* ultimate parent undertaking;

(2) both the counterparty and the *firm* are subject to appropriate centralised risk evaluation, measurement and control procedures; and

(3) there are 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 *firm*.

3.3 A *firm* must:

(1) notify the *PRA* in writing three *months* prior to the date at which it starts excluding transactions with a counterparty in accordance with 3.2 and confirm the notification every three years thereafter; and

(2) include in each notification to the *PRA*:

(a) the name of the counterparty excluded in accordance with 3.2; and

(b) an explanation of how the conditions in 3.2 are met.

3.4 A *firm* must:

(1) if it hedges *CVA risk*, use only *eligible CVA hedges*;

(2) not include *external CVA hedges* that are *eligible CVA hedges* in its calculation of its own funds requirements for *market risk* under the *market risk Parts*; and

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(3) include *external CVA hedges* that are not *eligible CVA hedges* in its trading book calculation of *market risk* own funds requirements under the *market risk Parts*.

3.5 A *firm* may include an *internal CVA hedge* that is subject to curvature risk in accordance with Market Risk: Advanced Standardised Approach (CRR) Part Articles 325e and 325g, default risk charge in accordance with Market Risk: Advanced Standardised Approach (CRR) Part Articles 325v to 325ad, or residual risk add-on in accordance with Market Risk: Advanced Standardised Approach (CRR) Part Article 325u, as an *eligible CVA hedge* only if the trading desk that is the internal counterparty to the *CVA* desk enters into a transaction or a set of transactions with one or more external counterparties that exactly offsets the trading desk's position with the *CVA* desk.

3.6 For the purposes of 4.4, 5.27 and 5.28, where a counterparty is not externally rated, a *firm* that has been granted permission from the *PRA* under the Credit Risk: Internal Ratings Based Approach (CRR) Part Article 143 to use the internal rating based approach in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part to calculate credit risk own funds requirements in respect of exposures to the counterparty must map the internal rating to an external rating and assign a risk weight corresponding to either investment grade or high yield.

## 4 BASIC APPROACH

4.1 A *firm* that:

(1) does not have permission from the *PRA* to use *SA-CVA*; and

(2) if relevant to the *firm*, has not chosen to use the alternative approach in Chapter 6;

must calculate its own funds requirements for *CVA risk* for *covered transactions* in accordance with this Chapter.

**Reduced version of BA-CVA**

4.2 If a *firm* does not use any *eligible BA-CVA hedges* to hedge *CVA risk* it must calculate its own funds requirement for *CVA risk* in accordance with the following formula:

$$\mathrm{DS}_{\mathrm{BA-CVA}} \times \mathrm{K}_{\mathrm{reduced}}$$

where:

$\mathrm{DS}_{\mathrm{BA-CVA}} = 0.65$; and

$\mathrm{K}_{\mathrm{reduced}}$ is calculated in accordance with the following formula:

$$\mathrm{K}_{\mathrm{reduced}} = \sqrt{\left(\rho \cdot \sum_{\mathrm{C}} \mathrm{SCVA}_{\mathrm{C}}\right)^2 + (1-\rho^2) \cdot \sum_{\mathrm{C}} \mathrm{SCVA}_{\mathrm{C}}^2}$$

where:

$\mathrm{SCVA}_{\mathrm{C}}$= the own funds requirement for counterparty $c$ on a standalone basis, in calculated in accordance with 4.3;

$\rho = 50\%$, the supervisory correlation parameter;

C = all counterparties for which the *firm* uses *BA-CVA* to calculate its own funds requirements for *CVA risk*.

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4.3 For the purposes of 4.2, a *firm* must calculate $\mathrm{SCVA_C}$ in accordance with the following formula:

$$\mathrm{SCVA_C} = \frac{1}{\alpha} \cdot \mathrm{RW_C} \cdot \sum_{\mathrm{NS}} \mathrm{M_{NS}} \cdot \mathrm{EAD_{NS}} \cdot \mathrm{DF_{NS}}$$

where:

$\mathrm{RW_C}$ is the risk weight for a counterparty that reflects the volatility of its credit spread as prescribed in the table at 4.4;

NS = *netting set*;

$\mathrm{M_{NS}}$ is the effective maturity for the *netting set*, calculated:

(1) for a *firm* using the methods set out in Section 6 of Chapter 6 of Title II of Part Three of *CRR*:

(a) in accordance with point (g) of paragraph 2A of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162 for *netting sets* with a maturity of greater than one year, except that $\mathrm{M_{NS}}$ is not capped at five years but instead at the longest contractual remaining maturity in the *netting set*; or

(b) paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162 for *netting sets* with a maturity of less than one year;

(2) for a *firm* not using the methods set out in Section 6 of Chapter 6 of Title II of Part Three of *CRR*, using the average notional weighted maturity in accordance with paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162, except $\mathrm{M_{NS}}$ is not capped at five years but instead at the longest contractual remaining maturity in the *netting set*;

$\mathrm{EAD_{NS}}$ is the exposure at default of the *netting set*, calculated in the same manner in which the *firm* calculates exposure at default for determining own funds requirements for counterparty credit risk, in accordance with either Sections 3 to 5 of Counterparty Credit Risk (CRR) Part or Section 6 of Chapter 6 of Title II of Part Three of *CRR*;

$\mathrm{DF_{NS}}$, the supervisory discount factor for the *netting set*, is:

(1) 1 if a *firm* has been granted permission from the *PRA* under Article 283 of *CRR* to use the Internal Model Method to calculate the exposure at default as part of its own funds requirements calculation for counterparty credit risk; or

(2) $\frac{1-\mathrm{e}^{-0.05 \cdot \mathrm{M_{NS}}}}{0.05 \cdot \mathrm{M_{NS}}}$ if a *firm* does not have permission to use the Internal Model Method to calculate exposure at default;

α= the value of α as specified in the Counterparty Credit Risk (CRR) Part;

*c*= all counterparties for which the *firm* uses *BA-CVA* to calculate its own funds requirements for *CVA risk* and with which the *firm* has at least one *covered transaction*.

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4.4 For the purposes of 4.3, a *firm* must set the value of $RW_C$ in accordance with the table below:

| Sector of counterparty | Credit quality of counterparty | |
|---|---|---|
| | Investment grade | High yield and Non-rated |
| Sovereigns including central banks and *multilateral development banks* | 0.5% | 2.0% |
| Local government, government-backed non-financials, education and public administration | 1.0% | 4.0% |
| Financials including government-backed financials, excluding pension funds | 5.0% | 12.0% |
| Pension funds | 3.5% | 8.5% |
| Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying | 3.0% | 7.0% |
| Consumer goods and services, transportation and storage, administrative and support service activities | 3.0% | 8.5% |
| Technology, telecommunications | 2.0% | 5.5% |
| Health care, utilities, professional and technical activities | 1.5% | 5.0% |
| Other sector | 5.0% | 12.0% |

**Full version of BA-CVA**

4.5 If a *firm* uses one or more *eligible BA-CVA hedges* to hedge *CVA risk* it must calculate its own funds requirement for *CVA risk* in accordance with the following formula:

$$DS_{BA-CVA} \times K_{full}$$

where:

$DS_{BA-CVA} = 0.65;$

$K_{full} = \beta \cdot K_{reduced} + (1 - \beta) \cdot K_{hedged};$

where:

$\beta = 0.25;$

$K_{reduced}$ is calculated in accordance with 4.2.

4.6 For the purposes of 4.5, a *firm* must calculate $K_{hedged}$ in accordance with the following formula:

$$K_{hedged} = \sqrt{\left(\rho \cdot \sum_C (SCVA_C - SNH_C) - IH\right)^2 + (1 - \rho^2) \cdot \sum_C (SCVA_C - SNH_C)^2 + \sum_C HMA_C}$$

where:

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$SCVA_C$ is calculated in accordance with 4.3;

ρ= 50%;

$SNH_C$ is calculated in accordance with 4.7;

$IH$ is calculated in accordance with 4.8;

$HMA_C$ is calculated in accordance with 4.9;

c= all counterparties for which the *firm* uses *BA-CVA* to calculate its own funds requirements for *CVA risk* and with which the *firm* has at least one *covered transaction*.

4.7 For the purposes of 4.6, a *firm* must calculate $SNH_C$ in accordance with the following formula:

$$SNH_C = \sum_{h \in C} r_{hc} \cdot RW_h \cdot M_h^{SN} \cdot B_h^{SN} \cdot DF_h^{SN}$$

where:

$r_{hc}$ = the supervisory correlation between the credit spread of counterparty $c$ and the credit spread of a single-name hedge $h$ of counterparty $(c)$ determined in accordance with the table at 4.10;

$M_h^{SN}$ = the remaining maturity of a single-name *eligible BA-CVA hedge*;

$B_h^{SN}$ = the notional of single-name *eligible BA-CVA hedge* $(h)$ (for single-name contingent credit default swaps, the notional must be determined by the current market value of the reference portfolio or instrument);

$DF_h^{SN}$ = the supervisory discount factor for a single-name hedge, calculated as:

$$\frac{1-e^{-0.05 \cdot M_h^{SN}}}{0.05 \cdot M_h^{SN}}$$

$RW_h$ = the supervisory risk weight of single-name hedge $h$ that reflects the volatility of the credit spread of the reference name of the hedging instrument set in accordance with the table at 4.4;

h = the index that denotes all single name *eligible BA-CVA hedges* that the *firm* has taken out to hedge the *CVA risk* of a counterparty.

4.8 For the purposes of 4.6, a *firm* must calculate $IH$ in accordance with the following formula:

$$IH = \sum_i RW_i^{ind}{}_i \cdot M_i^{ind} \cdot B_i^{ind} \cdot DF_i^{ind}$$

where:

$M_i^{ind}$= the remaining maturity of index *eligible BA-CVA hedge*;

$B_i^{ind}$= the notional of the index *eligible BA-CVA hedge*;

$DF_i^{ind}$= the supervisory discount factor calculated in accordance with the following formula:

$$\frac{1-e^{-0.05 \cdot M_i^{ind}}}{0.05 \cdot M_i^{ind}}$$

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$RW_i^{ind}$ is the supervisory risk weight of the index *eligible BA-CVA hedge*, as specified in the table at 4.4 but adjusted as follows:

(1) for an index where all index constituents belong to the same sector and are of the same credit quality, the *firm* must multiply the relevant value in the table at 4.4 by 0.7;

(2) for an index spanning multiple sectors or with a mixture of investment grade constituents and other grade constituents, the *firm* must calculate the name-weighted average of the risk weights from the table at 4.4 and then multiply by 0.7;

i= the index that denotes all index hedges that the *firm* has taken out to hedge *CVA risk*.

4.9 For the purposes of 4.6, a *firm* must calculate $HMA_C$ in accordance with the following formula:

$$HMA_C = \sum_{h \in C}(1 - r_{hc}^2) \cdot (RW_h \cdot M_h^{SN} \cdot B_h^{SN} \cdot DF_h^{SN})^2$$

where:

$r_{hc}$, $M_h^{SN}$, $B_h^{SN}$, $DF_h^{SN}$, and $RW_h$ are as set out in 4.7.

4.10 For the purposes of 4.7, a *firm* must set the value of $r_{hc}$ in accordance with the table below:

| Single name hedge of counterparty c | Value of $r_{hc}$ |
|---|---|
| references counterparty c directly | 100% |
| is *legally related* to counterparty c | 80% |
| shares sector and region with counterparty c | 50% |

## 5 STANDARDISED APPROACH

### *PRA* permission

5.1 This Chapter applies to a *firm* which has permission from the *PRA* to use *SA-CVA* to calculate its own funds requirement for *CVA risk*, applying the requirements of this Chapter to the extent and subject to any modifications set out in the permission.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

5.2 A *firm* may with the prior permission of the *PRA* use *SA-CVA* to calculate its own funds requirement for *CVA risk* if, on applying for such permission, the *firm* can demonstrate to the satisfaction of the *PRA* that:

(1) it is able to calculate, and report to the *PRA*, its own funds requirement for *CVA risk* in accordance with this Chapter;

(2) it complies with the qualitative requirements in 5.13; and

(3) it has a *CVA* desk or similar dedicated function responsible for risk management and hedging of *CVA risk*.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

5.3 A *firm* that has permission from the *PRA* to use *SA-CVA*:

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(1) must use *SA-CVA* to calculate its own funds requirement for *CVA risk* in accordance with this Chapter to the extent and subject to any modifications set out in the permission;

(2) may choose to use *BA-CVA* to calculate its own funds requirement for *CVA risk* for one or more *netting sets* in respect of which it has permission from the *PRA* to use *SA-CVA*; and

(3) may split a *netting set* into two *netting sets*, one containing transactions in respect of which the *firm* uses *BA-CVA* in accordance with 5.3(2) and the other containing transactions in respect of which the *firm* uses *SA-CVA* if:

(a) the split is consistent with the treatment of the *netting set* used by the *firm* for calculating *CVA* under the *firm's* applicable accounting framework; or

(b) the *firm's* permission from the *PRA* to use *SA-CVA* does not cover all the transactions within a *netting set*.

(4) shall comply with the requirements of 5.2(1) to (3).

5.4 A *firm's* application for permission under 5.2 must contain:

(1) an explanation that the *firm* meets the conditions in 5.2;

(2) the *firm's* policies for ensuring compliance with Chapters 2, 3, 5 and 7; and

(3) an explanation of the *firm's* intended split of *covered transactions* between *SA-CVA* and *BA-CVA*, including *netting sets*, in accordance with 5.3(2).

***Regulatory CVA* calculation requirements**

5.5 A *firm* must:

(1) calculate its own funds requirement for *CVA risk* on a *monthly* basis;

(2) have the ability to calculate its own funds requirement for *CVA risk* on a daily basis;

(3) calculate *regulatory CVA* for each counterparty with which it has at least one *covered transaction*; and

(4) express the *regulatory CVA* by specifying that non-zero losses must have a positive value.

5.6 A *firm* must calculate *regulatory CVA*:

(1) as the expectation of future losses resulting from default of the counterparty under the assumption that the *firm* is free from the default risk;

(2) based on at least the following three sets of inputs:

(a) term structure of market-implied *probability of default*;

(b) market-consensus expected *loss given default*; and

(c) simulated paths of discounted future exposure; and

(3) by ensuring that for transactions with a significant level of dependence between the exposure and the counterparty's credit quality, the dependence is taken into account across at least one of the inputs in (2).

5.7 For the purposes of point (a) of 5.6(2):

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(1) a *firm* must estimate the term structure of market-implied *probability of default* using credit spreads of the counterparty where these are observable in the market;

(2) where credit spreads of the counterparty are not observable in the market, a *firm* must estimate market-implied *probability of default* from proxy spreads:

(a) by estimating the credit spread curve of the counterparty from observable credit spreads using a methodology that discriminates on at least the following three variables:

(i) a measure of credit quality;

(ii) industry; and

(iii) region;

(b) by estimating the credit spread curve of the counterparty from the credit spread observed in the market of a single reference name, and must be able to justify the appropriateness of each use of a single reference name to the *PRA*; or

(c) using its own assessment of credit risk where no appropriate credit spreads are observable. Where historical probabilities of default are used as part of this assessment, the *firm* must not base the resulting spread on historical *probability of default* only.

5.8 For the purposes of point (b) of 5.6(2):

(1) unless 5.8(3) applies, the market-consensus expected *loss given default* value used by the *firm* must be the same as the one used to calculate the risk-neutral *probability of default* from credit spreads;

(2) the *firm* must ensure that collateral provided by the counterparty does not change the seniority of the derivative exposure;

(3) by way of derogation from (1), if the seniority of the transactions with the counterparty differs from the seniority of senior unsecured bonds that is implied by the value of expected *loss given default*, the *firm* must reflect this difference in seniority by adjusting the value of expected *loss given default*.

5.9 For the purposes of point (c) of 5.6(2):

(1) a *firm* must:

(a) produce the simulated paths of discounted future exposure by pricing all derivative transactions with the counterparty along simulated paths of relevant market *risk factors* and discounting the prices to the date of calculation using risk-free interest rates along the path; and

(b) simulate all market *risk factors* material for the transactions with a counterparty as stochastic processes for an appropriate number of paths defined on an appropriate set of future time points extending to the maturity of the longest transaction.

(2) a *firm* may recognise collateral as risk mitigation if:

(a) the collateral management requirements specified in Article 287 of *CRR* are satisfied;

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(b) all documentation used in collateralised transactions is binding on all parties and legally enforceable in all relevant jurisdictions; and

(c) the *firm* has conducted sufficient legal review to verify the condition in point (b) of 5.9(2) and undertakes such further review as necessary to ensure continuing enforceability.

(3) a *firm* must, for exposures to counterparties subject to a margin agreement, ensure that:

(a) the simulated paths of discounted future exposure capture the effects of margining collateral that is recognised as risk mitigation along each exposure path;

(b) its exposure model appropriately captures all the relevant contractual features including whether unilateral or bilateral, the frequency of margin calls, the type of collateral, *margin thresholds*, independent amounts, initial margins and minimum transfer amounts; and

(c) its exposure model assumes a *margin period of risk* which cannot be less than:

(i) 4+N *business days* for securities financing transactions unless the margin agreement has daily or intra-daily exchange of margin, where the *margin period of risk* is 5 *business days*; or

(ii) 9+N *business days* for all other transactions;

where:

N = the re-margining period specified in the margin agreement.

5.10 A *firm* must:

(1) obtain the simulated paths of discounted future exposure from the exposure models used by the *firm* for calculating *CVA* under the *firm's* applicable accounting framework, adjusted as necessary to meet the requirements of this Chapter; and

(2) use the same model calibration process (with the exception of the *margin period of risk*), market and transaction data as it uses for calculating *CVA* under the *firm's* applicable accounting framework.

5.11 A *firm* must ensure the generation of market *risk factor* paths underlying its exposure models comply with the following requirements:

(1) drifts of *risk factors* are consistent with a risk-neutral probability measure and not historical calibration of drifts;

(2) the volatilities and correlations of *risk factors* are calibrated to:

(a) market data, if sufficient data exist in a given market; or

(b) historical market data, if sufficient data is not available; and

(3) the distribution of modelled *risk factors* account for the possible non-normality of the distribution of exposures.

5.12 A *firm* must ensure that its calculation of *regulatory CVA* recognises *netting sets* in the same manner in which the *firm* calculates *CVA* under the *firm's* applicable accounting framework.

**Qualitative requirements**

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5.13 A *firm* must ensure that:

(1) its exposure models used for calculating *regulatory CVA* are part of a *CVA risk* management framework that includes the identification, measurement, management, approval and internal reporting of *CVA risk*;

(2) its *senior management* is actively involved in the risk control process and must regard *CVA risk* control as an essential aspect of the business to which sufficient resources are devoted;

(3) it has a process for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operation of the exposure system it uses for calculating *CVA* under the *firm's* applicable accounting framework;

(4) it maintains an independent control unit that is responsible for the effective initial and ongoing validation of its exposure models, which is:

(a) independent from the business credit and trading units, including the *CVA* desk;

(b) adequately staffed; and

(c) reports directly to *senior management* of the *firm*;

(5) its documentation of the process for initial and ongoing validation of its exposure models:

(a) is detailed enough to enable a third party to understand how the models operate, their limitations, and their key assumptions, and to recreate the analysis;

(b) sets out the minimum frequency with which ongoing validation will be conducted as well as other circumstances under which additional validation will be conducted; and

(c) describes how the validation is conducted with respect to data flows and portfolios, what analyses are used and how representative counterparty portfolios are constructed;

(6) the pricing models used to calculate exposure for a given path of *risk factors* must:

(a) be tested against appropriate independent benchmarks for a wide range of market states as part of the initial and ongoing model validation process; and

(b) for options, account for the non-linearity of option value with respect to *risk factors*;

(7) its internal audit function carries out an independent review of the overall *CVA risk* management process on a regular basis, covering both the activities of the *CVA* desk and the independent risk control unit;

(8) it defines criteria against which to assess the exposure models and their inputs, and has a written policy describing the process to assess performance of the exposure models and remedy unacceptable performance;

(9) its exposure models capture transaction-specific information in order to aggregate exposures at the level of the *netting set*;

(10) it assigns transactions to the appropriate *netting set* within the model;

(11) it reflects transaction terms and specifications in its exposure models in a timely, complete and conservative fashion;

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(12) it stores transaction terms and specifications in a secure database that is subject to formal and periodic internal audit;

(13) it subjects the transmission of transaction terms and specifications data to the exposure model to internal audit and formal reconciliation processes are in place between the exposure model and source data systems to verify on an ongoing basis that transaction terms and specifications are reflected in the exposure model appropriately;

(14) it uses in its exposure models current and historical market data that is:

(a) acquired independently of the lines of business and is compliant with the *firm's* applicable accounting framework;

(b) fed into the exposure models in a timely and complete fashion;

(c) maintained in a secure database subject to periodic internal audit; and

(d) subject to a well-developed data integrity process to handle erroneous or anomalous data observations; and

(15) it sets internal policies to identify suitable proxies where its exposure models rely on proxy market data and it can demonstrate empirically on an ongoing basis that the proxy provides a conservative representation of the underlying risk under adverse market conditions.

**Delta and vega risks**

5.14 A *firm* must calculate its own funds requirement for *CVA risk* as the sum of the own funds requirements for:

(1) delta risk calculated in accordance with 5.15; and

(2) vega risk calculated in accordance with 5.17;

for the *firm's* entire *CVA portfolio*.

5.15 A *firm* must calculate the own funds requirement for delta risk as the sum of the delta risk own funds requirement calculated separately for each of the following *risk classes* using the formula in 5.24:

(1) interest rate risk;

(2) foreign exchange risk;

(3) counterparty credit spread risk;

(4) reference credit spread risk;

(5) equity risk;

(6) commodity risk.

5.16 A *firm* must assign an *eligible SA-CVA hedge* for credit spread delta risk in its entirety either to the counterparty credit spread or to the reference credit spread *risk class*.

5.17 A *firm* must calculate the own funds requirement for vega risk as the sum of the vega risk own funds requirement calculated for each of the following *risk classes* using the formula in rule 5.24:

(1) interest rate risk;

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(2) foreign exchange risk;

(3) reference credit spread risk;

(4) equity risk;

(5) commodity risk.

5.18 A *firm* may use smaller values of *risk factor* shifts than the shifts specified in 5.25 to 5.30 for each *risk class* if doing so is consistent with its internal risk management calculations.

5.19 A *firm* must calculate *sensitivities* for vega risk:

(1) whether or not the *CVA portfolio* includes options; and

(2) by applying the relevant volatility shift to the *risk class* as required by 5.25 to 5.30 to the volatilities used for generating *risk factor* paths and pricing options.

5.20 If an *eligible SA-CVA hedge* is an index instrument, a *firm* must:

(1) calculate its *sensitivities* to all *risk factors* upon which the value of the index depends; and

(2) calculate the index *sensitivity* to the *risk factor* by applying the shift of the *risk factor* to all index constituents that depend on the *risk factor* and recalculating the changed value of the index.

5.21 For the purpose of calculating the delta and vega *sensitivities* for counterparty credit spread risk, reference credit spread risk and equity risk in accordance with 5.25 to 5.30, a *firm* may use additional *risk factors* that correspond to *qualified index* instruments, provided that the *firm*:

(1) calculates delta and vega *sensitivities* to a *risk factor* that corresponds to a *qualified index* as a single *sensitivity* to the underlying *qualified index*;

(2) where 75% or more of the constituents of a *qualified index* are mapped to the same sector, maps the *qualified index* to that same sector; and

(3) where less than 75% of the constituents of a *qualified index* are mapped to the same sector, maps the *sensitivity* to the applicable *qualified index* bucket.

5.22 A *firm* must calculate the weighted *sensitivities* of the *aggregate CVA* and of the market value of all *eligible SA-CVA hedges* to each *risk factor* applicable to each *risk class* in accordance with the following formulae:

$$\mathrm{WS}_{\mathrm{k}}^{\mathrm{CVA}} = \mathrm{RW}_{\mathrm{k}}\, \mathrm{s}_{\mathrm{k}}^{\mathrm{CVA}}$$

$$\mathrm{WS}_{\mathrm{k}}^{\mathrm{Hdg}} = \mathrm{RW}_{\mathrm{k}}\, \mathrm{s}_{\mathrm{k}}^{\mathrm{Hdg}}$$

where:

$\mathrm{WS}_{\mathrm{k}}^{\mathrm{CVA}}$= the weighted *sensitivity* of *aggregate CVA* to *risk factor* (k);

$\mathrm{RW}_{\mathrm{k}}$ = the risk weight applicable to the *risk factor* (k) as specified in 5.25 to 5.30;

$\mathrm{s}_{\mathrm{k}}^{\mathrm{CVA}}$= the net *sensitivity* of the *aggregate CVA* to *risk factor* (k)

$\mathrm{WS}_{\mathrm{k}}^{\mathrm{Hdg}}$= the weighted *sensitivity* of the market value of all the *eligible SA-CVA hedges* in the *CVA portfolio* to *risk factor* (k); and

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$s_k^{Hdg}$= the net *sensitivity* of the market value of all the *eligible CVA hedges* in the *CVA portfolio* to *risk factor* (k).

5.23 A *firm* must calculate the net weighted *sensitivity* of the *CVA portfolio* to each *risk factor* in accordance with the following formula:

$$WS_k = WS_k^{CVA} - WS_k^{Hdg}$$

where:

$WS_k$ = net weighted *sensitivity* of the *CVA portfolio* to *risk factor* (k);

$WS_k^{CVA}$ is calculated in accordance with 5.22; and

$WS_k^{Hdg}$ is calculated in accordance with 5.22.

5.24 For each *risk class*, a *firm* must:

(1) for each bucket (b), aggregate the weighted *sensitivities* into an own funds requirement $(K_b)$ in accordance with the following formula:

$$K_b = \sqrt{\left(\sum_{k\in b} WS_k^2 + \sum_{k\in b}\sum_{l\in b, l\neq k} \rho_{kl}\, WS_k WS_l\right) + R \cdot \sum_{k\in b}((WS_k^{Hdg})^2)}$$

where:

R= the hedging disallowance parameter set at 0.01;

$\rho_{kl}$= the intra-bucket correlation parameter between *risk factors*, determined within each *risk class*;

$WS_k$ and $WS_l$= calculated in accordance with 5.23 for *risk factors* k and l;

$WS_k^{Hdg}$= calculated in accordance with 5.22.

(2) aggregate the own funds requirement calculated for each bucket in accordance with (1) across buckets within each *risk class* to calculate the own funds requirement for each *risk class* (K), in accordance with the following formula:

$$K = m_{CVA}\sqrt{\sum_b K_b^2 + \sum_b \sum_{b\neq c} \gamma_{bc}\, S_b S_c}$$

where:

$m_{CVA}$= multiplier factor equal to 1;

$\gamma_{bc}$ = the cross-bucket correlation parameter determined within each *risk class*;

$S_b$ = the sum of the weighted *sensitivities* for all *risk factors* (k) within each bucket (b), floored by $-K_b$ and capped by $K_b$ in accordance with the following formula:

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$$S_b = \max\left\{-K_b; \min\left(\sum_{k \in b} WS_k\ ;\ K_b\right)\right\}$$

where:

$WS_k$= calculated in accordance with 5.23;

$K_b$= calculated in accordance with 5.24(1);

$S_c$= the sum of the weighted *sensitivities* for all *risk factors* (k) within each bucket (c), floored by $-K_c$ and capped by $K_c$ in accordance with the following formula:

$$S_c = \max\left\{-K_c; \min\left(\sum_{k \in c} WS_k\ ;\ K_c\right)\right\}$$

where:

$WS_k$ is calculated in accordance with 5.23;

$K_c$ is calculated in accordance with 5.24(1) where $K_c$ is a different bucket from $K_b$.

**Interest rate risk**

5.25 For the purposes of calculating the own funds requirement for interest rate risk in accordance with 5.14 to 5.24, a *firm* must:

(1) set buckets for individual currencies;

(2) set cross-bucket correlation ($\gamma_{bc}$) at 0.5 for all currency pairs (b, c);

(3) set the delta *risk factor* for interest rate risk to either:

(a) for the following currencies: USD, EUR, GBP, AUD, CAD, SEK or JPY, the absolute change of the inflation rate and of the risk-free yields for the following five tenors: one year, two years, five years, 10 years and 30 years; or

(b) for all other currencies, the absolute change of the inflation rate and the parallel shift of the entire risk-free yield curve for a given currency;

(4) for each *interest rate delta risk factor* measure the *sensitivities* to:

(a) the risk-free yields by changing the risk-free yield for the relevant tenor for all curves in the relevant currency associated with the bucket by 0.0001 and dividing the resulting change in the *aggregate CVA*, and the value of *eligible CVA hedges*, by 0.0001; and

(b) the inflation rate by changing the inflation rate by 0.0001 and dividing the resulting change in the *aggregate CVA*, and the value of *eligible CVA hedges*, by 0.0001;

(5) set the risk weight ($RW_k$) for each *interest rate delta risk factor* (k) as follows:

| **Risk factor** | 1 year | 2 years | 5 years | 10 years | 30 years | Inflation |
|---|---|---|---|---|---|---|
| **Risk weight** | 1.11% | 0.93% | 0.74% | 0.74% | 0.74% | 1.11% |

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(6) set the correlations ($\rho_{kl}$) between pairs of each *interest rate delta risk factor* (k, l) as follows:

| | **1 year** | **2 years** | **5 years** | **10 years** | **30 years** | **Inflation** |
|---|---|---|---|---|---|---|
| **1 year** | 100% | 91% | 72% | 55% | 31% | 40% |
| **2 years** | | 100% | 87% | 72% | 45% | 40% |
| **5 years** | | | 100% | 91% | 68% | 40% |
| **10 years** | | | | 100% | 83% | 40% |
| **30 years** | | | | | 100% | 40% |
| **Inflation** | | | | | | 100% |

(7) for each *other currency interest rate delta risk factor* measure the *sensitivity* to:

(a) the yield curve by applying a parallel shift to all risk-free yield curves in a given currency by 0.0001 and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.0001; and

(b) the inflation rate by changing the inflation rate by 0.0001 and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.0001;

(8) set the *other currencies interest rate delta risk factor* risk weights ($RW_k$) for both the risk-free yield curve and the inflation rate at 1.58%;

(9) set the *other currencies interest rate delta risk factor* correlations ($\rho_{kl}$) between the risk-free yield curve and the inflation rate at 40%;

(10) set the *interest rate vega risk factors* for all currencies to the simultaneous relative change of all volatilities for the inflation rate and a simultaneous relative change of all interest rate volatilities for a given currency;

(11) for the *interest rate vega risk factor* measure the *sensitivity*:

(a) to the interest rate volatilities by applying a simultaneous shift to all interest rate volatilities by 1% relative to their current values and dividing the resulting change in the *aggregate CVA*, and the value of *eligible CVA hedges*, by 0.01;

(b) to the inflation rate volatilities by applying a simultaneous shift to inflation rate volatilities for a given currency by 1% relative to their current values and dividing the resulting change in the *aggregate CVA*, and the value of *eligible CVA hedges*, by 0.01;

(12) for both the interest rate volatilities and the inflation rate volatilities for the *interest rate vega risk factor* set the risk weights ($RW_k$) at 100% for all currencies; and

(13) for the *interest rate vega risk factor* set the correlations ($\rho_{kl}$) between the interest rate volatilities and the inflation rate volatilities at 40%.

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**Foreign exchange risk**

5.26 For the purposes of calculating the own funds requirement for foreign exchange risk in accordance with 5.14 to 5.24, a *firm* must:

(1) set buckets per individual currencies except for the *firm's reporting currency*;

(2) set the cross-bucket correlation ($\gamma_{bc}$) at 0.6 for all currency pairs;

(3) set the *foreign exchange delta risk factor* to the relative change of the FX spot rate between a given currency and the *firm's reporting currency*, where the FX spot rate is the current market price of one unit of another currency expressed in the units of the *firm's reporting currency*;

(4) for the *foreign exchange delta risk factor* for all currencies measure the *sensitivities* to:

(a) foreign exchange spot rates by shifting the exchange rate between the *firm's reporting currency* and another currency by 1% relative to its current value and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.01; and

(b) for transactions that reference an exchange rate between a pair of currencies where neither currency is the *firm's reporting currency*, the foreign exchange spot rates between the *firm's reporting currency* and each of the referenced currencies that are not the *firm's reporting currency*;

(5) for all exchange rates between the *firm's reporting currency* and another currency set the *foreign exchange delta risk factor* risk weights ($RW_k$) at 11%;

(6) set the *foreign exchange vega risk factor* to a simultaneous relative change of all volatilities for an exchange rate between the *firm's reporting currency* and another given currency;

(7) for the *foreign exchange vega risk factor* for all currencies measure:

(a) the *sensitivities* to the foreign exchange volatilities by simultaneously shifting all volatilities for a given exchange rate between the *firm's reporting currency* and another currency by 1% relative to their current values and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.01;

(b) for transactions that reference an exchange rate between a pair of currencies where neither is the *firm's reporting currency*, the volatilities of the foreign exchange spot rates between the *firm's reporting currency* and each of the referenced currencies that are not the *firm's reporting currency*; and

(8) for the *foreign exchange vega risk factor* set the risk weights ($RW_k$) at 100%.

**Counterparty credit spread risk**

5.27 For the purposes of calculating the own funds requirement for counterparty credit spread risk in accordance with 5.14 to 5.24, a *firm* must:

(1) assign exposures to buckets in accordance with the following table:

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| **Bucket number** | **Sector** |
|---|---|
| 1 | (a) Sovereigns including central banks, *multilateral development banks*<br>(b) Local government, government-backed non-financials, education and public administration |
| 2 | (a) Financials including government-backed financials, excluding pension funds<br>(b) Pension funds |
| 3 | Basic materials, energy, industrials agriculture, manufacturing, mining and quarrying |
| 4 | Consumer goods and services, transportation and storage, administrative and support services activities |
| 5 | Technology, telecommunications |
| 6 | Health care, utilities, professional and technical activities |
| 7 | Other sector |
| 8 | *Qualified Indices* |

where:

(a) a *firm* must:

(i) only assign instruments that reference a *qualified index* to bucket 8, while all single-name and all non-*qualified index* hedges must be assigned to buckets 1 to 7; and

(ii) for any instrument referencing an index assigned to buckets 1 to 7, calculate the *sensitivity* of the hedge to each index constituent.

(2) set cross-bucket correlations ($\gamma_{bc}$) as follows:

| **Bucket** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| 1 | 100% | 10% | 20% | 25% | 20% | 15% | 0% | 45% |
| 2 | | 100% | 5% | 15% | 20% | 5% | 0% | 45% |
| 3 | | | 100% | 20% | 25% | 5% | 0% | 45% |
| 4 | | | | 100% | 25% | 5% | 0% | 45% |
| 5 | | | | | 100% | 5% | 0% | 45% |
| 6 | | | | | | 100% | 0% | 45% |
| 7 | | | | | | | 100% | 0% |
| 8 | | | | | | | | 100% |

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(3) set the *counterparty credit spread risk delta risk factors* for a given bucket to absolute shifts of credit spreads of each counterparty, reference name (for counterparty credit spread hedges, if any) or *qualified index* for the following tenors: 0.5 years, one year, three years, five years and 10 years;

(4) for each bucket, measure the *sensitivity* to the *counterparty credit spread risk delta risk factors* by, for each counterparty, reference name or *qualified index*, and each tenor point, shifting the relevant credit spread by 0.0001 and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.0001;

(5) set the risk weights $(\mathrm{RW_k})$ for each *risk factor* (k) according to the following table depending on the counterparty's bucket:

| **Bucket** | 1 a) | 1 b) | 2 a) | 2 b) | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Investment grade names** | 0.5% | 1.0% | 5.0% | 3.5% | 3.0% | 3.0% | 2.0% | 1.5% | 5.0% | 1.5% |
| **High yield and not rated names** | 2.0% | 4.0% | 12.0% | 8.5% | 7.0% | 8.5% | 5.5% | 5.0% | 12.0% | 5.0% |

(6) for buckets 1 to 7, calculate the correlation parameter $(\rho_{kl})$ between two weighted *sensitivities* $(\mathrm{WS_k})$ and $(\mathrm{WS_l})$ according to the following formula:

$$\rho_{kl} = \rho_{tenor} \cdot \rho_{name} \cdot \rho_{quality}$$

where:

$\rho_{tenor}$= 100% if the two tenors are the same and 90% otherwise;

$\rho_{name}$= 100% if the two counterparty or reference names are the same, 90% if the two counterparty or reference names are distinct, but *legally related* and 50% otherwise;

$\rho_{quality}$= 100% if the credit quality of the two counterparty or reference names is the same and 80% otherwise.

(7) for bucket 8, calculate the correlation parameter $(\rho_{kl})$ between two weighted *sensitivities* $(\mathrm{WS_k})$ and $(\mathrm{WS_l})$ in accordance with the following formula:

$$\rho_{kl} = \rho_{tenor} \cdot \rho_{name} \cdot \rho_{quality}$$

where:

$\rho_{tenor}$= 100% if the two tenors are the same and 90% otherwise;

$\rho_{name}$= 100% if the two indices are the same and of the same series, 90% if the two indices are the same, but of distinct series, and 80% otherwise;

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$\rho_{quality}$= 100% if the credit quality of the two indices is the same and 80% otherwise.

**Reference credit spread risk**

5.28 For the purposes of calculating the own funds requirement for reference credit spread risk in accordance with 5.14 to 5.24, a *firm* must:

(1) assign exposures to buckets in accordance with the following table:

| Bucket number | Credit quality | Sector of reference name |
|---|---|---|
| 1 | Investment grade | Sovereigns including central banks, *multilateral development banks* |
| 2 | | Local government, government-backed non-financials, education and public administration |
| 3 | | Financials including government-backed financials |
| 4 | | Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying |
| 5 | | Consumer goods and services, transportation and storage, administrative and support service activities |
| 6 | | Technology, telecommunications |
| 7 | | Health care, utilities, professional and technical activities |
| 8 | High yield and not rated | Sovereigns including central banks, *multilateral development banks* |
| 9 | | Local government, government-backed non-financials, education and public administration |
| 10 | | Financials including government-backed financials |
| 11 | | Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying |
| 12 | | Consumer goods and services, transportation and storage, administrative and support service activities |
| 13 | | Technology, telecommunications |
| 14 | | Health care, utilities, professional and technical activities |
| 15 | (Not applicable) | Other sector |
| 16 | Investment grade | *Qualified index* |
| 17 | High yield | *Qualified index* |

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(2) for reference credit spread delta risk and vega risk set the cross-bucket correlations $(\gamma_{bc})$ for buckets (b, c):

(a) between buckets of the same credit quality, by applying the cross-bucket correlations in the following table:

| **Bucket** | 1/8 | 2/9 | 3/10 | 4/11 | 5/12 | 6/13 | 7/14 | 15 | 16 | 17 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1/8 | 100% | 75% | 10% | 20% | 25% | 20% | 15% | 0% | 45% | 45% |
| 2/9 | | 100% | 5% | 15% | 20% | 15% | 10% | 0% | 45% | 45% |
| 3/10 | | | 100% | 5% | 15% | 20% | 5% | 0% | 45% | 45% |
| 4/11 | | | | 100% | 20% | 25% | 5% | 0% | 45% | 45% |
| 5/12 | | | | | 100% | 25% | 5% | 0% | 45% | 45% |
| 6/13 | | | | | | 100% | 5% | 0% | 45% | 45% |
| 7/14 | | | | | | | 100% | 0% | 45% | 45% |
| 15 | | | | | | | | 100% | 0% | 0% |
| 16 | | | | | | | | | 100% | 75% |
| 17 | | | | | | | | | | 100% |

(b) between buckets 1 to 14 of different credit quality, by dividing the correlations in the table at point (a) of 5.28(2) by 2;

(3) set the *reference credit spread delta risk factor* for a given bucket to the simultaneous absolute shift of the credit spreads of all tenors for all reference names in the bucket;

(4) for each bucket measure the *sensitivity* to the *reference credit spread delta risk factors* by simultaneously shifting the credit spreads of all tenors for all reference names in the bucket by 0.0001 and dividing the resulting change in the *aggregate CVA*, and the market value of *eligible SA-CVA hedges*, by 0.0001;

(5) for the *reference credit spread delta risk factors* set the risk weights $(RW_k)$ in accordance with the following tables depending on the reference name's bucket:

| **Investment grade bucket** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| **Risk Weight** | 0.5% | 1.0% | 5.0% | 3.0% | 3.0% | 2.0% | 1.5% | 2.0% | 4.0% |

| **High yield/Not rated** | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|---|---|---|---|---|---|---|---|

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| **bucket** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Risk weight** | 12.0% | 7.0% | 8.5% | 5.5% | 5.0% | 12.0% | 1.5% | 5.0% |

(6) set the *reference credit spread vega risk factor* for a given bucket is the simultaneous relative shift of the volatilities of credit spreads of all tenors for all reference names in the bucket;

(7) for each bucket measure the *sensitivity* to the *reference credit spread vega risk factor* by simultaneously shifting the volatilities of credit spreads of all tenors for all reference names in the bucket by 1% relative to their current values and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.01;

(8) set the risk weights $(\mathrm{RW}_k)$ for the credit spread volatilities for the *reference credit spread vega risk factor*, at 100%.

**Equity risk**

5.29 For the purposes of calculating the own funds requirement for equity risk in accordance with 5.14 to 5.24, a *firm* must:

(1) assign exposures to buckets as follows:

| **Bucket number** | **Size** | **Region** | **Sector of issuer** |
|---|---|---|---|
| 1 | Large market capitalisation | Emerging market economies | Consumer goods and services, transportation and storage, administrative and support service activities, healthcare, utilities |
| 2 | | | Telecommunications, industrials |
| 3 | | | Basic materials, energy, agriculture, manufacturing, mining and quarrying |
| 4 | | | Financials including government-backed financials, real estate activities, technology |
| 5 | | Advanced economies | Consumer goods and services, transportation and storage, administrative and support service activities, healthcare, utilities |
| 6 | | | Telecommunications, industrials |
| 7 | | | Basic materials, energy, agriculture, manufacturing, mining and quarrying |
| 8 | | | Financials including government-backed financials, real estate activities, technology |
| 9 | Small market capitalisation | Emerging market economies | All sectors described under bucket numbers 1, 2, 3, and 4 |
| 10 | | Advanced | All sectors described under bucket numbers 5, |

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| | | | |
|---|---|---|---|
| | | economies | 6, 7, and 8 |
| 11 | (Not applicable) | | Other sector |
| 12 | Large capitalisation, advanced economies | | *Qualified index* |
| 13 | Other | | *Qualified index* |

where:

market capitalisation= the sum of the market capitalisation across all stock markets globally of the same legal entity, unless its parent undertaking has *listed* securities, in which case the market capitalisation of the parent undertaking;

large market capitalisation= a market capitalisation equal to or greater than GBP 1.6 billion;

small market capitalisation= a market capitalisation of less than GBP 1.6 billion;

advanced economies= the *UK*, Canada, the United States, Mexico, the euro area, Norway, Sweden, Denmark, Switzerland, Japan, Australia, New Zealand, Singapore and Hong Kong SAR;

emerging market economies= all economies that are not advanced economies.

(2) for the purposes of (1):

(a) when assigning a risk exposure to a sector bucket, rely on a classification that is commonly used in the market for grouping issuers by industry sector;

(b) assign each issuer to one of the sector buckets in the table in 5.29(1) and assign all issuers from the same industry to the same sector;

(c) assign to bucket 11 any risk positions from any issuer that the *firm* cannot assign to a sector in a manner that complies with points (a) and (b) of 5.29(2);

(d) assign multinational multi-sector equity issuers to a bucket according to the most material region and sector in which the issuer operates;

(3) set the *equity delta risk factor* to the simultaneous relative shift of equity spot prices for all reference names in the bucket;

(4) set cross-bucket correlation ($\gamma_{bc}$) at:

(a) 15% for cross-bucket pairs within buckets 1 to 10;

(b) 75% for cross-bucket pairs within buckets 12 and 13;

(c) 45% for cross-bucket pairs between buckets 12 or 13 and any of buckets 1 to 10; and

(d) 0% for all cross-bucket pairs that include bucket 11.

(5) for each bucket measure the *sensitivity* to the *equity delta risk factor* by simultaneously shifting the equity spot prices for all reference names in the bucket by 1% relative to their

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current values and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.01;

(6) for the *equity delta risk factor*, set risk weights $(RW_k)$ depending on the reference name's bucket in accordance with the following table:

| Bucket number | Risk weight |
|---|---|
| 1 | 55% |
| 2 | 60% |
| 3 | 45% |
| 4 | 55% |
| 5 | 30% |
| 6 | 35% |
| 7 | 40% |
| 8 | 50% |
| 9 | 70% |
| 10 | 50% |
| 11 | 70% |
| 12 | 15% |
| 13 | 25% |

(7) set the *equity vega risk factor* to the simultaneous relative shift of the volatilities for all reference names in the bucket;

(8) for each bucket measure the *sensitivity* to the *equity vega risk factor* by simultaneously shifting the volatilities for all reference names in the bucket by 1% relative to their current values and dividing the resulting change in the *aggregate CVA* and the value of *eligible SA-CVA hedges* by 0.01;

(9) for the *equity vega risk factor*, set the risk weights $(RW_k)$ at 78% for large market capitalisation buckets and at 100% for the other buckets.

**Commodity risk**

5.30 For the purposes of calculating the own funds requirement for commodity risk in accordance with 5.14 to 5.24, a *firm* must:

(1) assign exposures to buckets as follows:

| Bucket number | Commodity group | Examples |
|---|---|---|
| 1 | Energy – Solid | coal, charcoal, wood pellets, nuclear fuel |

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| | | |
|---|---|---|
| | combustibles | (including uranium) |
| 2 | Energy – Liquid combustibles | crude oil (including Light-sweet, heavy, West Texas Intermediate and Brent); biofuels (including bioethanol and biodiesel); petrochemicals (including propane, ethane, gasoline, methanol and butane); refined fuels (including jet fuel, kerosene, gasoil, fuel oil, naphtha, heating oil and diesel) |
| 3 | Energy – Electricity and carbon trading | electricity (including spot, day-ahead, peak and off-peak); carbon emissions trading (including certified emissions reductions, in-delivery *month EU* allowance, Regional Greenhouse Gas Initiative CO2 allowance and renewable energy certificates) |
| 4 | Freight | dry-bulk route (including Capesize, Panamax, Handysize and Supramax); liquid-bulk/gas shipping route (such as Suezmax, Aframax and very large crude carriers) |
| 5 | Metals – non-precious | base metal (including aluminium, copper, lead, nickel, tin and zinc); steel raw materials (including steel billet, steel wire, steel coil, steel scrap and steel rebar, iron ore, tungsten, vanadium, titanium and tantalum); minor metals (including cobalt, manganese, molybdenum) |
| 6 | Gaseous combustibles | natural gas; liquefied natural gas |
| 7 | Precious metals (including gold) | gold; silver; platinum; palladium |
| 8 | Grains & oilseed | corn; wheat; soybean (including soybean seed, soybean oil and soybean meal); oats; palm oil; canola; barley; rapeseed (including rapeseed seed, rapeseed oil, and rapeseed meal); red bean, sorghum; coconut oil; olive oil; peanut oil; sunflower oil; rice |
| 9 | Livestock & dairy | cattle (including live and feeder); hog; poultry; lamb; fish; shrimp; dairy (including milk, whey, eggs, butter and cheese) |
| 10 | Softs and other agriculturals | cocoa; coffee (including arabica and robusta); tea; citrus and orange juice; potatoes; sugar; cotton; wool; lumber and pulp; rubber |
| 11 | Other commodity | industrial minerals (including potash, fertiliser and phosphate rocks), rare earths; terephthalic acid; flat glass |

(2) set the cross-bucket correlation ($\gamma_{bc}$) at:

(a) 20% for all cross-bucket pairs that fall within bucket numbers 1 to 10; and

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(b) 0% for all cross-bucket pairs that include bucket 11;

(3) set the *commodity delta risk factor* to simultaneous relative shift of the commodity spot prices for all commodities in the bucket;

(4) set the *commodity vega risk factor* to simultaneous relative shift of the volatilities for all commodities in the bucket;

(5) for each bucket measure the *sensitivity* to the *commodity delta risk factor* by simultaneously shifting the spot prices of all commodities in the bucket by 1% relative to their current values and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.01;

(6) for the *commodity delta risk factor*, set the risk weights $(\mathrm{RW}_k)$ corresponding to the reference commodity's bucket in accordance with the following table:

| **Bucket number** | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **RW** | 30% | 35% | 60% | 80% | 40% | 45% | 20% | 35% | 25% | 35% | 50% |

(7) for each bucket measure the *sensitivity* to the *commodity vega risk factor* by simultaneously shifting the volatilities for all commodities in the bucket by 1% relative to their current values and dividing the resulting change in the *aggregate CVA*, and the value of *eligible SA-CVA hedges*, by 0.01; and

(8) for the *commodity vega risk factor* set the risk weights $(\mathrm{RW}_k)$ at 100%.

## 6 ALTERNATIVE APPROACH

6.1 A *firm* that:

(1) has non-centrally cleared derivatives of a notional aggregate amount less than GBP 88 billion; and

(2) does not have permission from the *PRA* to use *SA-CVA*;

may choose to calculate its own funds requirement for *CVA risk* using the alternative approach in 6.2, instead of using *BA-CVA*.

6.2 A *firm* using the alternative approach must hold an own funds requirement for *CVA risk* equal to 100% of the *firm's* own funds requirement for counterparty credit risk calculated in accordance with either:

(1) the Counterparty Credit Risk (CRR) Part and, if the *firm* has chosen to calculate its own funds requirement in respect of securities financing transactions in accordance with the Credit Risk Mitigation (CRR) Part, the Credit Risk Mitigation (CRR) Part; or

(2) if the *firm* has been granted permission by the *PRA* to do so, the Internal Model Method set out in Section 6 of Chapter 6 of Title II of Part Three of *CRR*, and, if the *firm* has chosen to calculate its own funds requirement in respect of securities financing transactions in accordance with the Credit Risk Mitigation (CRR) Part, the Credit Risk Mitigation (CRR) Part.

6.3 For the purposes of 6.2, a *firm* must:

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(1) not recognise the effect of *CVA* hedges; and

(2) apply the alternative approach to the *firm's* entire portfolio of *covered transactions*.

6.4 A *firm* that chooses to use the alternative approach in 6.2 must notify the *PRA* in writing that it meets the condition in 6.1(1) prior to using the alternative approach.

## 7 TRANSITIONAL PROVISIONS

7.1 A *firm* may, until 1 January 2030:

(1) exclude from its calculation of own funds requirements for *CVA risk* transactions entered into prior to 1 January 2027 with the following counterparties:

(a) non-financial counterparties as defined in point (9) of Article 2 of Regulation (EU) No 648/2012 and non-financial counterparties established in a *third country* where those transactions do not exceed the clearing threshold as specified in Article 10(3) and (4) of Regulation (EU) No 648/2012;

(b) counterparties referred to in point (10) of Article 2 of Regulation (EU) No 648/2012 and point (1) of Article 89 of Regulation (EU) No 648/2012; and

(c) counterparties referred to in Article 1(4) and (5) of Regulation (EU) No 648/2012 and counterparties for which the *firm* had been assigning a risk weight of 0% for exposures to those counterparties in accordance with Articles 114(4) and 115(2) of *CRR* as those Articles applied immediately before revocation by the *Treasury*; or

(2) apply a final discount scalar ($\widehat{\omega}_T$) to its own funds requirement for *CVA risk* in accordance with the following formula:

$$\widehat{\omega}_T = \max\left( \overline{\omega}_t, \frac{K_1^{b3.1\ scope}}{K_T^{b3.1\ scope}} \cdot \overline{\omega}_t + \frac{K_T^{b3.1\ scope} - K_1^{b3.1\ scope}}{K_T^{b3.1\ scope}} \cdot 100\% \right)$$

where:

T = the date of calculation of own funds requirements for *CVA risk*;

$\overline{\omega}_t$ = the intermediate discount scalar, calculated in accordance with 7.2;

$K_1^{b3.1\ scope}$ = calculated in accordance with 7.2;

$K_T^{b3.1\ scope}$ = the amount of own funds requirements for *CVA risk* on all *covered transactions* at T, calculated using the reduced version of *BA-CVA* at 4.2 and the exposure value calculated in accordance with Counterparty Credit Risk (CRR) Part Article 274.

7.2 For the purposes of 7.1(2), the intermediate discount scalar ($\overline{\omega}_t$) must be calculated in accordance with the following formula:

$$\overline{\omega}_t = \max\left( \omega_t, 100\% - \frac{K_1^{b3.1\ scope} - K_1^{CRR\ scope}}{K_1^{b3.1\ scope}} \cdot \frac{(5-t)}{5} \cdot \frac{1-\omega_t}{1-\omega} \right)$$

where:

t = elapsed time of the transitional period, where t=2 on 1 January 2027, t=3 on 1 January 2028, and t=4 on 1 January 2029;

$\omega_t$ = the transitional weighting cap which must be applied as prescribed in the table below:

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| Date | Transitional weighting cap $\omega_t$ |
|---|---|
| From and including 1 January 2027 to and including 31 December 2027 | 70% |
| From and including 1 January 2028 to and including 31 December 2028 | 80% |
| From and including 1 January 2029 to and including 31 December 2029 | 90% |

$K_1^{b3.1\ scope}$ = the own funds requirements for *CVA risk* on all *covered transactions* at t=1, calculated using the reduced version of *BA-CVA* at 4.2 and the exposure value calculated in accordance with Counterparty Credit Risk (CRR) Part Article 274;

$K_1^{CRR\ scope}$ = the amount of own funds requirements for *CVA risk* on all *covered transactions* at t=1, excluding transactions with counterparties referred to in 7.1(1), calculated using the reduced version of *BA-CVA* at 4.2 and the exposure value calculated in accordance with Counterparty Credit Risk (CRR) Part Article 274;

$\frac{K_1^{b3.1\ scope} - K_1^{CRR\ scope}}{K_1^{b3.1\ scope}}$ = the proportion of transactions with counterparties referred to in 7.1(1) that were excluded from *CVA risk* capital requirements prior to 1 January 2027, relative to total own funds requirements for *CVA risk* calculated at t=1 using the reduced version of *BA-CVA* at 4.2 and the exposure value calculated in accordance with Counterparty Credit Risk (CRR) Part Article 274 (the 'legacy exempt ratio');

$\frac{(5-t)}{5}$ = time discount factor, that linearly reduces the proportion of legacy exempt trades to reflect the assumed maturing and liquidation of previously exempted trades over the transitional period;

$\frac{1-\omega_t}{1-\omega}$ = the transitional weighting, where $\omega_t$ is calculated in accordance with the table in 7.2, and

$\omega$ = 0.5.

7.3 For the purposes of 7.1(2), a *firm* must calculate:

(a) the final discount scalar ($\widehat{\omega}_T$) at the same frequency as it calculates its own funds requirement for *CVA risk*;

(b) the transitional weighting cap ($\omega_t$) and the intermediate discount scalar ($\overline{\omega}_t$) as set out in 7.1(2) annually; and

(c) the legacy exempt ratio on 1 January 2027, and recalculate the legacy exempt ratio at any point there is a material change in quantum or risk of the *firm's* transactions with counterparties referred to in 7.1(1).

7.4 If, as of 1 January 2027, a *firm* has not chosen to exclude a transaction in accordance with 7.1(1), the *firm* must include the transaction in its calculation of its own funds requirements for *CVA risk* until the maturity date of the transaction.

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7.5 A *firm* that applies the treatment in 7.1(1) or (2) may apply either but not both during the period from and including 1 January 2027 to and including 31 December 2029.

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**Annex L**

**Operational Risk Part**

In this Annex the text is all new and is not underlined.

**Part**

# OPERATIONAL RISK

**Chapter content**

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. OWN FUNDS REQUIREMENTS
5. THE STANDARDISED APPROACH
6. POLICIES AND PROCESSES
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Annex 1

Annex 2

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## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

*Business Indicator*

has the meaning given in 5.2.

*Business Indicator Component*

has the meaning given in 5.7.

*financial component*

means the items specified in the table C in Annex 1 of this Part, excluding any items specified in table D in Annex 1 of this Part.

*gross loss*

means loss before *recoveries* of any type.

*interest, leases and dividend component*

means the items specified in table A in Annex 1 of this Part, excluding any items specified in table D in Annex 1 of this Part.

*Internal Loss Multiplier*

has the meaning given in 5.9.

*Level 1 supervisory categories*

means the event types specified in the first column of the table in Annex 2 of this Part.

*recoveries*

means an independent occurrence which is related to the original loss event and separate in time in which funds or inflows of economic benefits are received from a third party (excluding receivables).

*services component*

means the items specified in the table B in Annex 1 of this Part, excluding any items specified in table D in Annex 1 of this Part.

*standardised approach*

means the approach to calculating operational risk which is set out in Chapter 5.

## 2 LEVEL OF APPLICATION

2.1 A *firm* must comply with this Part on an individual basis.

2.2 Where a *firm* has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.

2.3 A *CRR consolidation entity* must comply with this Part on the basis of its consolidated situation.

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2.4 For the purposes of 2.3, references to a *firm* in this Part (other than in 1.1 and 2.1) mean a *CRR consolidation entity*.

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: the term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

2.6 A *firm* which is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis must comply with this Part on the same basis.

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 A *CRR consolidation entity* and a *firm* shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

3.2 A *CRR consolidation entity* and a *firm* shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

## 4 OWN FUNDS REQUIREMENTS

4.1 A *firm* must calculate its own funds requirement for operational risk in accordance with the *standardised approach* by multiplying the *Business Indicator Component* and the *Internal Loss Multiplier*.

## 5 THE STANDARDISED APPROACH

**General**

5.1 The *standardised approach* comprises:

(1) the *Business Indicator*;

(2) the *Business Indicator Component*; and

(3) the *Internal Loss Multiplier*.

**Business Indicator**

5.2 The *Business Indicator* is the sum of the following three components:

(1) the *interest, leases and dividend component*;

(2) the *services component*; and

(3) the *financial component*,

which are to be calculated in accordance with the table at 5.3.

5.3 Table: calculation of the *Business Indicator*

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| Component | Formula |
|---|---|
| *interest, leases and dividend component* | $Min\left[\overline{Abs(Interest\ Income - Interest\ Expense)}\,;\,2.25\% \times \overline{Interest\ Earning\ Assets}\right] + \overline{Dividend\ Income}$ |
| *services component* | $Max\left[\overline{Other\ Operating\ Income}\,;\,\overline{Other\ Operating\ Expense}\right] + Max\left[\overline{Fee\ Income}\,;\,\overline{Fee\ Expense}\right]$ |
| *financial component* | $\overline{Abs(Net\ Profit\ and\ Loss\ Trading\ Book)} + \overline{Abs(Net\ Profit\ and\ Loss\ Banking\ Book)}$ |

5.4 In the table at 5.3:

(1) a bar above a term indicates that the value must be calculated as an average over the last three years, except that a *firm* may use forward looking estimates where it has been in operation for less than three years;

(2) the absolute value of net items must firstly be calculated year by year and after that calculation the average over the last three years must be calculated, except that a *firm* may use forward looking estimates where it has been in operation for less than three years;

(3) a *firm* must use audited figures where they are available but may use business estimates where audited figures are not available;

(4) at financial year end, the current financial year must be included in the calculation of the three-year average for the purposes of (1) and (2).

5.5 In calculating the *Business Indicator*:

(1) subject to (2), a *firm* must include any business acquisitions, mergers or disposals of entities or activities which occurred during the three year period referred to in 5.4;

(2) a *firm* may apply to the *PRA* for permission to exclude business acquisitions, mergers or disposals of entities or activities which occurred during the three year period referred to in 5.4 where it can demonstrate that, due to an acquisition or merger, disposals of entities or activities, using the three year period referred to in 5.4 would lead to a biased estimation for the own funds requirement for operational risk.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

5.6 In applying the *standardised approach* within a *consolidation group*, the applicable *Business Indicator* figures are as follows:

(1) at the consolidated level, the fully consolidated *Business Indicator* figures which net all intragroup income and expenses;

(2) at a sub-consolidated level, the *Business Indicator* figures for the *firms* consolidated at the particular sub-consolidation level which net all income and expenses at this level; and

(3) at the subsidiary level, the *Business Indicator* figures for the subsidiary.

**Business Indicator Component**

5.7 A *firm* must calculate the *Business Indicator Component* by multiplying the *Business Indicator* by the applicable marginal coefficients set out in the table at 5.8.

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5.8 Table: *Business Indicator* range and marginal coefficients

| Bucket | ***Business Indicator*** **range (GBP bn)** | ***Business Indicator*** **marginal coefficients** |
|---|---|---|
| 1 | ≤ 0.88 | 12% |
| 2 | 0.88 < *Business Indictor* ≤ 26 | 15% |
| 3 | > 26 | 18% |

**Internal Loss Multiplier**

5.9 The *Internal Loss Multiplier* is equal to one.

## 6 POLICIES AND PROCESSES

6.1 A *firm* must establish, implement and maintain policies and processes to evaluate and manage its exposure to operational risk.

6.2 In establishing, implementing and maintaining policies and processes to evaluate and manage its exposure to operational risk a *firm* must:

(1) have an independent risk management function for operational risk;

(2) ensure that its internal measurement system for operational risk is closely integrated into its day-to-day risk management processes and that the output is an integral part of the process of monitoring and controlling the *firm's* operational risk profile;

(3) implement a system of reporting to *senior management* that provides operational risk reports to relevant functions within the *firm* and procedures for taking appropriate action according to that information;

(4) implement an assessment and management system for operational risk which is well documented with clear responsibilities assigned for this system and practices for ensuring compliance and addressing non-compliance;

(5) conduct regular reviews of its operational risk management processes and measurement systems which are performed by internal or external auditors;

(6) ensure that internal validation processes for operational risk management operate in a sound and effective manner; and

(7) ensure that data flows and processes associated with its risk measurement system for operational risk are transparent and accessible.

## 7 IDENTIFICATION, COLLECTION AND TREATMENT OF LOSS DATA

7.1 A *firm* must identify, collect and treat internal loss data in accordance with the following general requirements:

(1) it must have documented procedures and processes for the identification and collection of internal loss data which must be subject to regular independent reviews by internal and/or external audit functions;

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(2) it must base its internal loss data on an observation period of 10 years: in the event that reliable data is not available over a period of 10 years it may, exceptionally, be based on a shorter period of no less than five years;

(3) it must map its historical internal loss data into the relevant *Level 1 supervisory categories* and document criteria for allocating losses to the specified event types consistently with the descriptions, categories and examples set out in the second, third and fourth columns of the table in Annex 2 of this Part;

(4) its internal loss data must be comprehensive and capture all material activities and exposures from all appropriate subsystems and geographic locations: the minimum threshold for including a loss event in the data collection is GBP 20,000;

(5) in addition to information on *gross loss* amounts, it must collect information about the reference dates of operational risk events including:

(a) the date when the event happened or first began, where available;

(b) the date on which the *firm* became aware of the event; and

(c) the date (or dates) when a loss event results in a loss, reserve or provision against a loss being recognised in the *firm's* profit and loss accounts;

(6) in addition to (5), it must collect information on recoveries of *gross loss* amounts as well as descriptive information about the drivers or causes of the loss event: the level of detail of any descriptive information should be commensurate with the size of the *gross loss* amount;

(7) operational loss events that relate to credit risk:

(a) must not be included in the loss data set where the event is accounted for in the risk-weighted exposure amount for credit risk; and

(b) must be included in the loss data set where the event is not accounted for in the risk-weighted exposure amount for credit risk;

(8) operational risk losses related to market risk must be treated as operational risk losses; and

(9) it must implement processes to independently review the comprehensiveness, accuracy and quality of loss data.

7.2 A *firm* must identify, collect and treat internal loss data in accordance with the following specific requirements:

(1) it must be able to identify the *gross loss* amounts, non-insurance *recoveries*, and insurance *recoveries* for all operational loss events;

(2) it must use losses net of *recoveries* (including insurance *recoveries*) in the loss dataset and may only use *recoveries* to reduce losses after the *firm* receives payment;

(3) it must provide the *PRA* with information which verifies the receipt of payments used to reduce losses if requested by the *PRA*;

(4) it must include the following items in the *gross loss* computation of the loss data set:

(a) direct charges (including impairments and settlements) to the *firm's* profit and loss accounts and write-downs due to the operational risk event;

(b) costs incurred as a consequence of the operational risk event including external expenses with a direct link to the event (such as legal expenses directly related to the event and fees paid to advisors or suppliers) and costs of repair or replacement incurred to restore the position that was prevailing before the operational risk event;

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(c) provisions or reserves accounted for in the profit and loss account against the potential operational loss impact;

(d) losses stemming from operational risk events with a definitive financial impact which are temporarily booked in transitory and/or suspense accounts and are not yet reflected in the profit and loss account: material losses in this category must be included in the loss data set within a time period commensurate with the size and age of the pending item; and

(e) negative economic impacts booked in a financial accounting period due to operational risk events impacting the cash-flows or financial statements of previous financial accounting periods: material losses in this category must be included in the loss data set when they are due to operational risk events that span more than one financial accounting period;

(5) it must exclude the following items from the *gross loss* computation of the loss data set:

(a) costs of general maintenance contracts on property, plant or equipment;

(b) internal or external expenditures to enhance the business after the operational risk losses (including upgrades, improvements, risk assessment initiatives and enhancements); and

(c) insurance premiums;

(6) in relation to accounting dates:

(a) it must use the date of accounting for building the loss data set;

(b) it must use the date of accounting for including losses related to legal events in the loss data set and for such events the date of accounting is the date when a legal reserve is established for the probable estimated loss in the profit and loss account; and

(c) it must allocate losses caused by a common operational risk event, or by related operational risk events over time but posted to the accounts over several years, to the corresponding years of the loss database in line with their accounting treatment.

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## Annex 1 – Business Indicator components

Table A: items to be included in the *interest, leases and dividend component*

| Items | Description | Sub items |
|---|---|---|
| Interest income | Interest income from all financial assets and other interest income | Interest income |
| | Profits from leased assets | Operating leases other than investment property |
| Interest expense | Interest expenses from all financial liabilities and other interest expenses | Interest expense |
| | Losses from leased assets and depreciation and impairment of operating leased assets | Operating leases other than investment property |
| Interest earning assets | Total gross outstanding loans, advances, interest-bearing securities (including government bonds) and lease assets measured at the end of the financial year | Cash, cash balances at central banks and other demand deposits |
| | | Financial assets held for trading |
| | | Non-trading financial assets mandatorily at fair value through profit or loss |
| | | Financial assets designated at fair value through profit or loss |
| | | Financial assets at fair value through other comprehensive income |
| | | Financial assets at amortised cost |
| | | Derivatives – hedge accounting |
| | | Tangible and intangible assets: assets subject to operating lease |
| Dividend income | Dividend income from investments in stocks and funds not consolidated in the *firm's* financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures | Dividend incomes |

Table B: items to be included in the *services component*

| Items | Description | Sub items |
|---|---|---|
| Fee and commission income | Income received from providing advice and services. Includes income received by the *firm* as an outsourcer of financial services | Fee and commission income |

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| | | |
|---|---|---|
| Fee and commission expense | Expense paid for receiving advice and services. Includes outsourcing fees paid by the *firm* for the supply of financial services but not outsourcing fees paid for the supply of non-financial services | Fee and commission expense |
| Other operating income | Income from ordinary banking operations not included in other *Business Indicator* items but of a similar nature (income from operating leases should be excluded) | Other operating income |
| | | MINUS Operating leases other than investment property |
| | | Profit from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations |
| Other operating expense | Expenses and losses from ordinary banking operations not included in other *Business Indicator* items but of a similar nature and from operational loss events (expenses from operating leases should be excluded) | Other operating expense |
| | | MINUS Operating leases other than investment property |
| | | Expenses related to establishing provisions/reserves for operational loss events: new additions including increases in existing provisions |
| | | MINUS Expenses related to establishing provisions/reserves for operational loss events: unused amounts reversed during the period |
| | | Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations |

Table C: items to be included in the *financial component*

| **Items** | **Description** | **Sub items** |
|---|---|---|
| Net trading (loss) on trading book | Net profit (loss) on trading book | Gains or (-) losses on financial assets and liabilities held for trading, net |
| Net profit (loss) on banking book | Realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss | Gains or (-) losses on de-recognition of financial assets and liabilities not measured at fair value through profit or loss, net |
| | Net profit/loss on financial assets and liabilities measured at fair value through profit and loss | Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net |
| | | Gains or (-) losses on financial assets and liabilities designated at |

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| | | |
|---|---|---|
| | | fair value through profit or loss, net |
| | Net profit/loss from hedge accounting | Gains or (-) losses from hedge accounting, net |
| | Net profit/loss from exchange differences | Exchange differences (gain or (-) loss), net |

Table D: items which do not contribute to any components of the *Business Indicator*

| |
|---|
| Income and expenses from insurance or reinsurance businesses |
| Premiums paid and reimbursements/payments received from insurance or reinsurance policies purchased |
| Administrative expenses including staff expenses, outsourcing fees paid for the supply of non-financial services (for example logistical, IT, human resources), and other administrative expenses (for example IT, utilities, telephone, travel, office supplies, postage) |
| Recovery of administrative expenses including recovery of payments on behalf of customers (for example taxes debited to customers) |
| Expenses of premises and fixed assets (except when these expenses result from operational loss events) |
| Depreciation/amortisation of tangible and intangible assets (except depreciation related to operating lease assets, which should be included in financial and operating lease expenses) |
| Provisions/reversal of provisions (for example on pensions, commitments and guarantees given) except for provisions related to operational loss events |
| Expenses due to share capital repayable on demand |
| Impairment/reversal of impairment (for example on financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates) |
| Changes in goodwill recognised in profit or loss |
| Corporate income tax (tax based on profits including current tax and deferred) |

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## Annex 2 – Detailed loss event type classification

| Event-type category (Level 1) | Description | Categories (Level 2) | Activity examples (Level 3) |
|---|---|---|---|
| Internal fraud | Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party | Unauthorised activity | Transactions not reported (intentional)<br>Transaction type unauthorised (with monetary loss)<br>Mismarking of position (intentional) |
| | | Theft and fraud | Fraud/credit fraud/worthless deposits<br>Theft/extortion/embezzlement/robbery<br>Misappropriation of assets<br>Malicious destruction of assets<br>Forgery<br>Check kiting<br>Smuggling<br>Account takeover/impersonation etc.<br>Tax non-compliance/evasion(wilful)<br>Bribes/kickbacks<br>Insider trading (not on *firm's* account) |
| External fraud | Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party | Theft and fraud | Theft/robbery<br>Forgery<br>Check kiting |
| | | Systems security | Hacking damage<br>Theft of information (with monetary loss) |
| Employment practices and workplace safety | Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events | Employee relations | Compensation, benefit, termination issues<br>Organised labour activity |
| | | Safe environment | General liability (slip and fall etc.)<br>Employee health and safety rules events<br>Workers compensation |
| | | Diversity and discrimination | All discrimination types |

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| | | | |
|---|---|---|---|
| Clients, products and business practices | Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product | Suitability, disclosure and fiduciary | Fiduciary breaches/guideline violations<br>Suitability/disclosure issues (know-your-customer etc.)<br>Retail customer disclosure violations<br>Breach of privacy<br>Aggressive sales<br>Account churning<br>Misuse of confidential information<br>Lender liability |
| | | Improper business or market practices | Antitrust<br>Improper trade/market practices<br>Market manipulation<br>Insider trading (on *firm's* account)<br>Unlicensed activity<br>Money laundering |
| | | Product flaws | Product defects (unauthorised etc.)<br>Model errors |
| | | Selection, sponsorship and exposure | Failure to investigate client per guidelines<br>Exceeding client exposure limits |
| | | Advisory activities | Disputes over performance of advisory activities |
| Damage to physical assets | Losses arising from loss or damage to physical assets from natural disaster or other events | Disasters and other events | Natural disaster losses<br>Human losses from external sources (terrorism, vandalism) |
| Business disruption and system failures | Losses arising from disruption of business or system failures | Systems | Hardware<br>Software<br>Telecommunications<br>Utility outage/disruptions |
| Execution, delivery and process management | Losses from failed transaction processing or process management, from relations with trade counterparties and | Transaction capture, execution and maintenance | Miscommunication<br>Data entry, maintenance or loading error<br>Missed deadline or responsibility |

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| | | | |
|---|---|---|---|
| | vendors | | Model/system mis-operation<br><br>Accounting error/entity attribution error<br><br>Other task mis-performance<br><br>Delivery failure<br><br>Collateral management failure<br><br>Reference data maintenance |
| | | Monitoring and reporting | Failed mandatory reporting obligation<br><br>Inaccurate external report (loss incurred) |
| | | Customer intake and documentation | Client permissions/disclaimers missing<br><br>Legal documents missing/incomplete |
| | | Customer/client account management | Unapproved access given to accounts<br><br>Incorrect client records (loss incurred)<br><br>Negligent loss or damage of client assets |
| | | Trade counterparties | Non-client counterparty mis-performance<br><br>Miscellaneous non-client counterparty disputes |
| | | Vendors and suppliers | Outsourcing<br><br>Vendor disputes |

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**Annex M**

**Amendments to the Credit Risk 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:

~~*equity exposures*~~

~~means *exposures* that meet the criteria in either:~~

~~(1) Article 133 of the *CRR*; or~~

~~(2) Article 147(6) of the *CRR*, if a *firm* has permission to use internal models in accordance with Chapter 3, Title II, Part Three of the *CRR*.~~

…

~~*loss*~~

~~means economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument as defined for credit risk purposes by Article 5(2) of the *CRR*.~~

~~*non-retail exposures*~~

~~means *exposures* that are not *retail exposures*, in accordance with Commission Delegated Regulation (EU) 2018/171.~~

~~*retail exposures*~~

~~means *exposures* that meet the criteria in either:~~

~~(1) Article 123 of the *CRR*; or~~

~~(2) Article 147(5) of the *CRR*, if a *firm* has permission to use internal models in accordance with Chapter 3, Title II, Part Three of the *CRR*.~~

…

## 2 STANDARDISED APPROACH - TREATMENT OF EXPOSURES TO REGIONAL GOVERNMENTS [DELETED]

2.1 ~~For the purposes of Article 115 of the *CRR*, a firm may treat *exposures* to the following regional governments as *exposures* to the *UK* central government:~~

~~(1) The Scottish Parliament;~~

~~(2) The National Assembly for Wales; and~~

~~(3) The Northern Ireland Assembly.~~[Deleted]

~~[Note: Art 115 of the *CRR*]~~

…

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## 4 CRITERIA FOR CERTAIN EXPOSURES SECURED BY MORTGAGES ON COMMERCIAL IMMOVABLE PROPERTY [DELETED]

4.1 ~~For the purposes of Articles 124(2) and 126(2) of the *CRR* and in addition to the conditions set out therein, a *firm* may treat *exposures* as fully and completely secured by mortgages on commercial immovable property located in the *UK* in accordance with Article 126 of the *CRR* only where annual average *losses* stemming from lending secured by mortgages on commercial property located in the *UK* did not exceed 0.5% of risk-weighted exposure amounts over a representative period. A firm shall calculate the *loss* level referred to in this rule on the basis of the aggregate market data for commercial property lending published by the *PRA* in accordance with Article 430a(3) of the *CRR*.~~[Deleted]

4.1A ~~For the purposes of Articles 124(2) and 126(2) of the *CRR* and in addition to the conditions set out therein, a *firm* may treat an *exposure* or any part of an *exposure* that is not located in the *UK* as fully and completely secured for the purposes of Article 126 (1) of the *CRR* only if all of the following conditions are met:~~

~~(1) annual average *losses* stemming from lending secured by mortgages on commercial property located in that jurisdiction did not exceed 0.5% of the exposure value over a representative period where:~~

~~(a) there is sufficient evidence that the data used to determine the *loss* level referred to in this rule are of the same or better quality as the data required to be published under Article 430a(3) of the *CRR*; and~~

~~(b) it is reasonable to rely on such data;~~

~~(2) the risk-weight that would be applied to that *exposure* or part of an *exposure* by the relevant supervisory authority in that jurisdiction is 50% or less.~~[Deleted]

4.2 ~~For the purposes of 4.1 and 4.1A, a representative period shall be a time horizon of sufficient length and which includes a mix of good and bad years.~~[Deleted]

~~[Note: Arts. 124(2) and 126(2) of the *CRR*]~~

…

## 6 MATERIALITY THRESHOLD [DELETED]

6.1 ~~For the purposes of Article 178(1)(b) of the *CRR*, a *firm* must assess a credit obligation past due as material if:~~

~~(1) for *retail exposures*:~~

~~(a) the sum of all amounts past due owed by an obligor to the *firm*, any *parent undertaking* of the *firm* or any *subsidiary* of the *firm* is greater than £0; and~~

~~(b) the amount of the credit obligation past due in relation to the total amount of all on-balance sheet *exposures* to that obligor of the *firm*, any *parent undertaking* of the *firm* or any *subsidiary* of the *firm*, excluding *equity exposures*, is greater than 0%;~~

~~(2) for *non-retail exposures*:~~

~~(a) the sum of all amounts past due owed by an obligor to the *firm*, any *parent undertaking* of the *firm* or any *subsidiary* of the *firm* is greater than EUR 500 sterling equivalent; and~~

~~(b) the amount of the credit obligation past due in relation to the total amount of all on-balance sheet *exposures* to that obligor of the *firm*, any *parent*~~

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~~*undertaking* of the *firm* or any *subsidiary* of the *firm*, excluding *equity exposures*, is greater than 1%.~~[Deleted]

~~[Note: Arts. 178(1)(b) and 178(2)(d) of the CRR]~~

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**Annex N**

**Amendments to the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part**

This Part is deleted.

**Part**

# STANDARDISED APPROACH AND INTERNAL RATINGS BASED APPROACH TO CREDIT RISK (CRR) [DELETED]

This Part has been deleted in its entirety.

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**Annex O**

**Amendments to the Trading Book (CRR) 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 definition shall apply:

*eligible third party protection provider*

means a third party protection provider that meets the criteria in Credit Risk Mitigation (CRR) Part Article 201.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 ~~Title II of Part One (Level of application) of the *CRR* applies to Chapters 3 and 4 of this Part as that Title applies to Part Three (Capital Requirements) of the *CRR*.~~[Deleted]

2.1A An institution shall comply with this Part on an individual basis.

[Note: Rule 2.1A sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]

2.2 Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1A.

[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.

[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]

2.4 For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).

[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]

2.5 The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.

[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]

**Application of requirements on a sub-consolidated basis**

2.6 An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.

[Note: This rule sets out Article 11(6) of *CRR* that applies to this Part]

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## 2A ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

2A.1 A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.

[Note: Rule 2A.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]

2A.2 A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

[Note: Rule 2A.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]

## 3 TRADING BOOK (PART THREE TITLE I CHAPTER 1, AND ARTICLE 94, CRR)

…

### Article 103 MANAGEMENT OF THE TRADING BOOK

1. An i~~I~~nstitution~~s~~ shall have in place clearly defined policies and procedures for the overall management of the trading book. Those policies and procedures shall at least address:

   …

   (f) the extent to which the institution can, and is required to, actively manage the risks of positions within its trading operation~~.~~; and

   (g) ~~[Note: Provision left blank]~~the extent to which the institution may reclassify risk or positions between the non-trading and trading books and the requirements for such reclassifications as referred to in Article 104a.

…

[Note: Points (a) to (g) of paragraph 1 of this rule correspond to points (a) to (g) of Article 104(2) of *CRR* as it applied immediately before revocation by the *Treasury*. Paragraph 2 of t~~T~~his rule corresponds to Article 103 of ~~the~~ *CRR* as it applied immediately before revocation by the *Treasury*~~.~~]

### Article 104 INCLUSION IN THE TRADING BOOK OR NON-TRADING BOOK

1. An i~~I~~nstitution~~s~~ shall have in place clearly defined policies and procedures for determining which position to include in the trading book for the purposes of calculating their capital requirements, in accordance with the requirements set out in Article 102 and the definition of trading book in accordance with point (86) of Article 4(1) of *CRR*, taking into account the institution's risk management capabilities and practices. The institution shall fully document its compliance with these policies and procedures and shall subject them to ~~periodic~~annual internal audit.

2. ~~[Note: Provision left blank]~~An institution must assign to the non-trading book instruments that are:

   (a) unlisted equities;

   (b) instruments designated for securitisation warehousing;

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(c) direct holdings of real estate, provided that holdings in a real estate investment trust or real estate fund are not considered direct holdings in real estate for these purposes;

(d) derivatives on direct holdings of real estate;

(e) retail credit exposures (including credit exposures to small or medium-sized enterprise (SME));

(f) subject to sub-paragraphs (g) and (h), shares or units in a CIU, except where either:

(i) the institution has the ability to look through the CIU to at least 50% by value of its individual components and there is sufficient and frequent information, verified by an independent third party, provided to the institution regarding the individual components of the CIU; or

(ii) the institution obtains daily price quotes for the CIU and it has access to the information contained in the mandate of the CIU or in the national regulations governing the CIU;

(g) shares or units in a CIU that is an unlisted hedge fund;

(h) derivative instruments and shares or units in a CIU, other than a CIU that is a real estate investment trust or a real estate investment fund, that have as underlying instruments any instruments in any of points (a) to (g), provided that in the case of shares or units in a CIU, such underlying instruments in aggregate amount to more than 10% of the value of the CIU ;

(i) instruments held for the purpose of hedging risks arising from instruments in points (a) to (h); and

(j) own liabilities of the institution, unless such instruments result from market-making activities.

3. An institution must assign to the trading book an instrument that:

(a) is not listed in paragraph 2;

(b) meets the requirement in paragraph 1 of Article 102; and

(c) meets any of the requirements in paragraph 4, 5 or 6.

4. An institution must assign to the trading book an instrument that meets the requirements of points (a) and (b) of paragraph 3 and is held by the institution for one or more of the following reasons:

(a) short-term resale;

(b) profiting from short-term price movements;

(c) locking in arbitrage profits; or

(d) hedging risks that arise from instruments held for one or more of the reasons in points (a) to (c).

5. An institution must assign to the trading book an instrument that meets the requirements of points (a) and (b) of paragraph 3 and is any of the following:

(a) an instrument in a correlation trading portfolio;

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(b) an instrument that would give rise to a non-negligible net short credit or equity position in the non-trading book; or

(c) an instrument that results from securities underwriting commitments, which relates only to securities that the institution is expected to purchase on the settlement date other than such securities which the institution has subscribed to purchase before the settlement date with the intention to be assigned to the non-trading book.

For the purposes of point (b) of this paragraph:

(i) an institution has a net short credit position where the credit spread increase or deterioration in the creditworthiness of the issuer or group of issuers of debt instruments would result in an increase in the fair value of the non-trading book;

(ii) an institution will have a net short equity position where a decrease in the equity's price would result in an increase in the fair value of the non-trading book.

6. An institution must assign to the trading book an instrument that meets the requirements of points (a) and (b) of paragraph 3 and is any of the following:

(a) an instrument that is conclusively designated as being held for trading purposes under the accounting framework applicable to the institution;

(b) an instrument resulting from market-making activities;

(c) a share or unit in a CIU;

(d) a listed equity;

(e) a trading-related securities financing transaction (SFT), except for an SFT that is entered for liquidity management or not fair-valued; or

(f) an option that relates to credit or equity risk, including an embedded option from an instrument that is issued by the institution.

7. For the purposes of point (f) of paragraph 6, an institution must split such instruments that are issued by the institution out of its non-trading book into an embedded derivative part and a non-embedded derivative part. Institutions shall allocate only the embedded derivative part of the instrument to the trading book.

8. By way of derogation from paragraph 6, an institution may allocate an instrument listed in paragraph 6 to the non-trading book if:

(a) the following requirements are met:

(i) the institution provides evidence that the instrument is not held for one of the reasons in paragraph 4; and

(ii) on an ongoing basis, the institution documents each instrument listed in paragraph 6 that is allocated to the non-trading book; and

(b) it has been granted a permission by the *PRA* to do so.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

9. An institution must assign to the non-trading book instruments that are not required to be assigned to the trading book in accordance with paragraphs 3 to 6.

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10. An institution must be able to provide to the *PRA* on request a rationale for its holding of an instrument and for the assignment of an instrument to the non-trading book or the trading book in accordance with paragraph 4.

[Note: Paragraph 1 of t~~T~~his rule corresponds to Article 104(1) of ~~the~~ *CRR* as it applied immediately before revocation by the *Treasury*.~~-~~]

**Article 104a REASSIGNMENT OF POSITIONS BETWEEN THE TRADING BOOK AND THE NON-TRADING BOOK**

1. An institution must not reassign any position between the trading book and non-trading book unless:

   (a) the position was not assigned as required by paragraphs 2 to 6, 9 and 10 of Article 104;

   (b) the institution has been granted a permission by the *PRA* under paragraph 2; or

   (c) the position is acquired by the institution on its trading book and is reassigned to the non-trading book on the same *business day*.

   An institution must immediately notify the *PRA* of a reassignment made under point (a).

2. For the purpose of paragraph 1(b), an institution may only reassign an instrument between trading book and non-trading book (including a reassignment of an instrument by way of an outright sale made at arm's length) in extraordinary circumstances, if:

   (a) all of the following requirements are met:

      (i) the reassignment is approved by the senior management of the institution;

      (ii) the reassignment is determined by internal review by the institution to be in compliance with the institution's policies on reassignment of positions;

      (iii) the reassignment is not motivated solely by market events (including, but not limited to, price movements and increased volatility), changes in the liquidity of the instrument or changes in the institution's reasons for holding the instrument;

      (iv) the institution publicly discloses the reassignment at its next reporting date; and

      (v) the institution provides to the *PRA* supporting documentation to demonstrate that the reassignment is necessary in light of an extraordinary circumstance; and

   (b) it has been granted a permission by the *PRA* to do so.

   The reassignment of an instrument made pursuant to a permission granted under this paragraph 2 shall be irrevocable.

[Note: This is a permission under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

3. For the purpose of reassignments in paragraph 2, an institution must have in place policies that are updated at least annually that specify:

   (a) the description of the circumstances or criteria where a reassignment may be considered;

   (b) how the institution will identify an extraordinary circumstance;

   (c) the process for obtaining senior management approval for such a reassignment.

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4. Where an institution reassigns an instrument between trading book and non-trading book in accordance with paragraphs 1(a) or (1b), the institution shall calculate the net change in own funds requirements immediately before and after the reassignment. Where the net change is a reduction in own funds requirements, the institution shall hold an additional own funds requirement to their overall market risk own funds requirements that is equal to the net reduction. The institution shall hold that additional own funds requirement until the positions arising from the reassigned instrument mature or expire.

**Article 104b REQUIREMENTS FOR TRADING DESK**

1. For the purposes of the use of the internal model approach specified in point (c)(ii) of paragraph 1 of Article 325 in the Market Risk: General Provisions (CRR) Part, an institution shall establish a set of trading desks and shall allocate each of their trading book positions to one of those trading desks.

2. An institution shall at all times meet all the following requirements:

   (a) the trading desks structure shall be consistent with the institution's organisational structure and not structured solely for the purpose of optimising own funds requirements;

   (b) each trading desk shall have at least one head dealer, who shall have direct oversight over the trading desk;

   (c) a trading desk may have a maximum of two head dealers with direct oversight over the trading desk, provided that their roles, responsibilities and authorities are either clearly separated or one head trader has ultimate oversight over the other;

   (d) each dealer shall have a clearly defined trading product specialty or specialties;

   (e) each trading desk shall have a well-defined and documented business strategy and objectives including an annual budget and regular management information reports (including revenue, costs and risk-weighted assets);

   (f) each trading desk shall have clearly defined risk scope consistent with its defined objectives, which should include specification of the desk's overall risk class and permitted risk factors;

   (g) each trading desk shall have a clear reporting line to senior management;

   (h) each trading desk shall have a clear and formal compensation policy clearly linked to the defined objectives of the trading desk;

   (i) the management team for each trading desk must have an annual plan for the budgeting and staffing of the trading desk;

   (j) each trading desk must have a clear risk management structure, including:

      (i) clearly defined trading limits that are reviewed at least annually by the institution's senior management; and

      (ii) at least weekly appropriate risk management reports that include both profit and loss reports which are periodically reviewed, validated and modified as necessary by the institution's function responsible for product control, and internal and regulatory risk measure reports which should include trading desk value-at-risk measures, expected shortfall measures, sensitivities to risk factors, information on back-testing performance and p-value calculations; and

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(k) each trading desk shall prepare, evaluate, and maintain, to be made available to the *PRA* if requested:

(i) inventory ageing reports;

(ii) daily limit reports including exposures, limit breaches, and follow-up action;

(iii) reports on intraday limits and respective utilisation and breaches for banks with active intraday trading; and

(iv) reports on the assessment of market liquidity.

3. For the purposes of calculating the own funds requirements for market risk internal models in accordance with point (c)(ii) of paragraph 1 of Market Risk: General Provisions (CRR) Part Article 325, an institution shall treat all foreign exchange and commodity positions assigned to the non-trading book as if they were held on notional trading desks within the trading book.

4. For the purposes of calculating market risk own funds requirements in accordance with Market Risk: Internal Model Approach (CRR) Part Article 325ba, an institution which does not have a dedicated trading desk that deals solely with general interest rate internal hedges and related instruments in accordance with paragraph 9 of Article 106, shall treat all such positions that meet the criteria of paragraph 9 of Article 106 as if they were held on a separate notional trading desk within the trading book.

5. An institution is not required to meet the requirements of paragraph 2 in respect of the notional trading desks referred to in paragraphs 3 and 4.

[Note: Paragraphs 1 and 2 of this rule correspond to paragraphs 1 and 2 of Article 104b of *CRR*]

…

**Article 106 INTERNAL HEDGES**

…

3. ~~By way of derogation from paragraphs 1 and 2, w~~When an institution hedges a non-trading book credit risk exposure or counterparty risk exposure using ~~a~~ credit ~~derivative~~positions booked in its trading book using an internal hedge,~~institutions shall ensure that the non-trading book exposure or counterparty risk exposure shall not be deemed to be hedged for the purposes of calculating risk-weighted exposure amounts unless the institution purchases from an eligible third party protection provider a corresponding credit derivative meeting the requirements for unfunded credit protection in the non-trading book. Without prejudice to point (h) of Article 299(2), where such third party protection is purchased and recognised as a hedge of a non-trading book exposure for the purposes of calculating capital requirements, institutions shall ensure that neither the internal nor external credit derivative hedge shall be included in the trading book for the purposes of calculating capital requirements.~~ the institution shall recognise the internal hedge in the trading book and non-trading book only where the following requirements are met:

(a) the institution enters into a set of one or more trading book positions with *eligible third party protection providers* that exactly matches the internal hedge; and

(b) the positions with the *eligible third party protection provider* meet the requirements for unfunded credit protection in the non-trading book as set out in the Credit Risk Mitigation (CRR) Part.

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4. When an institution hedges a non-trading book equity risk exposure using equity positions booked in its trading book as an internal hedge, the institution shall recognise the internal hedge in the trading book and non-trading book only where the following requirements are met:

   (a) the institution enters into a set of trading book positions with third parties that exactly matches the internal hedge; and

   (b) the positions with the third parties are recognised as hedges of the institution's non-trading book equity risk exposure.

5. Where the requirements of paragraphs 3 or 4, as the case may be, are met, an institution shall:

   (a) recognise the internal hedge in the non-trading book calculation of own funds requirements for credit risk or in the calculation of own funds requirements for counterparty credit risk, as the case may be; and

   (b) recognise both the internal hedge and the positions entered into with third parties in the trading book calculation of own funds requirements for market risk.

6. Where the requirements of paragraphs 3 or 4, as the case may be, are met, and the internal hedge is a credit position that is recognised as a hedge of a non-trading book counterparty credit risk position an institution may additionally recognise the internal hedge in the calculation of own funds requirements for *CVA risk*, subject to meeting the requirements in paragraph 12.

7. Where requirements of paragraphs 3 or 4, as the case may be, are not met, an institution shall:

   (a) not recognise the internal hedge in the non-trading book calculation of own funds requirements for credit risk, in the calculation of own funds requirements counterparty credit, or in the trading book calculation of own funds requirements for market risk; and

   (b) recognise the external positions in the trading book calculation of own funds requirements for market risk.

8. Where an internal hedge that meets the requirements in points (a) and (b) of paragraphs 3 or 4 would result in a net short credit or equity position in the non-trading book that is not recognised under the non-trading book calculation of own funds requirements for credit risk, the institution shall subtract the amount of that net short position from the total amount of the internal hedge for the purposes of calculating own funds requirements for both the trading book and non-trading book.

9. When an institution hedges non-trading book general interest rate risk exposures using interest rate positions booked in its trading book via an internal hedge which meets the criteria in paragraph 10A, the institution shall recognise the internal hedge in the trading book and non-trading book only where the following requirements are met:

   (a) the institution documents the internal hedge with respect to the non-trading book general interest rate risk being hedged and the sources of such risk;

   (b) the institution allocates the internal hedge to a dedicated general interest rate internal hedge portfolio in the trading book:

      (i) that is solely dedicated to internal hedging of general interest rate risks arising from the non-trading book; and

      (ii) for which own funds requirements for market risk are calculated separately and added to the own funds requirements for market risk for other trading book positions;

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(c) the institution recognises the internal hedge in the institutions' calculations for interest risk arising from non-trading book activities as part of their Internal Capital Adequacy Assessment; and

(d) the institution does not allocate other instruments to the dedicated general interest rate internal hedge portfolio, except for:

(i) instruments directly arising from transactions with third parties; and

(ii) internal hedges between the dedicated general interest rate internal hedge portfolio and the rest of the trading book where the trading book enters into a set of positions with third parties that exactly matches the internal hedge.

9A. By way of derogation from paragraph 9, during the *IMA transitional period,* an institution which has an *IMA transitional permission* to calculate own funds requirements using its internal models for general interest rate risk shall not be required to comply with points (b) and (d) of paragraph 9 or paragraph 10 in respect of positions within the scope of the *IMA transitional permission*.

10. For internal hedges arising from point (d)(ii) of paragraph 9 and which meet the criteria in paragraph 10A, an institution shall include those internal hedges in both:

(a) the calculation of own funds requirements for market risk for the dedicated general interest rate internal hedge portfolio in accordance with point (b)(ii) of paragraph 9; and

(b) the calculation of own funds requirements for market risk for the rest of the trading book.

10A. Paragraphs 9 and 10 apply to an internal hedge that is either:

(a) intended to hedge general interest rate risk; or

(b) would be mapped to the 'interest rate risk' risk category in accordance with Counterparty Credit Risk (CRR) Part Article 277.

11. An institution shall exclude from the trading book calculation of market risk own funds requirements instruments directly arising from transactions with third parties where the instruments are recognised as eligible hedges in the calculation of own funds requirements for *CVA risk*.

12. An institution may recognise an internal hedge between the trading book and the portfolio of positions subject to own funds requirements for *CVA risk* where all of the following requirements are met:

(a) the institution recognises the internal hedge as an eligible hedge in the calculation of own funds requirements for *CVA risk*;

(b) the institution documents the internal hedge with respect to the *CVA risk* being hedged and the sources of such risk; and

(c) where the internal hedge would be subject to curvature risk, default risk or the residual risk add-on in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part, the institution enters into a set of trading book positions with third parties that exactly matches the internal hedge.

[Note: ~~This~~Paragraphs 1 to 3 of this rule corresponds to paragraphs 1 to 3 of Article 106 of ~~the~~ *CRR* as it applied immediately before revocation by the *Treasury*.]

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## 4 RULES SUPPLEMENTING ARTICLE 105 ON STANDARDS FOR PRUDENTIAL VALUATION (PREVIOUSLY REGULATION (EU) NO 2016/101)

…

### ARTICLE 17 CALCULATION OF OPERATIONAL RISK AVA

…

2. ~~Where an institution applies the Advanced Measurement Approach for Operational Risk as specified in Part Three, Title III, Chapter 4 of the *CRR*, it may report a zero operational risk AVA on condition that it provides evidence that the operational risk relating to valuation processes, as determined in accordance with paragraph 1, is fully accounted for by the Advanced Measurement Approach calculation.~~[Deleted]

3. ~~In other cases than those referred to in paragraph 2, the~~ An institution shall calculate an operational risk AVA of 10% of the sum of the aggregated category level AVAs for market price uncertainty and close-out costs.

…

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**Annex P**

**Amendments to the Market Risk Part**

This Part is deleted.

**Part**

# MARKET RISK [DELETED]

This Part has been deleted in its entirety.

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**Annex Q**

**Amendments to the Credit Valuation Adjustment Risk (CRR) Part**

This Part is deleted.

**Part**

# CREDIT VALUATION ADJUSTMENT RISK (CRR) [DELETED]

This Part has been deleted in its entirety.

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**Annex R**

**Amendments to the Counterparty Credit Risk (CRR) 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:

*alpha add-on*

means the value calculated as:

(a) the exposure value of the netting set as at 1 January 2027 using the formula in Article 274(2) where α = 1.4; less

(b) the exposure value of the netting set as at 1 January 2027 using the formula in Article 274(2) where α = 1.

…

*non-financial counterparty*

means a non-financial counterparty as defined in point (9) of Article 2 of Regulation (EU) No 648/2012 or an undertaking that would be a non-financial counterparty if it was established in the *UK*.

…

*pension scheme arrangement*

means a counterparty referred to in point (10) of Article 2 of Regulation (EU) No 648/2012 or a counterparty that would fall within point (10) of Article 2 of Regulation (EU) No 648/2012 if it was recognised or established in the *UK*.

…

## SECTION 2 METHODS FOR CALCULATING THE EXPOSURE VALUE

### Article 273 METHODS FOR CALCULATING THE EXPOSURE VALUE

…

3. When an institution purchases protection through a credit derivative against a non-trading book exposure or against a counterparty risk exposure, it may calculate its own funds requirement for the hedged exposure in accordance with either of the following:

…

(b) in accordance with ~~Article 153(3), or~~ Article 183, where ~~permission has been granted in accordance with Article 143~~an institution has been granted an *IRB permission*.

…

## SECTION 3 STANDARDISED APPROACH FOR COUNTERPARTY CREDIT RISK

### Article 274 EXPOSURE VALUE

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…

2. Institutions shall calculate the exposure value of a netting set under the standardised approach for counterparty credit risk as follows:

Exposure value = α · (RC + PFE)

where:

RC = the replacement cost calculated in accordance with Article 275; and

PFE = the potential future exposure calculated in accordance with Article 278;

α = 1.4, unless the counterparty is a *non-financial counterparty* or a *pension scheme arrangement* or an entity established to provide compensation to members of a *pension scheme arrangement* in case of default, in which case, α = 1.

2A.

(1) Subject to sub-paragraph 2, for transactions entered into prior to 1 January 2027 with a counterparty referred to in point (a) or (b) of Credit Valuation Adjustment Risk Part 7.1(1), an institution shall add the following percentages of the *alpha add-on* to the exposure value of the netting set:

(a) during the period from and including 1 January 2027 to and including 31 December 2027, 60%;

(b) during the period from and including 1 January 2028 to and including 31 December 2028, 40%;

(c) during the period from and including 1 January 2029 to and including 31 December 2029, 20%.

(2) An institution is not required to add the percentages of the *alpha add-on* required by paragraph 1 to the exposure value of the netting set from the date where it ceases to apply the treatment in Credit Valuation Adjustment Risk Part 7.1(1) or (2).

2B. Paragraph 2A of this Article does not apply for the purpose of the calculation of an institution's *leverage ratio* in accordance with the Leverage Ratio (CRR) Part.

…

**SECTION 8 ITEMS IN THE TRADING BOOK**

**Article 299A REPURCHASE TRANSACTIONS AND SECURITIES OR COMMODITIES LENDING OR BORROWING TRANSACTIONS – ELIGIBLE COLLATERAL**

1. When calculating risk-weighted exposure amounts for counterparty risk of repurchase transactions and securities or commodities lending or borrowing transactions booked in the trading book, an institution may recognise as eligible collateral any financial instruments and commodities that are eligible to be included in the trading book; provided that such institution shall:

(a) have assessed the market liquidity, including under stressed conditions, of such financial instruments and commodities received as collateral and ensure that it is able to

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demonstrate at all times sufficient depth within the market to exit the position in a timely manner;

(b) ensure that it has the legal and operational capabilities to trade such financial instruments and commodities in the relevant markets; and

(c) ensure that it has the capability to risk manage and value such financial instruments and commodities consistent with the trading book requirements set out in the Trading Book (CRR) Part Articles 103 and 105 as if such financial instruments and commodities were included in the trading book.

[Note: This rule corresponds to point (c) of Article 299(2) of *CRR* as it applied immediately before revocation by the *Treasury*]

## SECTION 9 OWN FUNDS REQUIREMENTS FOR EXPOSURES TO A CENTRAL COUNTERPARTY

…

### Article 306 OWN FUNDS REQUIREMENTS FOR TRADE EXPOSURES

…

4. An institution shall calculate the risk-weighted exposure amounts for its trade exposures with CCPs for the purposes of ~~Article 92(3)~~paragraph 3 of Required Level of Own Funds (CRR) Part Article 92 as the sum of the exposure values of its trade exposures with CCPs, calculated in accordance with paragraphs 2 and 3, multiplied by the risk weight determined in accordance with paragraph 1.

   [Note: This rule corresponds to Article 306 of *CRR* as it applied immediately before revocation by the *Treasury*.]

…

### Article 308 OWN FUNDS REQUIREMENTS FOR PRE-FUNDED CONTRIBUTIONS TO THE DEFAULT FUND OF A QCCP

…

3. An institution shall calculate the risk-weighted exposure amounts for exposures arising from that institution's pre-funded contribution to the default fund of a QCCP for the purposes of ~~Article 92(3)~~paragraph 3 of Required Level of Own Funds (CRR) Part Article 92 as the own funds requirement, calculated in accordance with paragraph 2 of this Article, multiplied by 12.5.

…

### Article 309 OWN FUNDS REQUIREMENTS FOR PRE-FUNDED CONTRIBUTIONS TO THE DEFAULT FUND OF A NON-QUALIFYING CCP AND FOR UNFUNDED CONTRIBUTIONS TO A NON-QUALIFYING CCP

…

2. An institution shall calculate the risk-weighted exposure amounts for exposures arising from that institution's contribution to the default fund of a non-qualifying CCP for the purposes of ~~Article 92(3)~~paragraph 3 of Required Level of Own Funds (CRR) Part Article 92 as the own funds requirement, calculated in accordance with paragraph 1 of this Article, multiplied by 12.5.

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…

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**Annex S**

**Amendments to the Benchmarking of Internal Approaches Part**

This Part is deleted.

Part

# BENCHMARKING OF INTERNAL APPROACHES [DELETED]

This Part has been deleted in its entirety.

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**Annex T**

**Amendments to the Operational Risk (CRR) Part**

This Part is deleted.

**Part**

# OPERATIONAL RISK (CRR) [DELETED]

This Part has been deleted in its entirety.

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**Annex U**

**Amendments to the Disclosure (CRR) Part**

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

## 1 APPLICATIONS AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

*Business Indicator*

has the meaning given in Operational Risk Part 5.2.

…

## 4 DISCLOSURE (PART EIGHT CRR)

…

### Article 433a DISCLOSURES BY LARGE INSTITUTIONS

1. Large institutions shall disclose the information outlined below with the following frequency:

(a) all the information required under this part on an annual basis;

(b) on a semi-annual basis the information referred to in:

…

(xv) point (b) of Article 456(1);

(xvi) point (c) of Article 439a(1).

(c) on a quarterly basis the information referred to in:

…

(iii) Article 451a(2)~~.~~;

(iv) point (d)(ii) of Article 439a(1);

(v) points (d) to (g) of Article 455(1);

(vi) point (a) of Article 456(1).

2. By way of derogation from paragraph 1, large institutions other than G-SIIs that are *non-listed institutions* shall disclose the information outlined below with the following frequency:

…

(b) the information referred to in points (c) of Article 439a(1), Article 445, points (d) to (g) of Article 455(1), points (a) and (b) of Article 456(1) and the key metrics referred to in Article 447 on a semi-annual basis~~.~~;

(c) the information referred to in point (d)(ii) of Article 439a(1) on a quarterly basis.

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…

**Article 433c DISCLOSURES BY OTHER INSTITUTIONS**

1. Institutions that are not subject to Article 433a or 433b shall disclose the information outlined below with the following frequency:

…

(b) ~~the key metrics referred to in Article 447~~ on a semi-annual basis~~;~~, the information referred to in:

(i) point (c) of Article 439a(1);

(ii) Article 445;

(iii) the key metrics referred to in Article 447;

(iv) points (d) to (g) of Article 455(1);

(v) points (a) and (b) of Article 456(1).

(c) for such institutions that are *LREQ firms*, the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis~~.~~;

(d) the information required under point (d)(ii) of Article 439a(1) on a quarterly basis.

2. By way of derogation from paragraph 1 of this Article, other institutions that are *non-listed institutions* shall disclose the following information on an annual basis:

(a) points (a)~~, (e) and~~ to (f) of Article 435(1);

…

(f) points (a) to (d), (h) to (k) of Article 450(1)~~.~~;

(g) points (a), (b), (c) and (d) of Article 439a(1);

(h) Article 445;

(i) paragraphs (1) and (2) of Article 446;

(j) Article 455;

(k) points (a) and (b) of Article 456(1).

…

**Article 438 DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS**

…

(e) the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialised lending referred to in Table 1 of Article 153(5) ~~and the on- and off-balance-sheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 155(2)~~;

…

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**Article 439 DISCLOSURE OF EXPOSURES TO COUNTERPARTY CREDIT RISK**

1. Institutions shall disclose the following information regarding their exposure to counterparty credit risk as referred to in Chapter 6 of Title II of Part Three:

…

(h) ~~the exposure values after credit risk mitigation effects and the associated risk exposures for credit valuation adjustment capital charge, separately for each method as set out in Title VI of Part Three;~~[deleted]

…

**Article 439a DISCLOSURE OF EXPOSURES TO CVA RISK**

1. Institutions subject to the own fund requirements for *CVA* risk shall disclose the following information:

(a) the arrangements, systems, processes and strategies put in place to identify, measure, monitor and control their *CVA* risk;

(b) a description of the policies for hedging *CVA* risk and mitigating *CVA* risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;

(c) a breakdown of the amounts of the constituent elements of an institution's risk-weighted exposure amounts for institutions;

(d) for institutions using the Standardised Approach set out in Chapter 5 of Credit Valuation Adjustment Risk Part:

(i) the structure and organisation of the *CVA* risk management function, including information on its governance and the involvement of *senior management*;

(ii) the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure, including an outline of the key drivers explaining those variations.

…

**Article 445 DISCLOSURE OF EXPOSURE TO MARKET RISK**

~~Institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those provisions. In addition, own funds requirements for the specific interest rate risk of securitisation positions shall be disclosed separately.~~

~~[Note: This rule corresponds to Article 445 of the *CRR* as it applied immediately before revocation by the *Treasury*.]~~

1. Institutions shall disclose the following information regarding their exposure to market risk:

(a) the arrangements, systems, processes and strategies put in place to identify, measure, monitor and control their market risk;

(b) the constituent elements for market risk capital charge and, where applicable, an explanation of any significant changes over the disclosure period and the key drivers of such changes.

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**Article 446 DISCLOSURE OF OPERATIONAL RISK ~~MANAGEMENT~~ LOSS DATA**

~~Institutions shall disclose the following information about their operational risk management;~~

(a) ~~the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for;~~[deleted]

(b) ~~where the institution makes use of it, a description of the methodology set out in Article 312(2), which shall include a discussion of relevant internal and external factors being considered in the institution's advanced measurement approach;~~[deleted]

(c) ~~in the case of partial use, the scope and coverage of the different methodologies used.~~[deleted]

~~[Note: This rule corresponds to Article 446 of the *CRR* as it applied immediately before revocation by the *Treasury*.]~~

1. An institution which has a *Business Indicator* which is equal to or greater than GBP 880 million shall disclose its annual loss data for each year over the preceding 10 year period. Where an institution has been in operation for less than 10 years it shall disclose its annual loss data for each available year. The minimum threshold for including a loss event in an institution's annual loss data is GBP 20,000.
2. An institution shall disclose each of the *Business Indicator* sub-items as specified in Operational Risk Part Annex 1 for each year in the three year period referred to in Operational Risk Part 5.4.

…

**Article 452 DISCLOSURE OF THE USE OF THE IRB APPROACH TO CREDIT RISK**

…

(b) for each exposure class referred to in Article 147, the percentage of the total exposure value of each exposure class subject to the Standardised Approach laid down in Chapter 2 of Title II of Part Three or to the IRB Approach laid down in Chapter 3 of Title II of Part Three, as well as the part of each exposure class subject to a roll-out plan; where institutions have received permission to use the *Advanced IRB Approach*~~own LGDs and conversion factors~~ for the calculation of risk-weighted exposure amounts, they shall disclose separately the percentage of the total exposure value of each exposure class subject to that permission;

…

(f) …

(iii) where applicable, the definitions, methods and data for estimation and validation of *conversion factors*~~conversion factors~~, including assumptions employed in the derivation of those variables;

(g) …

(iii) their exposure after applying the relevant *conversion factor*~~conversion factor~~ and credit risk mitigation;

…

(v) separately for those exposure classes in relation to which institutions have received permission to use the *Advanced IRB Approach*~~own LGDs and conversion factors~~ for the calculation of risk-weighted exposure amounts, and for exposures for which the

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institutions do not use such estimates, the values referred to in points (i) to (iv) subject to that permission;

(h) institutions' estimates of *PDs*~~PDs~~ against the actual default rate for each exposure class over a longer period, with separate disclosure of the *PD*~~PD~~ range, the external rating equivalent, the weighted average and arithmetic average *PD*~~PD~~, the number of obligors at the end of the previous year and of the year under review, the number of defaulted obligors, including the new defaulted obligors, and the annual average historical default rate~~.~~;

(i) the approach taken to assign risk weights to equity exposures including the use of the IRB equity transitional methodology or the end-state *Standardised Approach* risk weights.

For the purposes of point (b) of this Article, institutions shall use the exposure value as defined in ~~Article 166~~Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 166A to 166D.

[Note: This rule corresponds to Article 452 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

## Article 453 DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

…

(g) the corresponding *conversion factor*~~conversion factor~~ and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect;

…

(j) for institutions calculating risk-weighted exposure amounts under the IRB Approach, the risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives; where institutions have received permission to use the *Advanced IRB Approach*~~own LGDs and conversion factors~~ for the calculation of risk-weighted exposure amounts, they shall make the disclosure set out in this point separately for the exposure classes subject to that permission.

[Note: This rule corresponds to Article 453 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

## Article 454 DISCLOSURE OF THE USE OF THE ADVANCED MEASUREMENT APPROACHES TO OPERATIONAL RISK [DELETED]

~~The institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of their use of insurance and other risk transfer mechanisms for the purpose of mitigating that risk.~~[Deleted]

~~[Note: This rule corresponds to Article 454 of the *CRR* as it applied immediately before revocation by the *Treasury*.]~~

## Article 455 USE OF INTERNAL MARKET RISK MODELS

~~Institutions calculating their capital requirements in accordance with Article 363 shall disclose the following information:~~

(a) ~~for each sub-portfolio covered:~~

(i) ~~the characteristics of the models used;~~

~~(ii) where applicable, for the internal models for incremental default and migration risk and for correlation trading, the methodologies used and the risks measured through the use of an internal model including a description of the approach used by the institution to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;~~

~~(iii) a description of stress testing applied to the sub-portfolio;~~

~~(iv) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;~~[deleted]

(b) ~~the scope of permission by the competent authority;~~[deleted]

(c) ~~a description of the extent and methodologies for compliance with the requirements set out in Articles 104 and 105;~~[deleted]

(d) ~~the highest, the lowest and the mean of the following:~~

~~(i) the daily value-at-risk measures over the reporting period and at the end of the reporting period;~~

~~(ii) the stressed value-at-risk measures over the reporting period and at the end of the reporting period;~~

~~(iii) the risk numbers for incremental default and migration risk and for the specific risk of the correlation trading portfolio over the reporting period and at the end of the reporting period;~~[deleted]

(e) ~~the elements of the own funds requirement as specified in Article 364;~~[deleted]

(f) ~~the weighted average liquidity horizon for each sub-portfolio covered by the internal models for incremental default and migration risk and for correlation trading;~~[deleted]

(g) ~~a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.~~[deleted]

~~[Note: This rule corresponds to Article 455 of the *CRR* as it applied immediately before revocation by the *Treasury*.]~~

1. Institutions calculating their own funds requirements for market risk in accordance with Market Risk: Internal Model Approach (CRR) Part Article 325az shall disclose the following information:

(a) a description of the trading desk structure and the types of hedging instruments used;

(b) a description of the internal models and the methodologies used;

(c) a description of the approaches used for validating the accuracy and consistency of the internal models and modelling processes;

(d) a breakdown of the amounts of the constituent elements of an institution's market risk capital charge;

(e) the amount of backtesting overshooting for the portfolio of all the positions assigned to trading desks pursuant to paragraphs 6 to 8 of Market Risk: Internal Model Approach (CRR) Part Article 325bf;

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(f) the own funds requirement for each of the constituent elements for market risk for their most recent and average risk measure in the previous quarter;

(g) a description of the constituent elements of an institution's risk measure and overshooting results. Institutions shall also explain, where applicable, any significant change in the disclosure period and the key drivers of such change.

**Article 456 DISCLOSURE OF OUTPUT FLOOR**

1. Institutions subject to the *output floor* shall disclose the following information:

(a) a comparison between the full standardised risk-weighted exposures against the modelled risk-weighted exposures by risk type and a description of the main drivers between the standardised risk-weighted exposure and modelled risk-weighted exposure;

(b) a comparison between the full standardised risk-weighted exposures against the modelled risk-weighted exposures for credit risk at asset class level and a description of the main drivers between the standardised risk-weighted exposure and modelled risk-weighted exposure.

## 5 DISCLOSURE FORMATS AND INSTRUCTIONS

…

**Article 2 DISCLOSURE OF KEY METRICS AND OVERVIEW OF RISK-WEIGHTED EXPOSURE AMOUNTS**

1. Institutions shall make the disclosures required in Article 447 (a) to (g) and point (b) of Article 438 of ~~the~~ *CRR* in accordance with the Templates UKB KM1 of Annex I and the relevant instructions set out in Annex II.

2. Institutions shall make the disclosures required in point (d) of Article 438 of ~~the~~ *CRR* in accordance with the Template UKB OV1 of Annex I and the relevant instructions set out in Annex II.

…

**Article 2a DISCLOSURE OF OUTPUT FLOOR**

1. Institutions shall make the disclosures on the *output floor* required in point (a) of Article 456(1), in accordance with the Template UKB CMS1 of Annex I and the relevant instructions set out in Annex II.

2. Institutions shall make the disclosures on the *output floor* required in point (b) of Article 456(1), in accordance with the Template UKB CMS2 of Annex I and the relevant instructions set out in Annex II.

…

**Article 11 DISCLOSURE OF THE USE OF THE STANDARDISED APPROACH**

Institutions calculating risk-weighted exposure amounts under the Standardised Approach shall make the disclosures on the use of the standardised approach, required in Article 444 and in points (g), (h) and (i) of Article 453 of ~~the~~ *CRR* as follows:

(a) For the disclosures required in points (a) to (d) of Article 444 of ~~the~~ *CRR*, in accordance with the Table UKB CRD of Annex XIX and the relevant instructions set out in Annex XX.

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(b) For the disclosures required in points (g), (h), and (i) of Article 453 and in point (e) of Article 444 of ~~the~~ *CRR*, in accordance with the Template UKB CR4 of Annex XIX and the relevant instructions set out in Annex XX.

(c) For the disclosures required in point (e) of Article 444 of ~~the~~ *CRR*, in accordance with the Template UKB CR5 of Annex XIX and the relevant instructions set out in Annex XX and, for the disclosure of the exposure values deducted from own funds required in the same Article in accordance with the template UK CC1 of Annex VII and the relevant instructions set out in Annex VIII.

**Article 12 DISCLOSURE OF THE USE OF THE IRB APPROACH TO CREDIT RISK**

Institutions calculating risk-weighted exposure amounts under the IRB Approach shall make the disclosures on the use of the IRB approach, required in Articles 438, 452 and in points (g) and (j) of Article 453 of ~~the~~ *CRR* as follows:

(a) For the disclosures required in points (a) to (f) of Article 452 of ~~the~~ *CRR*, in accordance with the Table UKB CRE and Template UKB CR6-A of Annex XXI and the relevant instructions set out in Annex XXII.

(b) For the disclosures required in point (g) of Article 452 of ~~the~~ *CRR*, in accordance with the Template UKB CR6 of Annex XXI and the relevant instructions set out in Annex XXII.

(c) For the disclosures required in points (g) and (j) of Article 453 of ~~the~~ *CRR*, in accordance with the Templates UKB CR7-A and CR7 of Annex XXI and the relevant instructions set out in Annex XXII.

(d) For the disclosures required in point (h) of Article 438 of ~~the~~ *CRR*, for IRB Approach to credit risk, in accordance with the Template UK CR8 of Annex XXI and the relevant instructions set out in Annex XXII.

(e) For the disclosures required in point (h) of Article 452 of ~~the~~ *CRR*, in accordance with the Template UK CR9 and CR9.1 of Annex XXI and the relevant instructions set out in Annex XXII.

**Article 13 DISCLOSURE OF SPECIALISED LENDING ~~AND EQUITY~~ EXPOSURES ~~UNDER THE SIMPLE RISK WEIGHT APPROACH~~**

Institutions shall make the disclosures required in point (e) of Article 438 of ~~the~~ *CRR* in accordance with the Template UKB CR10 of Annex XXIII and the relevant instructions set out in Annex XXIV.

**Article 14 DISCLOSURE OF EXPOSURES TO COUNTERPARTY CREDIT RISK**

1. Institutions shall make the disclosures on the exposures to counterparty credit risk required in Articles 435, 438 and 439 of ~~the~~ *CRR* as follows:

(a) For the disclosures required in points ~~(~~(a), (b), (c), and (d) of Articles 439(1) of ~~the~~ *CRR*, in accordance with the Table UK CCRA of Annex XXV and the relevant instructions set out in Annex XXVI.

(b) For the disclosures required in points (f), (g), (k), and (m) of Article 439(1) of ~~the~~ *CRR*, in accordance with the Template UKB CCR1 of Annex XXV and the relevant instructions set out in Annex XXVI.

(c) ~~For the disclosures required in point (h) of Article 439 of the *CRR*, in accordance with the Template UK CCR2 of Annex XXV and the relevant instructions set out in Annex XXVI.~~[Deleted]

(d) For the disclosures required in point (l) of Article 439(1) of ~~the~~ *CRR*, in accordance with the Templates UKB CCR3 and UK CCR4 of Annex XXV and the relevant instructions set out in Annex XXVI.

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(e) For the disclosures required in point (e) of Article 439(1) of ~~the~~ *CRR*, in accordance with the Template UK CCR5 of Annex XXV and the relevant instructions set out in Annex XXVI.

(f) For the disclosures required in point (j) of Article 439(1) of ~~the~~ *CRR*, in accordance with the Template UK CCR6 of Annex XXV and the relevant instructions set out in Annex XXVI.

(g) For the disclosures required in point (h) of Article 438 of ~~the~~ *CRR*, for Internal Model Method, in accordance with the Template UK CCR7 of Annex XXV and the relevant instructions set out in Annex XXVI.

(h) For the disclosures required in point (i) of 439(1) of ~~the~~ *CRR*, in accordance with the Template UK CCR8 of Annex XXV and the relevant instructions set out in Annex XXVI.

**Article 14a DISCLOSURE OF EXPOSURES TO CVA RISK**

1. Institutions shall disclose the information on *CVA* risk required in point (a) of Article 435(1) and points (a) and (b) of Article 439a(1), in accordance with Template UKB CVAA of Annex XXXIX and the relevant instructions set out in Annex XXXX.

2. Institutions using the reduced version of the *BA-CVA* shall disclose the information on *CVA* risk required in point (c) of Article 439a(1), in accordance with Template UKB CVA1 of Annex XXXIX and the relevant instructions set out in Annex XXXX.

3. Institutions using the full version of the *BA-CVA* shall disclose the information on *CVA* risk required in point (c) of Article 439a(1), in accordance with Template UKB CVA2 of Annex XXXIX and the relevant instructions set out in Annex XXXX.

4. Institutions using *SA-CVA* shall disclose the information on *CVA* risk required in point (d) of Article 439a(1), as follows:

   (a) For the disclosures required in point (b) of Article 435(1) and (d)(i) of Article 439a(1), in accordance with Template UKB CVAB of Annex XXXIX and the relevant instructions set out in Annex XXXX;

   (b) For the disclosures required in point (c) of Article 439a(1), in accordance with Template UKB CVA3 of Annex XXXIX and the relevant instructions set out in Annex XXXX;

   (c) For the disclosures required in point (d)(ii) of Article 439a(1), in accordance with Template UKB CVA4 of Annex XXXIX and the relevant instructions set out in Annex XXXX.

…

**Article 16 DISCLOSURE OF USE OF STANDARDISED APPROACH AND INTERNAL MODEL FOR MARKET RISK**

1. Institutions shall make the disclosures required in point (b) of Article 445(1) and points (a) to (d) of Article 435(1) of ~~the~~ *CRR* regarding market risk in accordance with the Template UKB MRA~~UK MR1~~ of Annex XXIX and the relevant instructions set out in Annex XXX.

2. Institutions shall make the disclosures required in Articles ~~435, 438,~~ 445 and 455 of ~~the~~ *CRR* as follows:

   (a) For the disclosures required in point~~s (a) to (d) of Article 435(1) of the *CRR* regarding market risk, in accordance with the Table UK MRA of Annex XXIX and the relevant instructions set out in Annex XXX.~~ (a) of Article 445(1), in accordance with Template UKB MR1 of Annex XXIX and the relevant instructions set out in Annex XXX.

   (b) For the disclosures required in point~~s (a), (b), (c), and (f) of Article 455 of the *CRR*, in accordance with the Table UK MRB of Annex XXIX and the relevant instructions set out in~~

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~~Annex XXX.~~ (b) of Article 445(1), in accordance with Template UKB MR3 of Annex XXIX and the relevant instructions set out in Annex XXX.

(c) For the disclosures required in points ~~(e) of Article 455 of the *CRR*, in accordance with the Template UK MR2-A of Annex XXIX and the relevant instructions set out in Annex XXX.~~ (a), (b) and (c) of Article 455(1), in accordance with the Template UKB MRB of Annex XXIX and the relevant instructions set out in Annex XXX.

(d) For the disclosures required in points ~~(h) of Article 438 of the *CRR*, for internal market risk models, in accordance with the Template UK MR2-B of Annex XXIX and the relevant instructions set out in Annex XXX.~~ (d) to (g) of Article 455(1), in accordance with Template UKB MR2 of Annex XXIX and the relevant instructions set out in Annex XXX.

(e) ~~For the disclosures required in point (d) of Article 455 of the *CRR*, in accordance with the Template UK MR3 of Annex XXIX and the relevant instructions set out in Annex XXX.~~[Deleted]

(f) ~~For the disclosures required in point (g) of Article 455 of the *CRR*, in accordance with the Template UK MR4 of Annex XXIX and the relevant instructions set out in Annex XXX.~~[Deleted]

**Article 17 DISCLOSURE OF OPERATIONAL RISK**

1. Institutions shall disclose the information on operational risk required in Article~~s~~ 435~~, 438 (d), 446, and 454~~ of ~~the~~ *CRR* in accordance with the Table UKB ORA ~~and Template UK OR1~~ of Annex XXXI and the relevant instructions set out in Annex XXXII.

2. Institutions with a *Business Indicator* equal to or greater than GBP 880 million shall disclose the information on operational risk loss data required in paragraph 1 of Article 446, in accordance with Template UKB OR1 of Annex XXXI and the relevant instructions set out in Annex XXXII.

3. Institutions shall disclose the information on operational risk loss data required in paragraph 2 of Article 446, in accordance with Template UKB OR2 of Annex XXXI and the relevant instructions set out in Annex XXXII.

4. Institutions shall disclose the information on operational risk required in point (d) of Article 438, in accordance with Template UKB OR3 of Annex XXXI and the relevant instructions set out in Annex XXXII.

…

**6 PILLAR 3 TEMPLATES AND INSTRUCTIONS**

6.1 Annex I Template UKB OV1 can be found ~~here~~here.

6.2 Annex I Template UKB KM1 can be found ~~here~~here.

6.2A Annex I Template UKB CMS1 can be found here.

6.2B Annex I Template UKB CMS2 can be found here.

6.3 Annex I Template UK INS1 can be found ~~here~~here.

6.4 Annex I Template UK INS2 can be found ~~here~~here.

6.5 Annex I Table UK OVC can be ~~here~~here.

6.6 Annex II can be found ~~here~~here.

...

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6.48 Annex XIX Table UKB CRD can be found ~~here~~here.

6.49 Annex XIX Template UKB CR4 can be found ~~here~~here.

6.50 Annex XIX Template UKB CR5 can be found ~~here~~here.

6.51 Annex XX can be found ~~here~~here.

6.52 Annex XXI Table UKB CRE can be found ~~here~~here.

6.53 Annex XXI Template UKB CR6 can be found ~~here~~here.

6.54 Annex XXI Template UKB CR6-A can be found ~~here~~here.

6.55 Annex XXI Template UKB CR7 can be found ~~here~~here.

6.56 Annex XXI Template UKB CR7-A can be found ~~here~~here.

6.57 Annex XXI Template UK CR8 can be found ~~here~~here.

6.58 Annex XXI Template UK CR9 can be found ~~here~~here.

6.59 Annex XXI Template UK CR9.1 can be found ~~here~~here.

6.60 Annex XXII can be found ~~here~~here.

6.61 Annex XXIII Template UKB CR10 can be found ~~here~~here.

6.62 Annex XXIV can be found ~~here~~here.

6.63 Annex XXV Table UK CCRA can be found ~~here~~here.

6.64 Annex XXV Template UKB CCR1 can be found ~~here~~here.

6.65 ~~Annex XXV Template UK CCR2 can be found here.~~[Deleted]

6.66 Annex XXV Template UKB CCR3 can be found ~~here~~here.

6.67 Annex XXV Template UK CCR4 can be found ~~here~~here.

6.68 Annex XXV Template UK CCR5 can be found ~~here~~here.

6.69 Annex XXV Template UK CCR6 can be found ~~here~~here.

6.70 Annex XXV Template UK CCR7 can be found ~~here~~here.

6.71 Annex XXV Template UK CCR8 can be found ~~here~~here.

6.72 Annex XXVI can be found ~~here~~here.

…

6.80 Annex XXIX ~~Table~~ Template UKB MRA can be found ~~here~~here.

6.81 Annex XXIX Template UKB MR1 can be found ~~here~~here.

6.82 Annex XXIX ~~Table~~ Template UKB MRB can be found ~~here~~here.

6.83 Annex XXIX Template UKB MR2~~-A~~ can be found ~~here~~here.

6.84 ~~Annex XXIX Template UK MR2-B can be found here.~~[Deleted]

6.85 Annex XXIX Template UKB MR3 can be found ~~here~~here.

6.86 ~~Annex XXIX Template UK MR4 can be found here.~~[Deleted]

6.87 Annex XXX can be found ~~here~~here.

6.88 Annex XXXI Table UKB ORA can be found ~~here~~here.

6.88A Annex XXXI Template UKB OR1 can be found ~~here~~here.

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6.88B Annex XXXI Template UKB OR2 can be found here.

6.88C Annex XXXI Template UKB OR3 can be found here.

6.89 Annex XXXII can be found ~~here~~here.

…

6.105 Annex XXXIX Template UKB CVAA can be found here.

6.106 Annex XXXIX Template UKB CVA1 can be found here.

6.107 Annex XXXIX Template UKB CVA2 can be found here.

6.108 Annex XXXIX Template UKB CVAB can be found here.

6.109 Annex XXXIX Template UKB CVA3 can be found here.

6.110 Annex XXXIX Template UKB CVA4 can be found here.

6.111 Annex XXXX can be found here.

…

## 7 APPLICATION DATES AND TRANSITIONAL PROVISIONS

…

7.2 During the *IMA transitional period* an institution with an *IMA transitional permission* shall:

(a) disapply Article 455(1) of Chapter 4 and the requirements in points (c) and (d) of Article 16(2) of Chapter 5 to disclose Templates UKB MRB and UKB MR2 of Annex XXIX; and

(b) make the disclosures required by:

(i) point (h) of Article 438 of Chapter 4 for internal market risk models in accordance with template UK MR2-B;

(ii) points (a), (b), (c) and (f) of 7.3 in accordance with table UK MRB;

(iii) point (e) of 7.3 in accordance with template UK MR2-A;

(iv) point (d) of 7.3 in accordance with template UK MR3; and

(v) point (g) of 7.3 in accordance with template UK MR4.

7.3 During the *IMA transitional period* an institution with an *IMA transitional permission* shall disclose:

(a) for each sub-portfolio covered:

(i) the characteristics of the models used;

(ii) where applicable, for the internal models for incremental default and migration risk and for correlation trading, the methodologies used and the risks measured through the use of an internal model including a description of the approach used by the institution to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;

(iii) a description of stress testing applied to the sub-portfolio;

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(iv) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;

(b) the scope of permission by the *PRA*;

(c) a description of the extent and methodologies for compliance with the requirements set out in Trading Book (CRR) Part Articles 104 and 105;

(d) the highest, the lowest and the mean of the following:

(i) the daily value-at-risk measures over the reporting period and at the end of the reporting period;

(ii) the stressed value-at-risk measures over the reporting period and at the end of the reporting period;

(iii) the risk numbers for incremental default and migration risk and for the specific risk of the correlation trading portfolio over the reporting period and at the end of the reporting period;

(e) the elements of the own funds requirement as specified in Market Risk: Internal Model Approach (CRR) Part Article 364;

(f) the weighted average liquidity horizon for each sub-portfolio covered by the internal models for incremental default and migration risk and for correlation trading; and

(g) a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.

[Note: This rule corresponds to Article 455 of the *CRR* as it applied immediately before revocation by the *Treasury*]

7.4 An institution shall make the disclosures required by point (b) of 7.2 in accordance with:

(a) the relevant instructions in Annex XXX as set out in point (d) of 7.5; and

(b) Title I of Chapter 4 and Article 20 of Chapter 5 with the following modifications:

(i) a reference to Article 455 or Title III of Chapter 4 shall be a reference to 7.3; and

(ii) a reference to Chapter 5 shall be a reference to 7.2.

7.5 (a) Table UK MRB can be found here.

(b) Template UK MR2-A can be found here.

(c) Template UK MR2-B can be found here.

(d) Template UK MR3 can be found here.

(e) Template UK MR4 can be found here.

(f) Annex XXX can be found here.

7.6 Following the end of the *IMA transitional period*, an institution which had an *IMA transitional permission* shall make the disclosures in accordance with 7.2 and 7.3 to the extent that those disclosures relate to the *IMA transitional period* and remain outstanding.

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## Annex V

## Amendments to the Regulatory Reporting Part

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

…

### 7 REGULATED ACTIVITY GROUP 1

7.1 The applicable *data items* referred to in the table in 6.1 are set out according to *firm* type in the table below:

| ***RAG* 1** | **Prudential category of *firm*, applicable *data items* and reporting format (1)** | | | | | | |
|---|---|---|---|---|---|---|---|
| | ***UK bank* other than a *ring-fenced body*** | ***Ring-fenced body*** | ***Building society*** | ***Non-UK bank*** | **[deleted.]** | **[deleted.]** | **[deleted.]** |
| **Description of *data item*** | | | | | | | |
| … | … | … | … | … | … | … | … |
| ~~Market risk~~ [deleted.] | ~~FSA005 ((2) and (3))~~ [deleted.] | ~~FSA005 ((2), (3) and (28))~~ [deleted.] | ~~FSA005 ((2) and (3))~~ [deleted.] | - | - | - | - |
| … | … | … | … | … | … | … | … |

…

7.2 The applicable reporting frequencies for submission of *data items* and periods referred to in 7.1 are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

| ***RAG* 1** | | | | |
|---|---|---|---|---|
| ***Data item*** | ***UK banks* and *building societies* (on an unconsolidated or individual consolidated basis) (9)** | **[deleted.]** | ***UK banks* and *building societies* (on a *UK consolidation group*, *domestic liquidity sub-group*, *domestic liquidity sub-group* or *sub-consolidation group basis*, as applicable)** | **Other members of *RAG* 1** |
| … | … | … | … | … |
| ~~FSA005~~ [deleted.] | ~~Quarterly~~[deleted.] | | ~~Half yearly~~ [deleted.] | - |
| … | … | … | … | … |

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…

(9) A *firm* which has an *individual consolidation permission* must submit *data items* ~~FSA005,~~ FSA011, FSA015, FSA017, Template 2 at Annex III or IV of Chapters 5 and 6 of the Reporting (CRR) Part, PRA104, PRA105, PRA106, PRA107 and PRA108 on an individual consolidated basis, and all other *data items* in this column on an unconsolidated basis. All other *firms* must submit all *data items* in this column on an unconsolidated basis.

...

7.3 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 7.2, unless indicated otherwise.

| ***RAG* 1** | | | | | | |
|---|---|---|---|---|---|---|
| ***Data item*** | **Daily** | **Weekly** | **Monthly** | **Quarterly** | **Half yearly** | **Annually** |
| … | … | … | … | … | … | … |
| ~~FSA005~~ [deleted.] | - | - | - | ~~20 *business days*~~ [deleted.] | ~~45 *business days* (6)~~ [deleted.] | - |
| … | … | … | … | … | … | … |

…

## 9 REGULATED ACTIVITY GROUP 3

…

9.2 The applicable *data items* referred to in the table in 6.1 for a *UK designated investment firm* are set out in the table below:

| ***RAG* 3** | |
|---|---|
| **Description of *data item*** | **Applicable *data items* (1)** |
| … | … |
| ~~Market risk~~[deleted.] | ~~FSA005 ((2) and (16))~~[deleted.] |
| … | … |

…

9.3 The applicable reporting frequencies for submission of *data items* and periods referred to in 9.2 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

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| ***RAG* 3** | |
|---|---|
| ***Data item*** | **Reporting frequency** |
| … | … |
| ~~FSA005~~[deleted.] | ~~Quarterly~~[deleted.] |
| … | … |

…

9.4 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 9.3, unless indicated otherwise.

| ***RAG* 3** | | | | | | |
|---|---|---|---|---|---|---|
| ***Data item*** | **Daily** | **Weekly** | **Monthly** | **Quarterly** | **Half yearly** | **Annually** |
| … | … | … | … | … | … | … |
| ~~FSA005~~ [deleted.] | - | - | - | ~~20 *business days*~~ [deleted.] | ~~30 *business days* (1); 45 *business days* (2)~~ [deleted.] | - |
| … | … | … | … | … | … | … |

…

## 16 DATA ITEMS AND OTHER FORMS

…

16.3 ~~FSA005 can be found here.~~[Deleted]

…

16.26 PRA1~~0~~12 can be found ~~here~~here.

16.27 PRA1~~02~~13 can be found ~~here~~here.

16.28 PRA1~~03~~14 can be found ~~here~~here.

…

## 20 CAPITAL+ REPORTS

…

20.19 The first frequency period for the purposes of 20.18(3) is:

(1) where the *data item* required to be submitted under 20.18(3) is PRA1~~03~~14, one year starting from:

…

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(2) where the *data item* required to be submitted under 20.18(3) is PRA1~~0~~12 or PRA1~~02~~13, the frequency period specified in column (3) of the *Capital+ reporting table*, starting with the next *Capital+ reference date* after the *Capital+ changeover date* which caused 20.18 to apply.

…

20.21 The *Capital+ reporting table* below sets out, in respect of the requirements to submit *data items* in this Chapter:

…

*Capital+ reporting table*

| **Column 1** (***Capital+ condition***) | **Column 2** (***data item***) | **Column 3** (**frequency**) | **Column 4** (**due date**) | **Column 5** (**rules which set out basis or bases on which *data item* should be completed**) |
|---|---|---|---|---|
| ***Capital+ condition 1*** | PRA1~~0~~12 | Monthly | 15 *business days* | 20.22, 20.22A |
| ***Capital+ condition 2*** | PRA1~~0~~12 | Monthly | 15 *business days* | 20.23 |
| ***Capital+ condition 3*** | PRA1~~0~~12 | Quarterly | 15 *business days* | 20.22, 20.22A |
| ***Capital+ condition 4*** | PRA1~~0~~12 | Quarterly | 15 *business days* | 20.23 |
| ***Capital+ condition 5*** | PRA1~~02~~13 | Half yearly | 30 *business days* | 20.24, 20.22A |
| ***Capital+ condition 6*** | PRA1~~02~~13 | Half yearly | 30 *business days* | 20.23 |
| ***Capital+ condition 7*** | PRA1~~03~~14 | Annually | 30 *business days* | 20.24 |
| ***Capital+ condition 8*** | PRA1~~03~~14 | Annually | 30 *business days* | 20.23 |

…

## 25 OPERATIONAL INCIDENT REPORTING

[Provision left blank]

## 26 MATERIAL THIRD PARTY ARRANGEMENTS REGISTER

[Provision left blank]

## 27 LLOYD'S

[Provision left blank]

## 28 TRANSITIONAL PROVISIONS – MARKET RISK INTERNAL MODEL APPROACH

28.1 During the *IMA transitional period* an institution with an *IMA transitional permission* shall:

(a) submit to the *PRA data item* FSA005:

(i) on one or more of the following bases:

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(A) an *individual basis*, unless the institution has an *individual consolidation permission*, in which case on an *individual basis*;

(B) a *UK consolidation group* basis if the institution is in a *UK consolidation group*; and

(C) a *sub-consolidated basis* if the institution is a *ring-fenced body* in a *sub-consolidation group*;

(ii) at the following frequencies calculated from the institution's *accounting reference date*:

(A) quarterly for submissions on an unconsolidated or *individual basis*; and

(B) half-yearly for submissions on a *UK consolidation group* basis or *sub-consolidation group* basis;

(iii) by the last day of the period below following the applicable reporting frequency period:

(A) 20 *business days* where the reporting frequency period is quarterly; and

(B) 45 *business days* where the reporting frequency period is half-yearly; and

(iv) in accordance with 4.2, 4.3, 5.1, 5.4; and

(b) disapply the requirement to submit the information in rows 0581 to 0585 of PRA 112 and PRA 113.

28.2 FSA005 can be found here.

28.3 Following the end of the *IMA transitional period*, an institution which had an *IMA transitional permission* shall submit the information in accordance with 28.1 to the extent that those submissions relate to the *IMA transitional period* and remain outstanding.

…

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**Annex W**

**Amendments to the Reporting (CRR) 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:

…

*Business Indicator*

has the meaning given in Operational Risk Part 5.2.

*Business Indicator Component*

has the meaning given in Operational Risk Part 5.7.

*Internal Loss Multiplier*

has the meaning given in Operational Risk Part 5.9.

…

## 2 LEVEL OF APPLICATION

…

2.1 Subject to rules 2.2 and 2.2A, an institution shall comply with this Part on an individual basis.

…

2.2A An institution shall comply with point (a) of Article 430(1) as it relates to reporting on own funds relating to the *output floor* to the same extent and on the same basis that it is required to comply with paragraph 3A of Required Level of Own Funds (CRR) Part Article 92.

…

## 3B TRANSITIONAL PROVISIONS – MARKET RISK INTERNAL MODEL APPROACH

3B.1 During the *IMA transitional period* an institution with an *IMA transitional permission* shall:

(a) disapply the requirements to submit:

(i) templates OF 24.01, OF 24.02 and OF 24.03 of Annex I in accordance with point (d) of Article 5(12) of Chapter 5; and

(ii) the information in rows 0581 to 0585 of template OF 02.00;

(b) submit to the *PRA* in template C 24.00 information on own funds requirements calculated under Market Risk: Internal Model Approach (CRR) Part 4.2 in accordance with the instructions in point 5.7 of Part II of Annex II; and

(c) submit to the *PRA* in templates OF 18.00 to OF 23.00 of Annex I information on own funds requirements calculated under Articles 364(2), and 367(2)(b) and 371(2) of Annex 3 of Market Risk: Internal Model Approach (CRR) Part in accordance with the instructions in point 5.1 to 5.6 of Annex II.

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3B.2 An institution required by 3B.1 to submit templates C 24.00 and OF 18.00 to OF 23.00, as applicable, shall do so:

(a) on an *individual basis* and, if the institution is a member of a *consolidation group*, on a *consolidated basis*;

(b) with a quarterly frequency; and

(c) in accordance with Articles 2, 3, 7 and 21 of Chapter 5.

3B.3 Template C 24.00 can be found here.

3B.4 Following the end of the *IMA transitional period*, an institution which had an *IMA transitional permission* shall submit the information in accordance with 3B.1 to the extent that those submissions relate to the *IMA transitional period* and remain outstanding.

## 4 REPORTING (PART SEVEN A CRR)

…

### Article 430a SPECIFIC REPORTING OBLIGATIONS [DELETED]

1. ~~Institutions shall report to their *competent authorities* on an annual basis the following aggregate data for each national immovable property market to which they are exposed:~~

   ~~(a) losses stemming from exposures for which an institution has recognised residential property as collateral, up to the lower of the pledged amount and 80% of the market value or 80% of the mortgage lending value unless otherwise decided under Article 124(2);~~

   ~~(b) overall losses stemming from exposures for which an institution has recognised residential property as collateral, up to the part of the exposure treated as fully secured by residential property in accordance with Article 124(1);~~

   ~~(c) the exposure value of all outstanding exposures for which an institution has recognised residential property as collateral limited to the part treated as fully secured by residential property in accordance with Article 124(1);~~

   ~~(d) losses stemming from exposures for which an institution has recognised immovable commercial property as collateral, up to the lower of the pledged amount and 50% of the market value or 60% of the mortgage lending value unless otherwise decided under Article 124(2);~~

   ~~(e) overall losses stemming from exposures for which an institution has recognised immovable commercial property as collateral, up to the part of the exposure treated as fully secured by immovable commercial property in accordance with Article 124(1);~~

   ~~(f) the exposure value of all outstanding exposures for which an institution has recognised immovable commercial property as collateral limited to the part treated as fully secured by immovable commercial property in accordance with Article 124(1).~~[Deleted]

2. ~~The data referred to in paragraph 1 shall be reported to the *competent authority*. The data shall be reported separately for the immovable property market within the standards of the *United Kingdom* to which the relevant institution is exposed.~~[Deleted]

Effective from 1 January 2027

This document is effective from 1 January 2027 to accompany PS1/26.
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# 5 REPORTING REQUIREMENTS

## CHAPTER 1 SUBJECT MATTER AND SCOPE

### Article 1 SUBJECT MATTER AND SCOPE

1. This Chapter 5 of this Reporting (CRR) Part ~~of the *PRA* Rulebook~~ lays down uniform reporting formats and templates, instructions on and a methodology for how to use those templates, the frequency and dates of reporting, the definitions and the IT solutions for the reporting of institutions to their *competent authorities* pursuant to paragraphs 3 and 3a of Article 415 of ~~the~~ *CRR*, and paragraphs 1 to 3 of Article 430 of the Reporting (CRR) Part ~~of the *PRA* Rulebook~~.

2. Annexes referred to in this Chapter 5 of this Reporting (CRR) Part ~~of the *PRA* Rulebook~~ can be found at Chapter 6 (Templates and Instructions) of this Part.

…

## CHAPTER 3 FORMAT AND FREQUENCY OF REPORTING ON OWN FUNDS, OWN FUNDS REQUIREMENTS

### Article 5 INDIVIDUAL BASIS – QUARTERLY REPORTING

1. In order to report information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part ~~of the *PRA* Rulebook~~ on an individual basis, institutions shall submit information as set out in the following paragraphs with a quarterly frequency. Institutions shall submit information in accordance with paragraphs 2 to 1~~5~~6 of this Article.

2. Information relating to own funds and own funds requirements shall be submitted as specified in templates C 01.00, OF 02.00, C 03.00 and~~to~~ C 04.00 of Annex I, in accordance with the instructions in point 1 of Part II of Annex II.

3. Information on credit risk and counterparty credit risk exposures treated under the standardised approach shall be submitted as specified in template ~~C~~OF 07.00 of Annex I, in accordance with the instructions in point 3.2 of Part II of Annex II.

4. Information on credit risk and counterparty credit risk exposures treated under the internal ratings-based approach shall be submitted as specified in templates ~~C~~OF 08.01 and ~~C~~OF 08.02 of Annex I, in accordance with the instructions in point 3.3 of Part II of Annex II.

5. Information on the geographical distribution of exposures by country, as well as aggregated at a total level, shall be submitted as specified in templates ~~C~~OF 09.01, ~~C~~OF 09.02 and ~~C~~OF 09.04 of Annex I, in accordance with the instructions in point 3.4 of Part II of Annex II. Information specified in templates ~~C~~OF 09.01 and ~~C~~OF 09.02, and in particular information on the geographical distribution of exposures by country, shall be submitted where non-domestic original exposures in all non-domestic countries in all exposure classes, as reported in row 0850 of template C 04.00 of Annex I, are equal to or higher than 10% of total domestic and non-domestic original exposures as reported in row 0860 of template C 04.00 of Annex I. Exposures shall be deemed to be domestic where they are exposures to counterparties located in the *United Kingdom*. The entry and exit criteria of Article 4 shall apply.

…

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8. ~~Information on equity exposures treated under the internal ratings-based approach shall be submitted as specified in template C 10.01 of Annex I, in accordance with the instructions in point 3.5 of Part II of Annex II.~~[Deleted]

…

11. Information on own funds requirements, the *Business Indicator Component*, the *Business Indicator* and its components, ~~and losses~~ relating to operational risk shall be submitted as specified in template ~~C~~OF 16.00 of Annex I, in accordance with the instructions in point 4.1 ~~of Part II~~ of Annex II.

12. Information on own funds requirements relating to market risk shall be submitted as ~~specified in templates C 18.00 to C 24.00 of Annex I, in accordance with the instructions in points 5.1 to 5.7 of Part II of Annex II.~~ follows:

    (a) all institutions shall submit the information specified in template OF 90.00 of Annex I, in accordance with the instructions in point 5.7 of Annex II;

    (b) institutions that apply the advanced standardised approach pursuant to point (a) of paragraph 1 of Market Risk: General Provisions (CRR) Part Article 325 shall also report the information specified in templates OF 91.01 to OF 91.10, in accordance with the instructions in points 5.8.2 to 5.8.11 of Annex II;

    (c) institutions that apply the simplified standardised approach pursuant to point (b) of paragraph 1 of Market Risk: General Provisions (CRR) Part Article 325 shall also report the information specified in templates OF 18.00 to OF 23.00 of Annex I, in accordance with the instructions in point 5.1 to 5.6 of Annex II;

    (d) institutions that apply the internal model approach pursuant to point (c) of paragraph 1 of Market Risk: General Provisions (CRR) Part Article 325 shall also report the information specified in templates OF 24.01 to OF 24.03 of Annex I, in accordance with the instructions in points 5.7.3 to 5.7.5 of Annex II.

13. Information on own funds requirements relating to credit valuation adjustment risk shall be submitted as specified in template ~~C 25.00~~OF 25.01 of Annex I, in accordance with the instructions in point ~~5.8 of Part II~~ 5.9.1 of Annex II~~.~~ as follows:

    (a) all institutions shall submit the information specified in template OF 25.01 of Annex I, in accordance with the instructions in point 5.9.1 of Annex II;

    (b) institutions that apply the full or reduced version of the *BA-CVA* pursuant to Chapter 4 of Credit Valuation Adjustment Risk Part shall also report the information specified in template OF 25.02 of Annex I, in accordance with the instructions in point 5.9.2 of Annex II;

    (c) institutions that apply *SA-CVA* shall also report the information specified in template OF 25.03 of Annex I, in accordance with the instructions in point 5.9.3 of Annex II.

…

16. Information on own funds relating to the *output floor* shall be submitted as follows:

    (a) as specified in template OF 02.01, in accordance with the instructions in point 1.3.2 of Part II of Annex II;

    (b) as specified in those parts of templates OF 02.00 and OF 08.01 marked as relating to the *output floor*, in accordance with the instructions in points 1.3 and 3.3.3 respectively of Part II Annex II;

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(c) for institutions that apply the internal model approach pursuant to point (c) of paragraph 1 of Market Risk: General Provisions (CRR) Part Article 325, information on the own funds requirements for market risk calculated using the advanced standardised approach pursuant to point (a) of paragraph 1 of Market Risk: General Provisions (CRR) Part Article 325, as specified in templates OF 91.01 to OF 91.10, in accordance with the instructions in points 5.8.2 to 5.8.11 of Annex II.

**Article 6 INDIVIDUAL BASIS – SEMI-ANNUAL REPORTING**

…

4. ~~Information on material losses regarding operational risk shall be reported in the following manner:~~

~~(a) institutions that calculate own funds requirements relating to operational risk in accordance with Chapter 4 of Title III of Part Three of the *CRR* shall report this information as specified in template C 17.01 and C 17.02 of Annex I, in accordance with the instructions in point 4.2 of Part II of Annex II;~~

~~(b) large institutions that calculate own funds requirements relating to operational risk in accordance with Chapter 3 of Title III of Part Three of the *CRR* shall report this information as specified in templates C 17.01 and C 17.02 of Annex I, in accordance with the instructions in point 4.2 of Part II of Annex II;~~

~~(c) institutions other than large institutions that calculate own funds requirements relating to operational risk in accordance with Chapter 3 of Title III of Part Three of the *CRR* shall report the information specified in points (i) and (ii) in accordance with the instructions in point 4.2 of Part II of Annex II:~~

~~i. The information specified for column 0080 of template C 17.01 of Annex I for the following rows:~~

~~1. number of events (new events) (row 0910);~~

~~2. gross loss amount (new events) (row 0920);~~

~~3. number of events subject to loss adjustments (row 0930);~~

~~4. loss adjustments relating to previous reporting periods (row 0940);~~

~~5. maximum single loss (row 0950);~~

~~6. sum of the five largest losses (row 0960);~~

~~7. total direct loss recovery (except insurance and other risk transfer mechanisms) (row 0970);~~

~~8. total recoveries from insurance and other risk transfer mechanisms (row 0980);~~

~~ii. The information specified in template C 17.02 of Annex I;~~

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~~(d) the institutions referred to in point (c) may report the complete set of information specified in templates C 17.01 and C 17.02 of Annex I, in accordance with the instructions in point 4.2 of Part II of Annex II;~~

~~(e) large institutions that calculate own funds requirements relating to operational risk in accordance with Chapter 2 of Title III of Part Three of the *CRR* shall report the information specified in templates C 17.01 and C 17.02 of Annex I, in accordance with the instructions in point 4.2 of Part II of Annex II;~~

~~(f) institutions other than large institutions that calculate own funds requirements relating to operational risk in accordance with Chapter 2 of Title III of Part Three of the *CRR* may report the information referred to n templates C 17.01 and C 17.02 of Annex I, in accordance with the instructions in point 4.2 of Part II of Annex II.~~

~~The entry and exit criteria of Article 4(2) shall apply.~~[Deleted]

…

**Article 6A INDIVIDUAL BASIS – ANNUAL REPORTING**

1. In order to report information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part on an individual basis, institutions shall submit information as set out in the following paragraphs with an annual frequency. Institutions shall submit information in accordance with paragraph 2 of this Article.

2. Institutions which have a *Business Indicator* greater than GBP 880 million shall submit information on annual loss data for historical losses and the *Internal Loss Multiplier* for each year over the preceding 10 year period, as specified in template OF 16.00 of Annex I, in accordance with the instructions in point 4.1 of Annex II.

**Article 7 REPORTING ON A CONSOLIDATED BASIS**

In order to report information on own funds and own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part on a consolidated basis, institutions shall submit:

(a) the information specified in Articles 5 ~~and~~, 6 and 6A on a consolidated basis with the frequency specified therein;

…

**Article 8 ADDITIONAL REPORTING REQUIREMENTS ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

1. The information specified in templates ~~C~~OF 08.03, C 08.04, ~~C~~OF 08.05, ~~C~~OF 08.05~~b~~.01, ~~C~~OF 08.06, ~~C~~OF 08.07 and C 34.11 of Annex I on credit risk and counterparty credit risk shall be submitted solely by institutions subject to an equivalent disclosure requirement, with the same disclosure frequency and at the same consolidated level, in accordance with the instructions in points 3.3 and 3.9.12 of Part II of Annex II.

2. The information specified in template ~~C~~OF 34.07 of Annex I on counterparty credit risk shall be submitted solely by institutions subject to the disclosure of template UK CCR4 under the disclosure provisions of these rules, with the same disclosure frequency and at the same consolidated level, in accordance with the instructions in point 3.9.8 of Part II of Annex II.

…

Effective from 1 January 2027

## 6 TEMPLATES AND INSTRUCTIONS

### ANNEX I

6.1 Annex I Template C 01.00 can be found ~~here~~here.

6.2 Annex I Template ~~C~~OF 02.00 can be found ~~here~~here.

6.2A Annex I Template OF 02.01 can be found here.

6.3 Annex I Template C 03.00 can be found ~~here~~here.

6.4 Annex I Template C 04.00 can be found ~~here~~here.

6.5 [Deleted]

6.6 [Deleted]

6.7 Annex I Template C 06.01 can be found ~~here~~here.

6.8 Annex I Template C 06.02 can be found ~~here~~here.

6.9 Annex I Template ~~C~~OF 07.00 can be found ~~here~~here.

6.10 Annex I Template ~~C~~OF 08.01 can be found ~~here~~here.

6.11 Annex I Template ~~C~~OF 08.02 can be found ~~here~~here.

6.12 Annex I Template ~~C~~OF 08.03 can be found ~~here~~here.

6.13 Annex I Template C 08.04 can be found ~~here~~here.

6.14 Annex I Template ~~C~~OF 08.05 can be found ~~here~~here.

6.15 Annex I Template ~~C~~OF 08.05~~b~~.01 can be found ~~here~~here.

6.16 Annex I Template ~~C~~OF 08.06 can be found ~~here~~here.

6.17 Annex I Template ~~C~~OF 08.07 can be found ~~here~~here.

6.18 Annex I Template ~~C~~OF 09.01 can be found ~~here~~here.

6.19 Annex I Template ~~C~~OF 09.02 can be found ~~here~~here.

6.20 Annex I Template C 09.04 can be found ~~here~~here.

6.21 ~~Annex I Template C 10.01 can be found here.~~[Deleted]

6.22 ~~Annex I Template C 10.02 can be found here.~~[Deleted]

6.23 Annex I Template C 11.00 can be found ~~here~~here.

6.24 Annex I Template C 13.01 can be found ~~here~~here.

6.25 Annex I Template C 14.00 can be found ~~here~~here.

6.26 Annex I Template C 14.01 can be found ~~here~~here.

6.27 Annex I Template C 34.01 can be found ~~here~~here.

6.28 Annex I Template C 34.02 can be found ~~here~~here.

6.29 Annex I Template C 34.03 can be found ~~here~~here.

6.30 Annex I Template C 34.04 can be found ~~here~~here.

6.31 Annex I Template C 34.05 can be found ~~here~~here.

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6.32 Annex I Template C 34.06 can be found ~~here~~here.

6.33 Annex I Template ~~C~~OF 34.07 can be found ~~here~~here.

6.34 Annex I Template C 34.08 can be found ~~here~~here.

6.35 Annex I Template C 34.09 can be found ~~here~~here.

6.36 Annex I Template C 34.10 can be found ~~here~~here.

6.37 Annex I Template C 34.11 can be found ~~here~~here.

6.38 Annex I Template ~~C~~OF 16.00 can be found ~~here~~here.

6.39 ~~Annex I Template C 17.01 can be found here.~~[Deleted]

6.40 ~~Annex I Template C 17.02 can be found here.~~[Deleted]

6.41 Annex I Template ~~C~~OF 18.00 can be found ~~here~~here.

6.42 Annex I Template ~~C~~OF 19.00 can be found ~~here~~here.

6.43 Annex I Template ~~C~~OF 20.00 can be found ~~here~~here.

6.44 Annex I Template ~~C~~OF 21.00 can be found ~~here~~here.

6.45 Annex I Template ~~C~~OF 22.00 can be found ~~here~~here.

6.46 Annex I Template ~~C~~OF 23.00 can be found ~~here~~here.

6.47 ~~Annex I Template C 24.00 can be found can be found here.~~[Deleted]

6.47A Annex I Template OF 24.01 can be found here.

6.47B Annex I Template OF 24.02 can be found here.

6.47C Annex I Template OF 24.03 can be found here.

6.48 Annex I Template ~~C~~OF 25.0~~0~~1 can be found ~~here~~here.

6.48A Annex I Template OF 25.02 can be found here.

6.48B Annex I Template OF 25.03 can be found here.

6.49 Annex I Template C 32.01 can be found ~~here~~here.

6.50 Annex I Template C 32.02 can be found ~~here~~here.

6.51 Annex I Template C 32.03 can be found ~~here~~here.

6.52 Annex I Template C 32.04 can be found ~~here~~here.

6.53 Annex I Template C 33.00 can be found ~~here~~here.

6.53A Annex I Template OF 90.00 can be found here.

6.53B Annex I Template OF 91.01 can be found here.

6.53C Annex I Template OF 91.02 can be found here.

6.53D Annex I Template OF 91.03 can be found here.

6.53E Annex I Template OF 91.04 can be found here.

6.53F Annex I Template OF 91.05 can be found here.

6.53G Annex I Template OF 91.06 can be found here.

6.53H Annex I Template OF 91.07 can be found here.

6.53I Annex I Template OF 91.08 can be found here.

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6.53J Annex I Template OF 91.09 can be found here.

6.53K Annex I Template OF 91.10 can be found here.

…

**ANNEX II**

6.57 Annex II can be found ~~here~~here.

…

**ANNEX VI [DELETED]**

6.243 ~~Annex VI Template C 15.00 can be found here.~~[Deleted]

…

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**Annex X**

**Amendments to the Reporting Pillar 2 Part**

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

…

## 2 PILLAR 2 REPORTING REQUIREMENTS

…

2.3 A significant *firm* and any *firm* that is not significant but that ~~has~~had permission as at 31 December 2026 from the *PRA* to use the *Advanced Measurement Approach* referred to in Article 312(2) of *CRR* as it applied immediately before 1 January 2027 must complete the *data items* FSA072, FSA073, FSA074 and FSA075 for operational risk, unless the data required in that *data item* has already been reported to the *PRA* by other means.

…

Effective from 1 January 2027

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## Annex Y

## Amendments to the Interpretation Part

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

…

### 2 INTERPRETIVE PROVISIONS

...

2.11 Unless the contrary intention appears any ~~Any~~ reference in *CRR rules* or rules made under section 192XA *FSMA* to the granting of a waiver, approval, permission or other form of consent by the *competent authority* or by the *PRA* is a reference to the giving of a permission by the *PRA* pursuant to section 144G or section 192XC of *FSMA*, exercisable in accordance with the conditions as set out in those rules for the exercise of that waiver, approval, permission or other form of consent.

…

Effective from 1 January 2027

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## Annex Z

## Amendments to the Groups 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:

~~*third country banking and investment group*~~

~~means a *group* that meets the following conditions:~~

~~(1) it is headed by a *third country undertaking* that would be:~~

~~(a) an *institution*;~~

~~(b) a *financial holding company*, or~~

~~(c) a *mixed financial holding company*,~~

~~if its head office was in the *UK*; and~~

~~(2) it is not part of a wider *consolidation group*.~~[Note: there are currently no Part-specific definitions]

…

Effective from 1 January 2027

This document is effective from 1 January 2027 to accompany PS1/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/january/implementation-of-basel-3-1-final-rules-policy-statement.



**Annex AA**

**Amendments to the Capital Buffers 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:

…

*relevant credit exposures*

means exposures other than those referred to in points (a) to (f) of Credit Risk: Standardised Approach (CRR) Article 112 ~~of the *CRR*~~ that are subject to:

(a) the *own funds* requirements for credit risk under Part Three, Title II of ~~the *CRR*, or~~;

(b) where the exposure is held in the *trading book*, *own funds* requirements for specific risk under ~~Part Three, Title IV, Chapter 2 of the *CRR*~~ the Market Risk: Simplified Standardised Approach (CRR) Part or incremental default and migration risk under ~~Part Three, Title IV, Chapter 5 of the *CRR*~~Part A of Annex 3 of the Market Risk: Internal Model Approach (CRR) Part or default risk under the Market Risk: Advanced Standardised Approach (CRR) Part and the Market Risk: Internal Model Approach (CRR) Part; or

(c) where the exposure is a *securitisation*, the *own funds* requirements under Part Three, Title II, Chapter 5 of ~~the *CRR*~~.

…

*total risk exposure amount*

means the total risk exposure amount of a *firm* calculated in accordance with paragraph 2A of Required Level of Own Funds (CRR) Part Article 92~~(3) of the *CRR*~~.

…

## 3 Countercyclical Capital Buffer

…

3.1

…

(2) In order to calculate the weighted average referred to in (1A) a *firm* must apply to each applicable *countercyclical buffer rate* its total *own funds* requirements for credit risk, default risk, specific risk, incremental default and migration risk that relates to the *relevant credit exposures* in the jurisdictions in question, divided by its total *own funds* requirements for credit risk, default risk, specific risk, incremental default and migration risk that relates to all of its *relevant credit exposures*.

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(3) For the purposes of (2), a *firm* must calculate its total *own funds* requirements for credit risk, default risk, specific risk, incremental default and migration risk in accordance with Part Three, Titles ~~s~~ II ~~and IV~~ of ~~the~~ *CRR*, the Market Risk: Simplified Standardised Approach (CRR) Part, Market Risk: Advanced Standardised Approach (CRR) Part and Market Risk: Internal Model Approach (CRR) Part.

…

Effective from 1 January 2027

# PRA RULEBOOK: CRR FIRMS: (CRR No. 2) INSTRUMENT 2026

**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);
(2) section 137T (General supplementary powers);
(3) section 144H(1) (Relationship with the CRR); and
(4) section 192XA (Rules applying to holding companies).

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

**PRA Rulebook: CRR Firms: (CRR No. 2) Instrument 2026**

C. The PRA makes the rules in the Annexes to this instrument.

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| Non-Performing Exposures Securitisation (CRR) | D |
| Counterparty Credit Risk (CRR) | E |
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| | |
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| | |
|---|---|
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| Trading Book (CRR) | AT |

**Notes**

D. In the Annexes to this instrument, the "notes" (indicated by "[Note: ]") are included for the convenience of readers but do not form part of the legislative text.

**Commencement**

E. All Annexes in this instrument come into force on 1 January 2027.

**Citation**

F. This instrument may be cited as the PRA Rulebook: CRR Firms: (CRR No. 2) Instrument 2026.

**By order of the Prudential Regulation Committee**

13 January 2026

**Annex A**

**Amendments to the Glossary Part**

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

*ABCP programme*

means a programme of *securitisations* the securities issued by which predominantly take the form of asset-backed commercial paper with an original maturity of one year or less.

[Note: This rule corresponds to Article 242(11) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*ABCP transaction*

means a *securitisation* within an *ABCP programme*.

[Note: This rule corresponds to Article 242(12) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

~~*Article 18(5) relationship*~~

~~means a relationship where undertakings are linked by participations or capital ties other than those referred to in paragraphs (1) and (4) of Article 18 of the *CRR*.~~

…

*consolidated basis*

~~has the meaning given in point (48) of Article 4(1) of the *CRR*.~~means on the basis of the *consolidated situation*.

…

*consolidated situation*

means the situation that results from applying a rule or requirement in accordance with Articles 11, 18, 19, 23 and 24 of the Groups Part to an *institution* as if that *institution* formed, together with one or more other entities, a single *institution*.

…

*consolidation group*

means the *undertakings* that a *firm* is required to include in the scope of consolidation pursuant to Articles 18, 19 and 23 of the Groups Part ~~the *CRR* and Groups 2.1 - 2.3~~.

…

*first loss tranche*

means the most subordinated *tranche* in a *securitisation* that is the first *tranche* to bear losses incurred on the securitised exposures and thereby provides protection to the second loss and, where relevant, higher ranking *tranches*.

[Note: This rule corresponds to Article 242(17) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*individual basis*

means on an individual basis excluding any subsidiaries or, if an *individual consolidation permission* has first been granted by the *PRA*, on the basis of the relevant entity including subsidiaries to the extent and subject to any modifications set out in that permission.

…

*individual consolidation permission*

means a permission granted under section 138BA *FSMA* provided for in Article 9 of the Groups Part.

...

*margin period of risk*

means the time period from the most recent exchange of collateral covering a *netting set* of transactions with a defaulting counterparty until the transactions are closed out and the resulting market risk is re-hedged.

[Note: This rule corresponds to Article 272(9) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*netting set*

for the purposes of the Counterparty Credit Risk (CRR) Part and the Credit Valuation Adjustment Risk (CRR) Part means a group of transactions between an *institution* and a single counterparty that is subject to a legally enforceable bilateral netting arrangement that meets the requirements in Section 7 of Chapter 3 of the Credit Risk Mitigation (CRR) Part.

Each transaction that is not subject to a legally enforceable bilateral netting arrangement which meets the requirements under Section 7 of Chapter 3 of the Counterparty Credit Risk (CRR) Part shall be treated as its own netting set for the purposes of Chapter 3 of the Counterparty Credit Risk (CRR) Part.

Under the Internal Model Method set out in Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, all netting sets with a single counterparty may be treated as a single netting set if negative simulated market values of the individual netting sets are set to zero in the estimation of expected exposure.

[Note: This rule corresponds to Article 272(4) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*original lender*

has the meaning given in Securitisation 1.3.

*originator*

has the meaning given in Securitisation 1.3.

…

*resecuritisation*

has the meaning given in Securitisation 1.3.

…

*revolving securitisation*

has the meaning given in Securitisation 1.3.

…

~~*RFB sub-consolidated basis*~~

~~means on the *sub-consolidated basis* of the *sub-consolidation group*.~~

…

*securitisation*

has the meaning given in Securitisation 1.3.

*securitisation position*

has the meaning given in Securitisation 1.3.

*securitisation special purpose entity or SSPE*

has the meaning given in Securitisation 1.3.

…

*SME*

in the Credit Risk: Standardised Approach (CRR) Part, the Securitisation (CRR) Part and the Credit Risk: Internal Ratings Based Approach (CRR) Part means a micro, small or medium enterprise with an annual turnover of not more than GBP 44 million where:

(1) the annual turnover shall be calculated on the basis of the highest consolidated accounts of the group to which the enterprise belongs, if any, according to the rules on accounting consolidation in the applicable jurisdiction; and

(2) an enterprise shall be considered to be any undertaking regularly engaged in an economic activity irrespective of its legal form, including without limitation: self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations of natural persons.

…

*sponsor*

has the meaning given in Securitisation 1.3.

…

*sub-consolidation group*

means the *undertakings* included in the scope of consolidation as a result of a *sub-consolidation requirement*~~requirement imposed on a *ring-fenced body* under Article 11(5) of *CRR*~~.

…

*sub-consolidation requirement*

means a requirement imposed on a *firm* under section 55M *FSMA* or given in a direction to a *CRR consolidation entity* under section 192C *FSMA* to comply with the *sub-consolidation rules* on a *sub-consolidated basis*.

*sub-consolidation rules*

means, unless context otherwise requires, the following Parts and rules:

(1) the Capital Buffers Part;

(2) the Counterparty Credit Risk (CRR) Part;

(3) the Credit Risk: General Provisions (CRR) Part;

(4) the Credit Valuation Adjustment Risk Part;

(5) the Credit Risk: Internal Ratings Based Approach (CRR) Part;

(6) the Credit Risk: Standardised Approach (CRR) Part;

(7) the Credit Risk Mitigation (CRR) Part;

(8) the Definition of Capital Part;

(9) the Disclosure (CRR) Part;

(10) 2.1 (read with 2.2), 2.6, 2A.2, 5 and 6 of the General Organisational Requirements Part;

(11) 2.1(2) (read with 2.2) and 2.4 of the Group Risk Systems Part;

(12) the *ICAAP rules* in the Internal Capital Adequacy Assessment Part;

(13) the *risk control rules* in the Internal Capital Adequacy Assessment Part;

(14) the overall financial adequacy rule in Internal Capital Adequacy Assessment 2.1;

(15) Internal Capital Adequacy Assessment 15;

(16) the Internal Liquidity Adequacy Assessment Part;

(17) the Large Exposures (CRR) Part;

(18) the Leverage Ratio – Capital Requirements and Buffers Part;

(19) the Liquidity (CRR) Part;

(20) the Liquidity Coverage Requirement - UK Designated Investment Firms Part;

(21) the Market Risk: General Provisions (CRR) Part;

(22) the Market Risk: Internal Model Approach (CRR) Part;

(23) the Market Risk: Advanced Standardised Approach (CRR) Part;

(24) the Market Risk: Simplified Standardised Approach (CRR) Part;

(25) the Operational Risk Part;

(26) the Own Funds (CRR) Part;

(27) 2.1 of the Public Disclosure Part;

(28) the Record Keeping Part;

(29) the Regulatory Reporting Part;

(30) the Remuneration Part;

(31) the Reporting (CRR) Part;

(32) the Reporting Pillar 2 Part;

(33) the Required Level of Own Funds (CRR) Part;

(34) the Ring-fenced Bodies Part;

(35) 2.3, 2.7 and 3 of the Risk Control Part;

(36) 3.2 of the Skills, Knowledge and Expertise Part;

(37) the Trading Book (CRR) Part; and

(38) the Step-In Risk Part.

…

*synthetic securitisation*

means a *securitisation* where the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the *originator*.

[Note: This rule corresponds to Article 242(14) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*traditional securitisation*

means a *securitisation* involving the transfer of the economic interest in the exposures being securitised through the transfer of ownership of those exposures from the *originator* to an *SSPE* or through sub-participation by an *SSPE*, where the securities issued do not represent payment obligations of the *originator*.

[Note: This rule corresponds to Article 242(13) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*tranche*

has the meaning given in Securitisation 1.3.

…

*UK parent institution*

means an ~~parent~~ institution authorised in the *UK* which has an institution, ~~or~~ financial institution or *ancillary services undertaking* as *subsidiary* or which holds a *participation* in such an institution, ~~or~~ financial institution or *ancillary services undertaking*, and which is not itself a *subsidiary* of another institution authorised in the *UK* or of a financial holding company or *mixed financial holding company* set up in the *UK*.

…

**Annex B**

**Amendments to the Groups Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3

~~Unless otherwise defined:~~

~~(1) any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*; and~~

~~(2) any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD*.~~[Deleted]

…

## 2 METHODS OF PRUDENTIAL CONSOLIDATION

2.A1 ~~This chapter applies to a *firm* for the purposes of its obligations under Parts Two and Three of the *CRR*.~~[Deleted]

2.1

(1) ~~In applying the requirements of Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *CRR consolidation entity* must include the relevant proportion of an undertaking with whom it has:~~

~~(a) a *common management relationship*;~~

~~(b) an *Article 18(6) relationship*; or~~

~~(c) an *Article 18(8) relationship*;~~[Deleted]

(2) ~~In 2.1(1), the relevant proportion is such proportion (if any) as stated in a requirement imposed on the *firm* in accordance with section 55M of *FSMA*.~~[Deleted]

~~[Note: Art 18(3), (6) and (8) of the *CRR*]~~

2.2 ~~In applying the requirements of Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *CRR consolidation entity* for which the *PRA* is the *consolidating supervisor* must carry out a proportional consolidation according to the share of capital held of *participations* in *institutions* and *financial institutions* managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where those undertakings' liability is limited to the share of capital they hold.~~[Deleted]

~~[Note: Art 18(4) of the *CRR*]~~

2.3 ~~In applying the requirements of Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *CRR consolidation entity* must carry out a proportional consolidation according to the share of capital held of any undertaking with whom it has an *Article 18(5) relationship*.~~[Deleted]

~~[Note: Art 18(5) of the *CRR*]~~

…

## 4 SCOPE OF PRUDENTIAL CONSOLIDATION [DELETED]

4.1 ~~A *CRR consolidation entity* must notify the *PRA* as soon as possible if it excludes a *subsidiary* or *undertaking* in which it has a *participation* from its *consolidation group* under the discretion in Article19(1) of the *CRR*.~~[Deleted]

## 5 LEVEL OF APPLICATION OF REQUIREMENTS (TITLE II, PART ONE CRR)

### Chapter 1 APPLICATION OF REQUIREMENTS ON AN INDIVIDUAL BASIS

### Article 9 INDIVIDUAL CONSOLIDATION METHOD

1. Where an institution is required to comply with a *PRA* rule on an *individual basis*, it must not, for the purposes of such compliance, include any subsidiary unless permission has first been granted by the *PRA* under section 138BA *FSMA*, to the extent and subject to any modifications set out in the permission.

   [Note: This rule corresponds to Article 9 of the *CRR* as it applied immediately before revocation by the *Treasury*]

### Chapter 2 PRUDENTIAL CONSOLIDATION

### Article 11 GENERAL TREATMENT

1. *CRR consolidation entities* and institutions must, in relation to a *consolidation group* of which they are a member, set up a proper organisational structure and internal control mechanisms to ensure that data required for such consolidation are duly processed and distributed. In particular, they must ensure that subsidiaries which are not subject to *PRA* rules implement arrangements, processes and mechanisms to ensure proper consolidation.

2. For the purpose of ensuring that a *PRA* rule is applied on a *consolidated basis*, the terms 'institution', '*UK parent institution*', 'parent undertaking', '*firm*' and '*CRR firm*' shall, as the case may be, also refer to:

   (a) a financial holding company or mixed financial holding company approved in accordance with Part 12B *FSMA*;

   (b) a *PRA designated institution* controlled by a UK parent financial holding company or UK parent mixed financial holding company where such a parent is not subject to approval in accordance with section 192P(2) and (3) *FSMA*; and

   (c) a financial holding company, mixed financial holding company or institution designated in accordance with section 192T(2)(c) *FSMA*.

   The consolidated situation of an undertaking referred to in point (a) shall be the *consolidated situation* of the financial holding company or mixed financial holding company.

   The consolidated situation of an undertaking referred to in point (b) shall be the *consolidated situation* of the UK parent financial holding company or the UK parent mixed financial holding company.

   The consolidated situation of an undertaking referred to in point (c) shall be the *consolidated situation* of its UK parent financial holding company or UK parent mixed financial holding company.

   [Note: This rule corresponds to the first and second sub-paragraphs of Article 11 of the *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 18 METHODS OF PRUDENTIAL CONSOLIDATION**

1. *CRR consolidation entities* and institutions that are required to comply with a *PRA* rule on a *consolidated basis* must carry out a full consolidation of all institutions and financial institutions that are their subsidiaries or, in the case of a *PRA designated institution*, subsidiaries of its UK parent undertaking.

2. Ancillary services undertakings must be included in consolidation in the cases, and in accordance with the methods, laid down in this Article.

3. A *CRR consolidation entity* or institution must include the relevant proportion of an undertaking with whom it has a *common management relationship*. The relevant proportion is such proportion (if any) specified in a requirement imposed on or a direction given to the institution or *CRR consolidation entity* in accordance with section 55M or section 192C *FSMA*.

4. A *CRR consolidation entity* or institution must carry out a proportional consolidation according to the share of capital held of participations in institutions and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where those undertakings' liability is limited to the share of capital they hold.

5. A *CRR consolidation entity* or institution must carry out a proportional consolidation according to the share of capital held of any undertaking with whom it has a relationship linked by participations or capital ties other than those referred to in paragraphs (1) and (4) of this Article.

6. A *CRR consolidation entity* or institution must include the relevant proportion of an undertaking with whom it has an *Article 18(6) relationship*. The relevant proportion is such proportion (if any) specified in a requirement imposed on or a direction given to the institution or the *CRR consolidation entity* in accordance with section 55M or section 192C *FSMA*.

7. Where a *CRR consolidation entity* or institution has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary services undertaking, or holds a participation in such an undertaking, it must apply to that subsidiary or participation the equity method. That method shall not, however, require inclusion of the undertakings concerned in supervision on a *consolidated basis*.

8. A *CRR consolidation entity* or institution must include any entity that is not an institution, financial institution, or ancillary services undertaking in its consolidation (in full or in part) to the extent specified in a requirement or direction imposed on the institution or *CRR consolidation entity* in accordance with section 55M or section 192C *FSMA*.

[Note: Paragraphs 1 to 8 of this rule correspond to paragraphs 1 to 8 of Article 18 of the *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 19 ENTITIES EXCLUDED FROM THE SCOPE OF PRUDENTIAL CONSOLIDATION**

1. A *CRR consolidation entity* or institution may exclude from the scope of consolidation an institution, financial institution or an ancillary services undertaking which is a subsidiary or an undertaking in which a participation is held where the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

   (a) £8.8 million; and

   (b) 1% of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

1A. A *CRR consolidation entity* must notify the *PRA* as soon as possible if it excludes a subsidiary or an undertaking in which it has a participation under paragraph (1).

2. [Note: Provision left blank]

3. Where the total amount of assets and off-balance sheet items of several undertakings in aggregate exceeds the smaller of the two amounts set out in paragraph (1), a *CRR consolidation entity* or institution must include such undertakings in the scope of consolidation insofar as the assets and items of such undertakings collectively exceed that amount.

[Note: Paragraphs 1 and 3 of this rule correspond to paragraphs 1 and 3 of Article 19 of the *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 23 UNDERTAKINGS IN THIRD COUNTRIES**

For the purposes of applying supervision on a *consolidated basis* in accordance with this Chapter 2, the terms 'investment firm', 'credit institution', 'financial institution', and 'institution' shall also include within the scope of consolidation undertakings established in third countries which, were they established in the *United Kingdom*, would fulfil the definitions of those terms in Article 4 of *CRR*.

[Note: This rule corresponds to Article 23 of the *CRR* as it applied immediately before revocation by the *Treasury*]

**Article 24 VALUATION OF ASSETS AND OFF-BALANCE SHEET ITEMS**

The valuation of assets and off-balance sheet items must be effected in accordance with the applicable accounting framework.

[Note: This rule corresponds to Article 24 of the *CRR* as it applied immediately before revocation by the *Treasury*]

**Annex C**

**Amendments to the Securitisation (CRR) Part**

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

**Part**

# SECURITISATION (CRR)

**Chapter content**


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2. LEVEL OF APPLICATION
3. SECURITISATION (CRR) PART

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**ARTICLE 270F SECURITISATION ECAI MAPPING**

**APPENDIX 1**

## 1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

*clean-up call option*

means a contractual option that entitles the *originator* to call the *securitisation positions* before all of the securitised exposures have been repaid, either by repurchasing the underlying exposures remaining in the pool in the case of *traditional securitisations* or by terminating the credit protection in the case of *synthetic securitisations*, in both cases when the amount of outstanding underlying exposures falls to or below certain pre-specified levels.

[Note: This rule corresponds to Article 242(1) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*credit-enhancing interest-only strip*

means an on-balance sheet asset that represents a valuation of cash flows related to future margin income and is a subordinated *tranche* in the *securitisation*.

[Note: This rule corresponds to Article 242(2) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*due diligence rules*

means the due diligence rules in either Article 5 of Chapter 2 or Chapter 3 of the Securitisation Part.

[Note: This rule corresponds to Article 14(3) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*early amortisation provision*

means a contractual clause in a *securitisation* of *revolving exposures* or a *revolving securitisation*, as defined in the Securitisation Part, which requires, on the occurrence of defined events, *investors' securitisation positions* to be redeemed before the originally stated maturity of those positions.

[Note: This rule corresponds to Article 242(16) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*investor*

means a person holding a *securitisation position*.

*IRB pool*

means a pool of underlying exposures of a type in relation to which the institution has permission from the *PRA* to use the *IRB Approach* and is able to calculate risk-weighted exposure amounts in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part for all of these exposures.

[Note: This rule corresponds to Article 242(7) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*liquidity facility*

means the *securitisation position* arising from a contractual agreement to provide funding to ensure timeliness of cash flows to *investors*.

[Note: This rule corresponds to Article 242(3) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*mezzanine securitisation position*

means a position in the *securitisation* which is subordinated to the *senior securitisation position* and more senior than the *first loss tranche*, and which is subject to a risk weight lower than 1250% and higher than 25% in accordance with Articles 254 to 266.

[Note: This rule corresponds to Article 242(18) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*mixed pool*

means a pool of underlying exposures of a type in relation to which the institution has permission from the *PRA* to use the *IRB Approach* and is able to calculate risk-weighted exposure amounts in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part for some, but not all, of the exposures.

[Note: This rule corresponds to Article 242(8) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*overcollateralisation*

means any form of credit enhancement by virtue of which underlying exposures are posted in value which is higher than the value of the *securitisation positions*.

[Note: This rule corresponds to Article 242(9) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*promotional entity*

means any undertaking or entity:

(a) which is established by a government department or devolved administration or by a local authority in any part of the *United Kingdom* ('the establishing body');

(b) which grants promotional loans or guarantees;

(c) whose primary goal is not to make profit or maximise market share, but is to promote public policy objectives of the establishing body; and

(d) in relation to which:

(i) the establishing body is obliged to protect its economic basis and maintain its viability throughout its lifetime; or

(ii) at least 90% of its original capital or funding or the promotional loan it grants is directly or indirectly guaranteed by a government department, a devolved administration or a local authority in any part of the *United Kingdom*.

[Note: This rule corresponds to Article 242(19) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*qualifying securitisation*

means a *synthetic securitisation* where:

(a) the underlying exposure consists of a single *regulatory residential real estate exposure* that is not materially dependent on the cash flows generated by the property in accordance with Article 124E of the Credit Risk: Standardised Approach (CRR) Part;

(b) the *securitisation* arises only by reason of the tranched transfer of risk at the level of the underlying exposure; and

(c) all credit protection at the level of the underlying exposure has the same maturity date.

*rated position*

means a *securitisation position* which has an eligible credit assessment in accordance with Articles 270B, 270C, 270D and 270F.

[Note: This rule corresponds to Article 242(5) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*revolving exposure*

means an exposure whereby borrowers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.

[Note: This rule corresponds to Article 242(15) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*SEC-ERBA*

means the *securitisation* external ratings based approach under Articles 263 and 264.

*SEC-IRBA*

means the *securitisation* internal ratings based approach under Articles 258 to 260A.

*SEC-SA*

means the *securitisation* standardised approach under Articles 261 to 262A.

*senior securitisation position*

means a position backed or secured by a first claim on the whole of the underlying exposures, disregarding for these purposes amounts due under interest rate or currency derivative contracts, fees or other similar payments, and irrespective of any difference in maturity with one or more other senior *tranches* with which that position shares losses on a pro-rata basis.

[Note: This rule corresponds to Article 242(6) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*simple, transparent and standardised securitisation* or *STS securitisation*

means:

(a) an STS securitisation as defined in regulation 9 of the Securitisation Regulations 2024;

(b) an overseas STS securitisation as defined in regulation 12(2) of the Securitisation Regulations 2024; or

(c) a qualifying EU securitisation as defined in regulation 12(3) of the Securitisation Regulations 2024.

[Note: This rule corresponds to Article 242(10) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*unrated position*

means a *securitisation position* which does not have an eligible credit assessment in accordance with Articles 270B, 270C, 270D and 270F.

[Note: This rule corresponds to Article 242(4) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

## 2 LEVEL OF APPLICATION

2.1 A *firm* must comply with this Part on an *individual basis*.

2.2 A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

2.3 A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis* as set out in that requirement.

2.4 Parent undertakings and their subsidiaries that are subject to the *PRA's* rules for *CRR firms* must ensure that the arrangements, processes and mechanisms required to ensure compliance with the *due diligence rules* are consistent and well-integrated, and that any data and information relevant to the purpose of supervision can be produced, across the *consolidation group* or *sub-consolidation group*. In particular, they shall ensure that subsidiaries that are not subject to the *PRA's* rules for *CRR firms* implement arrangements, processes and mechanisms to ensure compliance with those provisions.

## 3 SECURITISATION (CRR) PART

## SECTION 1 CRITERIA FOR SIMPLE, TRANSPARENT AND STANDARDISED SECURITISATIONS

### Article 242 DEFINITIONS

[Note: Provision left blank]

### Article 243 CRITERIA FOR STS SECURITISATIONS QUALIFYING FOR DIFFERENTIATED CAPITAL TREATMENT

1. Positions in an *ABCP programme* or *ABCP transaction* that qualify as positions in an *STS securitisation* shall be eligible for the treatment set out in Articles 260, 262 and 264 where the following requirements are met:

   (a) the underlying exposures meet, at the time of their inclusion in the *ABCP programme*, to the best knowledge of the *originator* or the *original lender*, the conditions for being assigned, under either the *Standardised Approach* taking into account any eligible credit risk mitigation, or, where relevant and applicable, paragraph 10 of Article 255, a risk weight equal to or smaller than 75% on an individual exposure basis where the exposure is a *regulatory retail exposure* or 100% for any other exposures; and

   (b) the aggregate exposure value of all exposures to a single obligor at *ABCP programme* level does not exceed 2% of the aggregate exposure value of all exposures within the *ABCP programme* at the time the exposures were added to the *ABCP programme*. For the purposes of this calculation, loans or leases to a group of connected clients, to the best knowledge of the *sponsor*, shall be considered as exposures to a single obligor.

   In the case of trade receivables, point (b) of the first subparagraph shall not apply where the credit risk of those trade receivables is fully covered by eligible credit protection in accordance with the Credit Risk Mitigation (CRR) Part, provided that in that case the protection provider is

an institution, an investment firm, an insurance undertaking or a reinsurance undertaking. For the purposes of this subparagraph, only the portion of the trade receivables remaining after taking into account the effect of any purchase price discount and *overcollateralisation* shall be used to determine whether they are fully covered and whether the concentration limit is met.

In the case of securitised residual value of leased assets, point (b) of the first subparagraph shall not apply where those values are not exposed to refinancing or resell risk due to a legally enforceable *commitment* to repurchase or refinance the exposure at a pre-determined amount by a third party eligible under Article 201(1) of the Credit Risk Mitigation (CRR) Part.

By way of derogation from point (a) of the first subparagraph, where an institution applies Article 248(3) or is permitted to apply the Internal Assessment Approach in accordance with Article 265, the risk weight that institution would assign to a *liquidity facility* that completely covers the ABCP issued under the programme is equal to or smaller than 100%.

2. Positions in a *securitisation*, other than an *ABCP programme* or *ABCP transaction*, that qualify as positions in an *STS securitisation*, shall be eligible for the treatment set out in Articles 260, 262 and 264 where the following requirements are met:

(a) at the time of inclusion in the *securitisation*, the aggregate exposure value of all exposures to a single obligor in the pool does not exceed 2% of the exposure values of the aggregate outstanding exposure values of the pool of underlying exposures. For the purposes of this calculation, loans or leases to a group of connected clients shall be considered as exposures to a single obligor. In the case of securitised residual value of leased assets, the first subparagraph of this point shall not apply where those values are not exposed to refinancing or resell risk due to a legally enforceable *commitment* to repurchase or refinance the exposure at a pre-determined amount by a third party eligible under Article 201(1) of the Credit Risk Mitigation (CRR) Part;

(b) at the time of their inclusion in the *securitisation*, the underlying exposures meet the conditions for being assigned, under either the *Standardised Approach* taking into account any eligible credit risk mitigation, or, where relevant and applicable, paragraph 10 of Article 255, a risk weight equal to or smaller than:

(i) 40% on an exposure value-weighted average basis for the portfolio where each exposure is a *regulatory residential real estate exposure*;

(ii) 50% on an individual exposure basis where the exposure is any of the following:

(1) a *residential real estate exposure* that is not a regulatory real estate exposure as defined in the Credit Risk: Standardised Approach (CRR) Part;

(2) a mixed real estate exposure as defined in the Credit Risk: Standardised Approach (CRR) Part;

(iii) 60% on an individual exposure basis where the exposure is a commercial real estate exposure as defined in the Credit Risk: Standardised Approach (CRR) Part;

(iv) 75% on an individual exposure basis where the exposure is a *regulatory retail exposure*;

(v) for any other exposures, 100% on an individual exposure basis;

(c) where points (b)(i) to (b)(iii) apply, the loans secured by lower ranking security rights on a given asset shall only be included in the *securitisation* where all loans secured by prior ranking security rights on that asset are also included in the *securitisation*;

(d) where point (b)(i) of this paragraph applies, no loan in the pool of underlying exposures shall have a loan-to-value ratio higher than 100%, at the time of inclusion in the *securitisation*, measured in a manner that is consistent with the relevant provisions in

Article 129(1)(d) of the Credit Risk: Standardised Approach (CRR) Part and, subject to the exclusions in Article 129(3)(b) of the Credit Risk: Standardised Approach (CRR) Part, Article 229(1) of the Credit Risk Mitigation (CRR) Part.

[Note: This rule corresponds to Article 243 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

## SECTION 2 RECOGNITION OF SIGNIFICANT RISK TRANSFER

### Article 244 TRADITIONAL SECURITISATION

1. The *originator* institution of a *traditional securitisation* may exclude underlying exposures from its calculation of risk-weighted exposure amounts and, where relevant, expected loss amounts if either of the following conditions is fulfilled:

   (a) significant credit risk associated with the underlying exposures has been transferred to third parties;

   (b) the *originator* institution applies a 1250% risk weight to all *securitisation positions* or deducts these *securitisation positions* from Common Equity Tier 1 items in accordance with Article 36(1)(k) of the Own Funds (CRR) Part.

2. Significant credit risk shall be considered as transferred in either of the following cases provided the possible reduction in risk-weighted exposure amounts is justified by a commensurate transfer of credit risk to third parties:

   (a) the risk-weighted exposure amounts of the *mezzanine securitisation positions* held by the *originator* institution in the *securitisation* do not exceed 50% of the risk-weighted exposure amounts of all *mezzanine securitisation positions* existing in this *securitisation*;

   (b) the *originator* institution does not hold more than 20% of the exposure value of the *first loss tranche* in the *securitisation*, provided that both of the following conditions are met:

      (i) the *originator* can demonstrate that the exposure value of the *first loss tranche* exceeds a reasoned estimate of the expected loss on the underlying exposures by a substantial margin;

      (ii) there are no *mezzanine securitisation positions*.

3. By way of derogation from paragraph 2:

   (a) an *originator* institution may recognise significant credit risk transfer in relation to a *securitisation* where it has received the prior *138BA permission* of the *PRA*.

   (b) an *originator* institution shall not recognise significant credit risk transfer where the *PRA* has imposed a requirement on the *originator* institution to preclude this under section 55M of *FSMA* or issued a direction under section 192C of *FSMA* to preclude this.

4. The following additional conditions shall be met by an *originator* institution:

   (a) the transaction documentation reflects the economic substance of the *securitisation*;

   (b) the *securitisation positions* do not constitute payment obligations of the *originator* institution;

   (c) the underlying exposures are placed beyond the reach of the *originator* institution and its creditors in a manner that meets the requirement set out in SECN 2.2.2R of the *FCA Handbook*, as it has effect from time to time;

   (d) the *originator* institution does not retain control over the underlying exposures. It shall be considered that control is retained over the underlying exposures where the *originator* has

the right to repurchase from the transferee the previously transferred exposures in order to realise their benefits or if it is otherwise required to re-assume transferred risk. The *originator* institution's retention of servicing rights or obligations in respect of the underlying exposures shall not of itself constitute control of the exposure;

(e) the *securitisation* documentation does not contain terms or conditions that:

(i) require the *originator* institution to alter the underlying exposures to improve the average quality of the pool; or

(ii) increase the yield payable to holders of positions or otherwise enhance the positions in the *securitisation* in response to a deterioration in the credit quality of the underlying exposures;

(f) where applicable, the transaction documentation makes it clear that the *originator* or the *sponsor* may only purchase or repurchase *securitisation positions* or repurchase, restructure or substitute the underlying exposures beyond their contractual obligations where such arrangements are executed in accordance with prevailing market conditions and the parties to them act in their own interest as free and independent parties (arm's length);

(g) where there is a *clean-up call option*, that option shall also meet all of the following conditions:

(i) it can be exercised at the discretion of the *originator* institution;

(ii) it may only be exercised when 10% or less of the original value of the underlying exposures remains unamortised;

(iii) it is not structured to avoid allocating losses to credit enhancement positions or other positions held by *investors* in the *securitisation* and is not otherwise structured to provide credit enhancement;

(h) the *originator* institution has received an opinion from a qualified legal counsel confirming that the *securitisation* complies with the conditions set out in point (c) of this paragraph.

[Note: This rule corresponds to Article 244 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 245 SYNTHETIC SECURITISATION**

1. The *originator* institution of a *synthetic securitisation* may calculate risk-weighted exposure amounts, and, where relevant, expected loss amounts with respect to the underlying exposures in accordance with Articles 251 and 252, where one of the following conditions is met:

(a) significant credit risk has been transferred to third parties either through funded or unfunded credit protection;

(b) the *originator* institution applies a 1250% risk weight to all *securitisation positions* that it retains in the *securitisation* or deducts these *securitisation* positions from Common Equity Tier 1 items in accordance with Article 36(1)(k) of the Own Funds (CRR) Part;

(c) the *securitisation* is a *qualifying securitisation* and any of the following conditions is met:

(i) the underlying *regulatory residential real estate exposure* is not an exposure in relation to which the *originator* institution has permission from the *PRA* to use the *IRB Approach* or the *originator* institution is not able to calculate risk-weighted exposure amounts for the underlying exposure in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part;

(ii) the *originator* institution holds the entirety of all *tranches* in the *qualifying securitisation* for which $5 * A + D > 1$, where A and D are as specified in Article 256; or

(iii) there are two *tranches* in the *qualifying securitisation* and the *originator* institution holds the entirety of the senior *tranche*.

2. Significant credit risk shall be considered transferred in either of the following cases provided the possible reduction in risk-weighted exposure amounts is justified by a commensurate transfer of credit risk to third parties:

(a) the risk-weighted exposure amounts of the *mezzanine securitisation positions* held by the *originator* institution in the *securitisation* do not exceed 50% of the risk-weighted exposure amounts of all *mezzanine securitisation positions* existing in this securitisation;

(b) the *originator* institution does not hold more than 20% of the exposure value of the *first loss tranche* in the *securitisation*, provided that both of the following conditions are met:

(i) the *originator* can demonstrate that the exposure value of the *first loss tranche* exceeds a reasoned estimate of the expected loss on the underlying exposures by a substantial margin;

(ii) there are no *mezzanine securitisation positions*.

3. By way of derogation from paragraph 2:

(a) an *originator* institution may recognise significant credit risk transfer in relation to a *securitisation* where it has received the prior *138BA permission* of the *PRA*.

(b) an *originator* institution shall not recognise significant credit risk transfer where the *PRA* has imposed a requirement on the *originator* institution to preclude this under section 55M of *FSMA* or issued a direction under section 192C of *FSMA* to preclude this.

4. The following additional conditions shall be met by the *originator* institution:

(a) the transaction documentation reflects the economic substance of the *securitisation*;

(b) the credit protection by virtue of which credit risk is transferred complies with Article 249;

(c) the *securitisation* documentation does not contain terms or conditions that:

(i) impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;

(ii) allow for the termination of the protection due to deterioration of the credit quality of the underlying exposures;

(iii) require the *originator* institution to alter the composition of the underlying exposures to improve the average quality of the pool; or

(iv) increase the institution's cost of credit protection or the yield payable to holders of positions in the *securitisation* in response to a deterioration in the credit quality of the underlying pool;

(d) the credit protection is enforceable in all relevant jurisdictions;

(e) where applicable, the transaction documentation makes it clear that the *originator* or the *sponsor* may only purchase or repurchase *securitisation positions* or repurchase, restructure or substitute the underlying exposures beyond their contractual obligations where such arrangements are executed in accordance with prevailing market conditions and the parties to them act in their own interest as free and independent parties (arm's length);

(f) where there is a *clean-up call option*, that option meets all the following conditions:

(i) it may be exercised at the discretion of the *originator* institution;

(ii) it may only be exercised when 10% or less of the original value of the underlying exposures remains unamortised;

(iii) it is not structured to avoid allocating losses to credit enhancement positions or other positions held by *investors* in the *securitisation* and is not otherwise structured to provide credit enhancement;

(g) the *originator* institution has received an opinion from a qualified legal counsel confirming that the *securitisation* complies with the conditions set out in point (d) of this paragraph.

[Note: This rule corresponds to Article 245 of *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 245A NOTIFICATION OF SIGNIFICANT RISK TRANSFER**

1. An institution must notify the *PRA* that it is relying on the deemed transfer of significant credit risk under paragraph (2) of Article 244 or paragraph (2) of Article 245, including when this is for the purposes of Article 337(5) of the Market Risk: Simplified Standardised Approach (CRR) Part, no later than one *month* after the date of transfer.

2. The notification in paragraph (1) must include sufficient information to allow the *PRA* to assess whether the possible reduction in risk-weighted exposure amounts which would be achieved by the *securitisation* is justified by a commensurate transfer of credit risk to third parties.

**Article 246 OPERATIONAL REQUIREMENTS FOR EARLY AMORTISATION PROVISIONS**

Where the *securitisation* includes *revolving exposures* and *early amortisation provisions* or similar provisions, significant credit risk shall only be considered transferred by the *originator* institution where the requirements laid down in Articles 244 and 245 are met and the *early amortisation provision*, once triggered, does not:

(a) subordinate the institution's senior or pari passu claim on the underlying exposures to the other *investors'* claims;

(b) subordinate further the institution's claim on the underlying exposures relative to other parties' claims; or

(c) otherwise increase the institution's exposure to losses associated with the underlying *revolving exposures*.

[Note: This rule corresponds to Article 246 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**SECTION 3 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS**

**SUB-SECTION 1 GENERAL PROVISIONS**

**Article 247 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS**

1. Where one of the conditions in Article 244(1) or Article 245(1) is met, an *originator* institution may:

(a) in the case of a *traditional securitisation*, exclude the underlying exposures from its calculation of risk-weighted exposure amounts, and, as relevant, expected loss amounts;

(b) in the case of a *synthetic securitisation*, calculate risk-weighted exposure amounts, and, where relevant, expected loss amounts, with respect to the underlying exposures in accordance with Articles 251 and 252.

2. Where the *originator* institution has decided to apply paragraph 1, it shall calculate the risk-weighted exposure amounts as set out in this Part for the positions that it may hold in the *securitisation*. Where none of the conditions in Article 244(1) or Article 245(1) are met, or where the institution has decided not to apply paragraph 1, it shall not be required to calculate risk-weighted exposure amounts for any position it may have in the *securitisation* but shall continue including the underlying exposures in its calculation of risk-weighted exposure amounts and, where relevant, expected loss amounts as if they had not been securitised.

3. Where there is an exposure to positions in different *tranches* in a securitisation, the exposure to each *tranche* shall be considered a separate *securitisation position*. The providers of credit protection to *securitisation positions* shall be considered as holding positions in the *securitisation*. *Securitisation positions* shall include exposures to a *securitisation* arising from interest rate or currency derivative contracts that the institution has entered into with the transaction.

4. Unless a *securitisation position* is deducted from Common Equity Tier 1 items pursuant to Article 36(1)(k) of the Own Funds (CRR) Part, the risk-weighted exposure amount shall be included in the institution's total of risk-weighted exposure amounts for the purposes of Article 92(3) of the Required Level of Own Funds (CRR) Part.

5. The risk-weighted exposure amount of a *securitisation* position shall be calculated by multiplying the exposure value of the position, calculated as set out in Article 248, by the relevant total risk weight.

6. The total risk weight shall be determined as the sum of the risk weight set out in this Part.

[Note: This rule corresponds to Article 247 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 248 EXPOSURE VALUE**

1. The exposure value of a *securitisation position* shall be calculated as follows:

(a) the exposure value of an on-balance sheet *securitisation position* shall be its accounting value remaining after any relevant specific credit risk adjustments on the *securitisation position* have been applied in accordance with Article 110 of the Credit Risk: General Provisions (CRR) Part and Commission Delegated Regulation (EU) No 183/2014;

(b) the exposure value of an off-balance sheet *securitisation position* shall be its nominal value less any relevant specific credit risk adjustments on the *securitisation position* in accordance with Article 110 of the Credit Risk: General Provisions (CRR) Part and Commission Delegated Regulation (EU) No 183/2014, multiplied by the relevant *conversion factor* as set out in this point. The *conversion factor* shall be 100%, except in the case of cash advance facilities. To determine the exposure value of the undrawn portion of the cash advance facilities, a *conversion factor* of 10% may be applied to the nominal amount of a *liquidity facility* that is unconditionally cancellable provided that repayment of draws on the facility are senior to any other claims on the cash flows arising from the underlying exposures;

(c) the exposure value for the counterparty credit risk of a *securitisation position* that results from a derivative instrument listed in Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, shall be determined in accordance with the Counterparty Credit Risk (CRR) Part;

(d) an *originator* institution may deduct from the exposure value of a *securitisation position* which is assigned a 1250% risk weight in accordance with Articles 247 to 270A or deducted from Common Equity Tier 1 in accordance with Article 36(1)(k) of the Own Funds (CRR) Part, the amount of the specific credit risk adjustments on the underlying exposures in accordance with Article 110 of the Credit Risk: General Provisions (CRR) Part and Commission Delegated Regulation (EU) No 183/2014, and any non-refundable purchase price discounts connected with such underlying exposures to the extent that such discounts have caused the reduction of own funds.

2. Where an institution has two or more overlapping positions in a *securitisation*, it shall include only one of the positions in its calculation of risk-weighted exposure amounts.

Where the positions partially overlap, the institution may split the position into two parts and recognise the overlap in relation to one part only in accordance with the first subparagraph. Alternatively, the institution may treat the positions as if they were fully overlapping by expanding for capital calculation purposes the position that produces the higher risk-weighted exposure amounts.

The institution may also recognise an overlap between the specific risk own funds requirements for positions in the trading book and the own funds requirements for *securitisation positions* in the non-trading book, provided that the institution is able to calculate and compare the own funds requirements for the relevant positions.

For the purposes of this paragraph, two positions shall be deemed to be overlapping where they are mutually offsetting in such a manner that the institution is able to preclude the losses arising from one position by performing the obligations required under the other position.

3. Where point (d) of Article 270C applies to positions in an ABCP, the institution may use the risk weight assigned to a *liquidity facility* in order to calculate the risk-weighted exposure amount for the ABCP, provided that the *liquidity facility* covers 100% of the ABCP issued by the *ABCP programme* and the *liquidity facility* ranks pari passu with the ABCP in a manner that they form an overlapping position. The institution shall notify the *PRA* where it has applied the provisions laid down in this paragraph. For the purposes of determining the 100% coverage set out in this paragraph, the institution may take into account other liquidity facilities in the *ABCP programme*, provided that they form an overlapping position with the ABCP.

[Note: This rule corresponds to Article 248 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 249 RECOGNITION OF CREDIT RISK MITIGATION FOR SECURITISATION POSITIONS**

1. An institution may recognise funded or unfunded credit protection with respect to a *securitisation position* (including any credit protection that applies to a *tranche* of a *qualifying securitisation*) where the requirements for credit risk mitigation laid down in this Part are met.

2. Eligible credit protection shall be limited to the following:

(a) in the case of eligible funded credit protection, financial collateral which is eligible for the calculation of risk-weighted exposure amounts under the applicable method in the Credit Risk Mitigation (CRR) Part;

(b) in the case of eligible unfunded credit protection and eligible unfunded credit protection providers, unfunded credit protection and unfunded credit protection providers which are eligible, respectively, in accordance with the applicable method in the Credit Risk Mitigation (CRR) Part.

3. In addition to the requirements in point (b) of paragraph 2, the eligible providers of unfunded credit protection listed in points (a) to (h) of Article 201(1) of the Credit Risk Mitigation (CRR) Part (including where they provide a counter-guarantee or a guarantee of a counter-guarantee in accordance with Article 214 of the Credit Risk Mitigation (CRR) Part) shall have been assigned a credit assessment by an ECAI that has been nominated in accordance with Article 138 of the Credit Risk: Standardised Approach (CRR) Part which is credit quality step 2 or above as mapped in Article 136A of the Credit Risk: Standardised Approach (CRR) Part at the time the credit protection was first recognised and credit quality step 3 or above as mapped in Article 136A of the Credit Risk: Standardised Approach (CRR) Part thereafter. The requirement set out in this subparagraph shall not apply to:

   (a) qualifying central counterparties;

   (b) the *UK* government;

   (c) the *Bank of England*;

   (d) an entity listed in Credit Risk: Standardised Approach (CRR) Part Article 114(3), 115(2), 117(2) or 118(1).

   Institutions applying the *Parameter Substitution Method* to a direct exposure to the protection provider may assess eligibility in accordance with the first subparagraph based on the equivalence of the *PD* for the protection provider to the *PD* associated with the credit quality steps referred to in Commission Implementing Regulation (EU) 2016/1799 as it applied immediately before revocation by the *Treasury*.

3AA. For the purposes of paragraph 3, where a credit assessment by an ECAI that has been nominated in accordance with Article 138 of the Credit Risk: Standardised Approach (CRR) Part is not available for an exposure to an eligible provider of unfunded credit protection listed in points (a), (b) or (e) of Article 201(1) of the Credit Risk Mitigation (CRR) Part, an institution may assign to such an exposure the credit assessment for the central government of the jurisdiction of the protection provider, where a credit assessment by an ECAI that has been nominated in accordance with Article 138 of the Credit Risk: Standardised Approach (CRR) Part is available for that central government.

3A. Where an institution takes into account eligible credit protection for a *securitisation position*, other than as provided for in point (c) of Article 248(1), the effect of the credit protection shall be determined as follows:

   (a) where an institution takes into account eligible unfunded credit protection not covered by eligible funded credit protection for a *securitisation position*, then the effect of the credit protection shall be determined in accordance with Appendix 1 Part Two and paragraphs 3B to 3C;

   (b) where an institution takes into account eligible funded credit protection for a *securitisation position*, other than where the funded credit protection covers unfunded credit protection, then the effect of the credit protection shall be determined in accordance with the decision tree in Appendix 1 Part Three and paragraphs 3E to 3G;

   (c) where an institution takes into account credit protection that consists of unfunded credit protection covered by eligible funded credit protection for a *securitisation position*, then when determining how the protection is taken into account the institution shall apply the decision tree in Appendix 1 Part One.

3B. Where the *Risk-Weight Substitution Method* is used to determine the effect of the credit risk protection, the following modifications shall apply to the application of Article 235 of the Credit Risk Mitigation (CRR) Part:

(a) the exposure value ($E$) shall be determined in accordance with Article 248 except that the *conversion factor* for cash advance facilities shall be 100%;

(b) the risk-weight of the exposure ($r_n$) shall be the risk-weight of the *tranche* as if there were no unfunded credit protection, determined in accordance with this Part;

(c) maturity mismatch shall be accounted for in accordance with paragraph 3H; and

(d) Article 235(1A) of the Credit Risk Mitigation (CRR) Part shall not apply.

3C. Where the *Parameter Substitution Method* is used to determine the effect of the credit risk protection, the following modifications shall apply to the application of Article 236 of the Credit Risk Mitigation (CRR) Part:

(a) the exposure value ($E$) shall be determined in accordance with Article 248 except that the conversion factor for cash advance facilities shall be 100%;

(b) the risk-weight of the exposure ($r_n$) shall be the risk-weight of the *tranche* as if there were no unfunded credit protection, determined in accordance with this Part;

(c) the *LGD* of the exposure shall be 100% calculated as if there was no credit protection ($LGD$), except as provided for in Article 260A;

(d) the maturity of the exposure (M) shall be the maturity of the *tranche* determined in accordance with Article 257;

(e) maturity mismatch shall be accounted for in accordance with paragraph 3H;

(f) Article 236(1A) of the Credit Risk Mitigation (CRR) Part shall not apply; and

(g) the risk weight for the covered part ($r_g$) shall be increased by $12.5 * PD * LGD$, where $PD$ and $LGD$ are as defined for the purposes of calculating ($r_g$) in point (a) of Article 236(1) of the Credit Risk Mitigation (CRR) Part.

3D. Where, in accordance with point (c) of paragraph 3A, the institution takes into account funded credit protection:

(a) the maturity and currency mismatch adjustments for the funded credit protection shall be determined by comparing the funded credit protection to the unfunded credit protection;

(b) the value of any recognised funded credit protection (after applying any applicable haircuts) shall be capped at the value of the unfunded credit protection as determined under Article 233 of the Credit Risk Mitigation (CRR) Part, further adjusted for any maturity mismatch in accordance with paragraph 3H; and

(c) where the institution has not taken into account the unfunded credit protection, the decision tree in Appendix 1 Part Three and paragraphs 3E to 3G shall apply.

3E. Where, for the purpose of point (b) of paragraph 3A or point (c) of paragraph 3D, the *Financial Collateral Simple Method* is used to determine the effect of the credit risk protection, the following modifications shall apply to the application of Article 222 of the Credit Risk Mitigation (CRR) Part:

(a) the exposure value ($E$) shall be determined in accordance with Article 248 except that the *conversion factor* for cash advance facilities shall be 100%;

(b) the maturity mismatch shall be accounted for in accordance with paragraph 3H and if there is any maturity mismatch then the funded credit protection shall not be recognised; and

(c) in Article 222(3) of the Credit Risk Mitigation (CRR) Part, the institution shall instead apply to the remainder of the exposure value the risk-weight of the *tranche* as if there were no funded credit protection.

3F. Where, for the purpose of point (b) of paragraph 3A or point (c) of paragraph 3D, the *Financial Collateral Comprehensive Method* is used to determine the effect of the credit risk protection, the following modifications shall apply to the application of Article 223 of the Credit Risk Mitigation (CRR) Part:

(a) the exposure value ($E$) shall be determined in accordance with Article 248 except that the *conversion factor* for cash advance facilities shall be 100%;

(b) maturity mismatch shall be accounted for in accordance with paragraph 3H; and

(c) when calculating the risk-weighted exposure amount, the institution shall multiply the adjusted value of the exposure ($E^*$) by the risk-weight of the *tranche* as if there were no funded credit protection, determined in accordance with this Part.

3G. An institution that chooses to use the *Financial Collateral Simple Method* in respect of exposures for which it calculates risk-weighted exposure amounts using *SEC-SA* or *SEC-ERBA* shall not use the *Financial Collateral Comprehensive Method* in respect of any such exposures, or any exposures for which it calculates risk-weighted exposure amounts using the *Standardised Approach.*

3H. The effect of maturity mismatch shall be determined as follows:

(a) for the purpose of point (b) of paragraph 3D, Articles 237 to 239 of the Credit Risk Mitigation (CRR) Part shall apply;

(b) otherwise, where Article 251 is applicable, then Article 252 shall determine the effect of maturity mismatch;

(c) otherwise, Articles 237 to 239 of the Credit Risk Mitigation (CRR) Part shall apply and for this purpose the maturity of the exposure shall be the longest maturity of any of the underlying exposures of the *securitisation position*, subject to a maximum of five years.

4. [Note: Provision left blank]

5. [Note: Provision left blank]

6. Where a *securitisation position* benefits from full credit protection or a partial credit protection on a pro-rata basis, the following requirements shall apply:

(a) an institution providing credit protection shall calculate risk-weighted exposure amounts for the portion of the *securitisation position* benefiting from credit protection in accordance with Articles 258 to 266 as if it held that portion of the position directly;

(b) an institution buying credit protection shall calculate risk-weighted exposure amounts in accordance with this Article for the protected portion.

7. In all cases not covered by paragraph 6 where a *securitisation position* benefits from credit protection, the following requirements shall apply:

(a) an institution providing credit protection shall treat the portion of the position benefiting from credit protection as a *securitisation position* and shall calculate risk-weighted exposure amounts as if it held that position directly in accordance with Articles 258 to 266, subject to paragraphs 8, 9 and 10;

(b) an institution buying credit protection shall calculate risk-weighted exposure amounts for the protected portion of the position referred to in point (a) in accordance with this Article. The institution shall treat the portion of the *securitisation position* not benefiting from credit protection as a separate *securitisation position* and shall calculate risk-weighted exposure amounts in accordance with Articles 258 to 266, subject to paragraphs 8, 9 and 10.

8. Institutions using the *SEC-IRBA* or the *SEC-SA* under Articles 258 to 266 shall determine the attachment point (A) and detachment point (D) separately for each of the positions derived in

accordance with paragraph 7 as if these had been issued as separate *securitisation positions* at the time of origination of the transaction. The value of $K_{IRB}$ or $K_{SA}$, respectively, shall be calculated taking into account the original pool of exposures underlying the *securitisation*.

9. Institutions using the *SEC-ERBA* under Articles 258 to 266 for the original *securitisation position* shall calculate risk-weighted exposure amounts for the positions derived in accordance with paragraph 7 as follows:

   (a) where the derived position has the higher seniority, it shall be assigned the risk weight of the original *securitisation position*;

   (b) where the derived position has the lower seniority, it may be assigned an inferred rating in accordance with Article 263(7). In that case, thickness input T shall only be computed on the basis of the derived position. Where a rating may not be inferred, the institution shall apply the higher of the risk weights resulting from either:

      (i) applying the *SEC-SA* in accordance with paragraph 8 and Articles 258 to 266; or

      (ii) the risk weight of the original *securitisation position* under the *SEC-ERBA*.

10. The derived position with the lower seniority shall be treated as a non-senior *securitisation position* even if the original *securitisation position* prior to protection qualifies as senior.

[Note: Paragraphs (1) to (3) and (6) to (10) of this rule correspond to Article 249(1) to (3) and (6) to (10) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 250 IMPLICIT SUPPORT**

1. A *sponsor* institution, or an *originator* institution which in respect of a *securitisation* has made use of Article 247(1) and (2) in the calculation of risk-weighted exposure amounts or has sold instruments from its trading book to the effect that it is no longer required to hold own funds for the risks of those instruments shall not provide support, directly or indirectly, to the *securitisation* beyond its contractual obligations with a view to reducing potential or actual losses to *investors*.

2. A transaction shall not be considered as support for the purposes of paragraph 1 where the transaction has been duly taken into account in the assessment of significant credit risk transfer and both parties have executed the transaction acting in their own interest as free and independent parties (arm's length). For these purposes, the institution shall undertake a full credit review of the transaction and, at a minimum, take into account all of the following items:

   (a) the repurchase price;

   (b) the institution's capital and liquidity position before and after repurchase;

   (c) the performance of the underlying exposures;

   (d) the performance of the *securitisation positions*;

   (e) the impact of support on the losses expected to be incurred by the *originator* relative to *investors*.

3. The *originator* institution and the *sponsor* institution shall notify the *PRA* of any transaction entered into in relation to the *securitisation* in accordance with paragraph 2.

4. [Note: provision left blank]

5. If an *originator* institution or a *sponsor* institution fails to comply with paragraph 1 in respect of a *securitisation*, the institution shall include all of the underlying exposures of that *securitisation* in its calculation of risk-weighted exposure amounts as if they had not been securitised and disclose:

(a) that it has provided support to the *securitisation* in breach of paragraph 1; and

(b) the impact of the support provided in terms of own funds requirements.

[Note: This rule corresponds to Article 250 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 251 ORIGINATOR INSTITUTION'S CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS SECURITISED IN A SYNTHETIC SECURITISATION**

1. For the purpose of calculating risk-weighted exposure amounts for the underlying exposures, the *originator* institution of a *synthetic securitisation* shall use the calculation methodologies set out in Articles 247 to 270A as applicable instead of those set out in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*. For institutions calculating risk-weighted exposure amounts and, where relevant, expected loss amounts with respect to the underlying exposures under the Credit Risk: Internal Ratings Based Approach (CRR) Part, the expected loss amount in respect of such exposures shall be zero.

2. The requirements set out in paragraph 1 of this Article shall apply to the entire pool of exposures backing the *securitisation*. Subject to Article 252, the *originator* institution shall calculate risk-weighted exposure amounts with respect to all *tranches* in the *securitisation* in accordance with Articles 247 to 270A, including the positions in relation to which the institution is able to recognise credit risk mitigation in accordance with Article 249. The risk weight to be applied to positions which benefit from credit risk mitigation may be amended in accordance with the Credit Risk Mitigation (CRR) Part.

[Note: This rule corresponds to Article 251 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 252 TREATMENT OF MATURITY MISMATCHES IN SYNTHETIC SECURITISATIONS**

1. For the purposes of calculating risk-weighted exposure amounts in accordance with Article 251, any maturity mismatch between the credit protection by which the transfer of risk is achieved and the underlying exposures shall be calculated as follows:

(a) the maturity of the underlying exposures shall be taken to be the longest maturity of any of those exposures subject to a maximum of five years. The maturity of the credit protection shall be determined in accordance with the Credit Risk Mitigation (CRR) Part;

(b) an *originator* institution shall ignore any maturity mismatch in calculating risk-weighted exposure amounts for *securitisation positions* subject to a risk weight of 1250% in accordance with Articles 247 to 270A. For all other positions, the maturity mismatch treatment set out in the Credit Risk Mitigation (CRR) Part shall be applied in accordance with the following formula:

$$\mathrm{RW}^{*} = \mathrm{RW}_{\mathrm{SP}*}\left[\frac{\mathrm{t} - \mathrm{t}^{*}}{\mathrm{T} - \mathrm{t}^{*}}\right] + \mathrm{RW}_{\mathrm{Ass}} * \left[\frac{\mathrm{T} - \mathrm{t}}{\mathrm{T} - \mathrm{t}^{*}}\right]$$

where:

| | |
|---|---|
| $\mathrm{RW}^{*} =$ | risk-weighted exposure amounts for the purposes of Article 92(3) of the Required Level of Own Funds (CRR) Part; |
| $\mathrm{RW}_{\mathrm{Ass}} =$ | risk-weighted exposure amounts for the underlying exposures as if they had not been securitised, calculated on a pro-rata basis; |

| | |
|---|---|
| $RW_{SP}$ = | risk-weighted exposure amounts calculated under Article 251 as if there was no maturity mismatch; |
| T = | maturity of the underlying exposures, expressed in years; |
| t = | maturity of credit protection, expressed in years; |
| $t^*$ = | 0.25 |

[Note: This rule corresponds to Article 252 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 253 REDUCTION IN RISK-WEIGHTED EXPOSURE AMOUNTS**

1. Where a *securitisation position* is assigned a 1250% risk weight under Articles 247 to 270A, an institution may deduct the exposure value of such position from Common Equity Tier 1 capital in accordance with Article 36(1)(k) of the Own Funds (CRR) Part as an alternative to including the position in their calculation of risk-weighted exposure amounts. For that purpose, the calculation of the exposure value may reflect eligible funded credit protection in accordance with Article 249.

2. Where an institution makes use of the alternative set out in paragraph 1, it may subtract the amount deducted in accordance with Article 36(1)(k) of the Own Funds (CRR) Part from the amount specified in Article 268 as maximum capital requirement that would be calculated in respect of the underlying exposures as if they had not been securitised.

[Note: This rule corresponds to Article 253 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**SUB-SECTION 2 HIERARCHY OF METHODS AND COMMON PARAMETERS**

**Article 254 HIERARCHY OF METHODS**

1. Institutions shall use one of the methods set out in Articles 258 to 266 to calculate risk-weighted exposure amounts in accordance with the following hierarchy:

   (a) where the conditions set out in Article 258 are met, an institution shall use the *SEC-IRBA* in accordance with Articles 259 and 260;

   (b) where the *SEC-IRBA* may not be used, an institution shall use the *SEC-SA* in accordance with Articles 261 and 262;

   (c) where the *SEC-SA* may not be used, an institution shall use the *SEC-ERBA* in accordance with Articles 263 and 264 for *rated positions* or positions in respect of which an inferred rating may be used.

2. For *rated positions* or positions in respect of which an inferred rating may be used, an institution shall use the *SEC-ERBA* instead of the *SEC-SA* in each of the following cases:

   (a) where the application of the *SEC-SA* would result in a risk weight higher than 25% for positions qualifying as positions in an *STS securitisation*;

   (b) where the application of the *SEC-SA* would result in a risk weight higher than 25% or the application of the *SEC-ERBA* would result in a risk weight higher than 75% for positions not qualifying as positions in an *STS securitisation*;

(c) for *securitisation* transactions backed by pools of auto loans, auto leases and equipment leases.

3. An institution shall notify the *PRA* of a relevant decision no less than one *month* prior to it coming into effect.

'A relevant decision' is a decision to apply the *SEC-ERBA* instead of the *SEC-SA* to all its rated *securitisation positions* or positions in respect of which an inferred rating may be used.

Any subsequent decision to further change the approach applied to all of its rated *securitisation positions* shall be notified by the institution to the *PRA* no less than one *month* prior to that decision coming into effect.

A decision to use a different approach may only be made once in each 12-*month* period.

4. By way of derogation from paragraph 1, an institution shall not apply the *SEC-SA* where the *PRA* has imposed a requirement under section 55M of *FSMA* or issued a direction under section 192C of *FSMA* to prohibit an institution from doing so.

5. Without prejudice to paragraph 1 of this Article, an institution may apply the Internal Assessment Approach to calculate risk-weighted exposure amounts in relation to an *unrated position* in an *ABCP programme* or *ABCP transaction* in accordance with Article 266, provided that the conditions set out in Article 265 are met. Unless an institution has received the prior *138BA permission* of the *PRA* to apply the Internal Assessment Approach in accordance with Article 265(1), and a specific position in an *ABCP programme* or *ABCP transaction* falls within the scope of application covered by such *138BA permission*, the institution shall not apply that approach to calculate the risk-weighted exposure amount of that position.

6. For a position in a *resecuritisation*, institutions shall apply the *SEC-SA* in accordance with Article 261, with the modifications set out in Article 269.

7. In all other cases, a risk weight of 1250% shall be assigned to *securitisation positions*.

[Note: This rule corresponds to Article 254 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 255 DETERMINATION OF $K_{IRB}$ AND $K_{SA}$**

1. Where an institution applies the *SEC-IRBA* under Articles 258 to 266, the institution shall calculate $K_{IRB}$ in accordance with paragraphs 2 to 5.

2. Institutions shall determine $K_{IRB}$ by multiplying the risk-weighted exposure amounts that would be calculated under the Credit Risk: Internal Ratings Based Approach (CRR) Part in respect of the underlying exposures as if they had not been securitised by 8% divided by the exposure value of the underlying exposures. $K_{IRB}$ shall be expressed in decimal form between zero and one.

3. For $K_{IRB}$ calculation purposes, the risk-weighted exposure amounts that would be calculated under the Credit Risk: Internal Ratings Based Approach (CRR) Part in respect of the underlying exposures shall include:

(a) the amount of expected losses associated with all the underlying exposures of the *securitisation* including defaulted underlying exposures that are still part of the pool in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part; and

(b) the amount of unexpected losses associated with all the underlying exposures including defaulted underlying exposures in the pool in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part.

4. Institutions may calculate $K_{IRB}$ in relation to the underlying exposures of the *securitisation* in accordance with the provisions set out in the Credit Risk: Internal Ratings Based Approach

(CRR) Part for the calculation of capital requirements for purchased receivables. For these purposes, retail exposures as defined in the Credit Risk: Internal Ratings Based Approach (CRR) Part shall be treated as purchased retail receivables and non-retail exposures as purchased corporate receivables.

5. Institutions shall calculate $K_{IRB}$ separately for dilution risk in relation to the underlying exposures of a *securitisation* where dilution risk is material to such exposures.

Where losses from dilution and credit risks are treated in an aggregate manner in the *securitisation*, institutions shall combine the respective $K_{IRB}$ for dilution and credit risk into a single $K_{IRB}$ for the purposes of Articles 258 to 266. The presence of a single reserve fund or *overcollateralisation* available to cover losses from either credit or dilution risk may be regarded as an indication that these risks are treated in an aggregate manner.

Where dilution and credit risk are not treated in an aggregate manner in the *securitisation*, institutions shall modify the treatment set out in the second subparagraph to combine the respective $K_{IRB}$ for dilution and credit risk in a prudent manner.

6. Where an institution applies the *SEC-SA* under Articles 258 to 266, it shall calculate $K_{SA}$ by multiplying the risk-weighted exposure amounts that would be calculated under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* in respect of the underlying exposures as if they had not been securitised by 8% divided by the value of the underlying exposures. $K_{SA}$ shall be expressed in decimal form between zero and one.

For the purposes of this paragraph, institutions shall calculate the exposure value of the underlying exposures without netting any specific credit risk adjustments and additional value adjustments in accordance with Article 34 of the Own Funds (CRR) Part, Article 110 of the Credit Risk: General Provisions (CRR) Part, Commission Delegated Regulation (EU) No 183/2014 and other own funds reductions.

7. For the purposes of paragraphs 1 to 6, where a *securitisation* structure involves the use of an *SSPE*, all the *SSPE's* exposures related to the *securitisation* shall be treated as underlying exposures. Without prejudice to the preceding, the institution may exclude the *SSPE's* exposures from the pool of underlying exposures for $K_{IRB}$ or $K_{SA}$ calculation purposes if the risk from the *SSPE's* exposures is immaterial or if it does not affect the institution's *securitisation position*.

In the case of funded *synthetic securitisations*, any material proceeds from the issuance of credit-linked notes or other funded obligations of the *SSPE* that serve as collateral for the repayment of the *securitisation positions* shall be included in the calculation of $K_{IRB}$ or $K_{SA}$ if the credit risk of the collateral is subject to the tranched loss allocation.

8. [Note: Provision deleted]

9. [Note: Provision left blank]

10. For the purpose of calculating $K_{SA}$, an institution that is not the *originator* institution may replace the risk weight for an underlying exposure that would be applied under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* with one of the following risk weights:

(a) 100%, where the underlying exposure is neither a defaulted exposure as defined in the Credit Risk: Standardised Approach (CRR) Part nor a real estate exposure as defined in the Credit Risk: Standardised Approach (CRR) Part, and is:

(i) a retail exposure as defined in the Credit Risk: Standardised Approach (CRR) Part;

(ii) an exposure to a corporate for which a credit assessment by an ECAI nominated in accordance with Article 138 of the Credit Risk: Standardised Approach (CRR) Part is not available, where that exposure is not a *project finance exposure* or an exposure to an *SME*, and provided that the institution replaces the risk weight for all such underlying exposures in the same manner; or

(iii) an exposure to an *SME* for which a credit assessment by an ECAI nominated in accordance with Article 138 of the Credit Risk: Standardised Approach (CRR) Part is not available, where that exposure is not a *project finance exposure*; or

(b) 100%, where the underlying exposure is a *residential real estate exposure* which is not materially dependent on the cashflows generated by the property as determined by Article 124E of the Credit Risk: Standardised Approach (CRR) Part;

(c) 150%, where the underlying exposure is not any of the following:

(i) a *securitisation position*;

(ii) an exposure that is a subordinated debt instrument;

(iii) an own funds instrument or an equity instrument, or

(iv) an exposure in the form of units or shares in a CIU; or

(d) 1250%.

[Note: Paragraphs 1 to 7 of this rule correspond to Article 255(1) to (7) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 256 DETERMINATION OF ATTACHMENT POINT (A) AND DETACHMENT POINT (D)**

1. For the purposes of Articles 258 to 266, institutions shall set the attachment point (A) at the threshold at which losses within the pool of underlying exposures would start to be allocated to the relevant *securitisation position*.

   The attachment point (A) shall be expressed as a decimal value between zero and one and shall be equal to the greater of zero and the ratio of the outstanding balance of the pool of underlying exposures in the *securitisation* minus the outstanding balance of all *tranches* that rank senior or pari passu to the *tranche* containing the relevant *securitisation position* including the exposure itself to the outstanding balance of all the underlying exposures in the *securitisation*.

2. For the purposes of Articles 258 to 266, institutions shall set the detachment point (D) at the threshold at which losses within the pool of underlying exposures would result in a complete loss of principal for the *tranche* containing the relevant *securitisation position*.

   The detachment point (D) shall be expressed as a decimal value between zero and one and shall be equal to the greater of zero and the ratio of the outstanding balance of the pool of underlying exposures in the *securitisation* minus the outstanding balance of all *tranches* that rank senior to the *tranche* containing the relevant *securitisation position* to the outstanding balance of all the underlying exposures in the *securitisation*.

3. For the purposes of paragraphs 1 and 2, institutions shall treat *overcollateralisation* and funded reserve accounts as *tranches* and the assets comprising such reserve accounts as underlying exposures.

4. For the purposes of paragraphs 1 and 2, institutions shall disregard unfunded reserve accounts and assets that do not provide credit enhancement, such as those that only provide liquidity support, currency or interest rate swaps and cash collateral accounts related to those positions in the *securitisation*. For funded reserve accounts and assets providing credit enhancement, the institution shall only treat as *securitisation positions* the parts of those accounts or assets that are loss-absorbing.

5. Where two or more positions of the same transaction have different maturities but share pro-rata loss allocation, the calculation of the attachment points (A) and the detachment points (D) shall be based on the aggregated outstanding balance of those positions and the resulting attachment points (A) and detachment points (D) shall be the same.

[Note: This rule corresponds to Article 256 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 257 DETERMINATION OF TRANCHE MATURITY ($M_T$)**

1. For the purposes of Articles 258 to 266 and subject to paragraph 2, institutions may measure the maturity of a *tranche* ($M_T$) as either:

   (a) the weighted average maturity of the contractual payments due under the *tranche* in accordance with the following: $(\sum_t t * CF_t)/\sum_t CF_t$, where $CF_t$ denotes all contractual payments (principal, interests and fees) payable by the borrower during period t; or

   (b) the final legal maturity of the *tranche* in accordance with the following formula: $M_T = 1 + (M_L - 1) * 80\%$, where $M_L$ is the final legal maturity of the *tranche*.

2. For the purposes of paragraph 1, the determination of a *tranche* maturity ($M_T$) shall be subject in all cases to a floor of one year and a cap of five years.

3. Where an institution may become exposed to potential losses from the underlying exposures by virtue of contract, the institution shall determine the maturity of the *securitisation position* by taking into account the maturity of the contract plus the longest maturity of such underlying exposures. For *revolving exposures*, the longest contractually possible remaining maturity of the exposure that might be added during the revolving period shall apply.

[Note: This rule corresponds to Article 257 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**SUB-SECTION 3 METHODS TO CALCULATE RISK-WEIGHTED EXPOSURE AMOUNTS**

**Article 258 CONDITIONS FOR THE USE OF THE SEC-IRBA**

1. Institutions shall use the *SEC-IRBA* to calculate risk-weighted exposure amounts in relation to a *securitisation position* where the following conditions are met:

   (a) the position is backed by an *IRB pool* or a *mixed pool*, provided that, in the latter case, the institution is able to calculate $K_{IRB}$ in accordance with Articles 247 to 270A on a minimum of 95% of the underlying exposure amount;

   (b) there is sufficient information available in relation to the underlying exposures of the *securitisation* for the institution to be able to calculate $K_{IRB}$; and

   (c) paragraph 2 does not apply.

2. An institution shall not use *SEC-IRBA* where the *PRA* has imposed a requirement under section 55M of *FSMA* or issued a direction under section 192C of *FSMA* to preclude the institution from doing so.

[Note: This rule corresponds to Article 258 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 259 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE SEC-IRBA**

1. Under the *SEC-IRBA*, the risk-weighted exposure amount for a *securitisation position* shall be calculated by multiplying the exposure value of the position calculated in accordance with Article 248 by the applicable risk weight determined as follows, in all cases subject to a floor of 15%:

| | |
|---|---|
| $RW = 1250\%$ | when $D \leq K_{POOL}$ |
| $RW = 12.5 * K_{SSFA(K_{POOL})}$ | when $D > A \geq K_{POOL}$ |
| $RW = \left[12.5 * \left(\frac{K_{POOL} - A}{D - A}\right)\right] + \left[12.5 * K_{SSFA(K_{POOL})} * \left(\frac{D - K_{POOL}}{D - A}\right)\right]$ | when $A < K_{POOL} < D$ |
| $RW = 12.5 * e^{au}$ | when $K_{POOL} < A = D$ |

where:

| | |
|---|---|
| $K_{IRB}$ | is the capital charge of the pool of underlying exposures as defined in Article 255 |
| $K_{POOL}$ | is a parameter calculated in accordance with paragraph 7 |
| $D$ | is the detachment point as determined in accordance with Article 256 |
| $A$ | is the attachment point as determined in accordance with Article 256 |

$$K_{SSFA(K_{POOL})} = \frac{e^{au} - e^{al}}{a(u - l)}$$

where:

| | |
|---|---|
| $a =$ | $-\left(\frac{1}{p * K_{POOL}}\right)$ |
| $u =$ | $D - K_{POOL}$ |
| $l =$ | $\max(A - K_{POOL}, 0)$ |

where:

$$p = \max\left[0.3, \left(A + B * \left(\frac{1}{N}\right) + C * K_{IRB} + D * LGD + E * M_T\right)\right]$$

where:

| | |
|---|---|
| $N$ | is the effective number of exposures in the pool of underlying exposures, |

| | |
|---|---|
| | calculated in accordance with paragraphs 4 or 6, and subject to paragraphs 2 and 3; |
| $LGD$ | is the exposure-weighted average *LGD* of the pool of underlying exposures, calculated in accordance with paragraphs 5 and 6, and subject to paragraphs 2 and 3; |
| $M_T$ | is the maturity of the *tranche* as determined in accordance with Article 257 and subject to paragraphs 2 and 3 |

The parameters A, B, C, D, and E shall be determined according to the following look-up table:

| | | **A** | **B** | **C** | **D** | **E** |
|---|---|---|---|---|---|---|
| Non-retail | Senior, granular ($N \geq 25$) | 0 | 3.56 | -1.85 | 0.55 | 0.07 |
| | Senior, non-granular ($N < 25$) | 0.11 | 2.61 | -2.91 | 0.68 | 0.07 |
| | Non-senior, granular ($N \geq 25$) | 0.16 | 2.87 | -1.03 | 0.21 | 0.07 |
| | Non-senior, non-granular ($N < 25$) | 0.22 | 2.35 | -2.46 | 0.48 | 0.07 |
| Retail | Senior | 0 | 0 | -7.48 | 0.71 | 0.24 |
| | Non-senior | 0 | 0 | -5.78 | 0.55 | 0.27 |

---

2. If the underlying pool includes both retail and non-retail exposures subject to the *IRB Approach*, the pool shall be divided into one retail and one non-retail subpool and, for each subpool, a separate p-parameter (and the corresponding input parameters $N$, $M_T$, $K_{IRB}$ and $LGD$) shall be estimated. Subsequently, a weighted average p-parameter for the transaction shall be calculated on the basis of the p-parameters of each subpool and the nominal size of the exposures in each subpool and this weighted average p-parameter shall be used as the value of $p$ in paragraph 1.

3. Where an institution applies the *SEC-IRBA* to a *mixed pool*, the values of $N$, $LGD$, and $M_T$ shall be based on the underlying exposures subject to the *IRB Approach* only. The underlying exposures subject to the *Standardised Approach* shall be ignored for these purposes.

4. The effective number of exposures ($N$) shall be calculated as follows:

$$N = \frac{(\sum_i EAD_i)^2}{\sum_i EAD_i^2}$$

where $EAD_i$ represents the exposure value associated with the $i^{th}$ exposure in the pool.

Multiple exposures to the same obligor shall be consolidated and treated as a single exposure.

5. The exposure-weighted average *LGD* shall be calculated as follows:

$$\mathrm{LGD} = \frac{\sum_i \mathrm{LGD}_i * \mathrm{EAD}_i}{\sum_i \mathrm{EAD}_i}$$

where $\mathrm{LGD}_{i_I}$ represents the average *LGD* associated with all exposures to the i[th] obligor.

Where credit and dilution risks for purchased receivables are managed in an aggregate manner in a *securitisation*, the *LGD* input shall be construed as a weighted average of the *LGD* for credit risk and 100% *LGD* for dilution risk. The weights shall be the stand-alone *IRB Approach* capital requirements for credit risk and dilution risk, respectively. For these purposes, the presence of a single reserve fund or *overcollateralisation* available to cover losses from either credit or dilution risk may be regarded as an indication that these risks are managed in an aggregate manner.

6. Where the share of the largest underlying exposure in the pool ($C_1$) is no more than 3%, institutions may use the following simplified method to calculate $N$ and the exposure-weighted average *LGD*:

$$N = \left( C_1 * C_m + \frac{(C_m - C_1)}{(m - 1)} * \max\{1 - m * C_1, 0\} \right)^{-1}$$

exposure-weighted average *LGD* = 0.50

where:

| | |
|---|---|
| $C_m$ | denotes the share of the pool corresponding to the sum of the largest $m$ exposures; and |
| $m$ | is set by the institution for each *securitisation position* to which the method in this paragraph is applied. |

If only $C_1$ is available and this amount is no more than 0.03, then the institution may set exposure-weighted average *LGD* as 0.50 and $N$ as $\frac{1}{C_1}$.

7. The value of $K_{POOL}$ is determined in accordance with the following subparagraphs:

Where the position is backed by a *mixed pool* and the institution is able to calculate $K_{IRB}$ on at least 95% of the underlying exposure amounts in accordance with point (a) of Article 258(1), the institution shall calculate $K_{POOL}$ as:

$$K_{POOL} = d * K_{IRB} + (1 - d) * K_A$$

where *d* is the share of the exposure amount of underlying exposures for which the institution can calculate $K_{IRB}$ over the exposure amount of all underlying exposures and $K_A$ is calculated in accordance with Article 261(2).

Where the position is backed by an *IRB pool*, $K_{POOL} = K_{IRB}$.

8. Where an institution has a *securitisation position* in the form of a derivative to hedge market risks, including interest rate or currency risks, the institution may attribute to that derivative an inferred risk weight equivalent to the risk weight of the reference position calculated in accordance with this Article.

For the purposes of the first subparagraph, the reference position shall be the position that is pari passu in all respects to the derivative or, in the absence of such pari passu position, the position that is immediately subordinate to the derivative.

[Note: This rule corresponds to Article 259 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 260 TREATMENT OF STS SECURITISATIONS UNDER THE SEC-IRBA**

Under the *SEC-IRBA*, the risk weight for a position in an *STS securitisation* shall be calculated in accordance with Article 259, subject to the following modifications:

risk-weight floor for *senior securitisation positions* = 10%

$$p = \max\left[0.3, 0.5 * \left(A + B * \left(\frac{1}{N}\right) + C * K_{IRB} + D * LGD + E * M_T\right)\right]$$

[Note: This rule corresponds to Article 260 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 260A TREATMENT OF QUALIFYING SECURITISATIONS UNDER THE SEC-IRBA**

1. By way of derogation from Article 259, this Article applies when calculating the risk-weighted exposure amount for a position in a *qualifying securitisation* using point (c) of Article 245(1).

2. Under the *SEC-IRBA*, the risk-weighted exposure amount for a position in a *qualifying securitisation* using point (c) of Article 245(1) shall be calculated by multiplying the exposure value of the position as calculated in accordance with Article 248 by a risk weight equal to the sum of:

   (a) the risk weight that would be calculated under Article 154 of the Credit Risk: Internal Ratings Based Approach (CRR) Part in respect of the underlying exposure as if it had not been securitised; and

   (b) the expected loss calculated under Article 158 of the Credit Risk: Internal Ratings Based Approach (CRR) Part in respect of the underlying exposure as if it had not been securitised multiplied by 12.5.

3. For the purpose of point (c) of Article 249(3C), where relevant, the institution may choose to use the *LGD* which would be calculated under the Credit Risk: Internal Ratings Based Approach (CRR) Part in respect of the underlying exposure as if it had not been securitised.

**Article 261 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE SEC-SA**

1. Under the *SEC-SA*, the risk-weighted exposure amount for a position in a *securitisation* shall be calculated by multiplying the exposure value of the position as calculated in accordance with Article 248 by the applicable risk weight determined as follows, in all cases subject to a floor of 15%:

| | |
|---|---|
| $RW = 1250\%$ | when $D \leq K_A$ |
| $RW = 12.5 * K_{SSFA(K_A)}$ | when $D > A \geq K_A$ |
| $RW = \left[12.5 * \left(\frac{K_A - A}{D - A}\right)\right] + \left[12.5 * K_{SSFA(K_A)} * \left(\frac{D - K_A}{D - A}\right)\right]$ | when $A < K_A < D$ |
| $RW = 12.5 * e^{au}$ | when $K_A < A = D$ |

where:

| | |
|---|---|
| $D$ | is the detachment point as determined in accordance with Article 256; |
| $A$ | is the attachment point as determined in accordance with Article 256; |
| $K_A$ | is a parameter calculated in accordance with paragraph 2; |

$$K_{SSFA(K_A)} = \frac{e^{au} - e^{al}}{a(u - l)}$$

where:

| | |
|---|---|
| $a =$ | $-\left(\frac{1}{p * K_A}\right)$ |
| $u =$ | $D - K_A$ |
| $l =$ | $\max(A - K_A, 0)$ |

For the value of p, an institution may for each *securitisation* either apply a value of 1 or calculate p in accordance with the following formula:

$$p = \min\left[1, \max\left[0.5, \left(A + B * \left(\frac{1}{N}\right) + C * K_A + D * LGD + E * M_T\right)\right]\right]$$ where:

| | |
|---|---|
| $N$ | is the effective number of exposures in the pool of underlying exposures, calculated in accordance with paragraphs (1)(c) and 1(d), and subject to paragraph 1A; |
| $LGD$ | is the exposure-weighted average *LGD* of the pool of underlying exposures, calculated in accordance with the table below and subject to paragraph 1A; |
| $M_T$ | is the maturity of the *tranche* as determined in accordance with Article 257 and subject to paragraph 1A. |

The parameters A, B, C, D, and E shall be determined according to the following look-up table:

| | | **A** | **B** | **C** | **D** | **E** |
|---|---|---|---|---|---|---|
| Non-retail | Senior, granular (N ≥ 25) | 0 | 3.56 | -1.85 | 0.55 | 0.07 |
| | Senior, non-granular (N < 25) | 0.11 | 2.61 | -2.91 | 0.68 | 0.07 |
| | Non-senior, granular (N ≥ 25) | 0.16 | 2.87 | -1.03 | 0.21 | 0.07 |
| | Non-senior, non-granular (N < 25) | 0.22 | 2.35 | -2.46 | 0.48 | 0.07 |
| Retail | Senior | 0 | 0 | -7.48 | 0.71 | 0.24 |
| | Non-senior | 0 | 0 | -5.78 | 0.55 | 0.27 |

The exposure-weighted average *LGD* shall be determined in accordance with the following:

(a) In accordance with the following table:

| **Exposure type** | ***LGD*** |
|---|---|
| *Regulatory residential real estate exposures* with LTV at most 100% | 20% |
| Other exposures secured on immovable property with LTV at most 100% | 30% |
| Senior purchased corporate receivables | 50% |
| Other senior exposures to non-financial corporates | 40% |
| Other senior non-retail exposures | 45% |
| Subordinated purchased corporate receivables | 100% |
| Other subordinated non-retail exposures | 75% |
| Other exposures | 100% |

(b) The exposure-weighted average *LGD* shall be calculated as follows:

$$\mathrm{LGD} = \frac{\sum_i \mathrm{LGD_i} * \mathrm{EAD_i}}{\sum_i \mathrm{EAD_i}}$$

where $\mathrm{LGD_i}$ represents the *LGD* associated with the i$^{th}$ exposure, as specified in the table in paragraph 1(a) above.

(c) The effective number of exposures ($\mathrm{N}$) shall be calculated as follows:

$$\mathrm{N} = \frac{(\sum_i \mathrm{EAD_i})^2}{\sum_i \mathrm{EAD_i}^2}$$

where $\mathrm{EAD_i}$ represents the exposure value associated with the i$^{th}$ exposure in the pool.

Multiple exposures to the same obligor shall be consolidated and treated as a single exposure.

(d) Where the share of the largest underlying exposure in the pool ($\mathrm{C_1}$) is no more than 3%, institutions may use the following simplified method to calculate $\mathrm{N}$ and the exposure-weighted average *LGDs*:

$$\mathrm{N} = \left( \mathrm{C_1} * \mathrm{C_m} + \frac{(\mathrm{C_m} - \mathrm{C_1})}{(\mathrm{m} - 1)} * \max\{1 - \mathrm{m} * \mathrm{C_1}, 0\} \right)^{-1}$$

exposure-weighted average *LGD* = 0.50

where:

| | |
|---|---|
| $C_m$ | denotes the share of the pool corresponding to the sum of the largest $m$ exposures; and |
| $m$ | is set by the institution for each *securitisation position* to which the method in this paragraph is applied. |

If only $C_1$ is available and this amount is no more than 0.03, then the institution may set exposure-weighted average *LGD* as 0.50 and $N$ as $1/C_1$.

1A. Where an institution chooses to calculate the value of p in accordance with the formula set out in paragraph 1, if the underlying pool comprises both retail and non-retail exposures, the pool shall be divided into one retail and one non-retail subpool and, for each subpool, a separate p-parameter (and the corresponding input parameters $N$, $M_T$, $K_A$ and $LGD$) shall be estimated. Subsequently, a weighted average p-parameter for the transaction shall be calculated on the basis of the p-parameters of each subpool and the nominal size of the exposures in each subpool and this weighted average p-parameter shall be used as the value of p where calculated in accordance with the formula in paragraph 1.

2. For the purposes of paragraph 1, $K_A$ shall for each *securitisation* be calculated in accordance with the formula in either sub-paragraph (i) or (ii):

(i)

$$K_A = (1 - W) * K_{SAE} + W * 0.5$$

(ii)

$$K_A = (1 - W) * K_{SA} + W * 0.5$$

where:

$K_{SAE}$ is the capital charge of the underlying pool as defined in Article 255, excluding any exposures in default;

$K_{SA}$ is as defined in Article 255;

W = ratio of:

(a) the sum of the nominal amount of underlying exposures in default, to

(b) the sum of the nominal amount of all underlying exposures.

For the purposes of this paragraph, an exposure in default shall mean an underlying exposure which is either:

(i) 90 days or more past due;

(ii) subject to bankruptcy or insolvency proceedings;

(iii) subject to foreclosure or similar proceedings; or

(iv) in default in accordance with the *securitisation* documentation.

Where an institution does not know the delinquency status for 5% or less of underlying exposures in the pool, the institution may use the *SEC-SA* subject to the following adjustment in the calculation of $K_A$:

$$K_A = \frac{EAD_{\text{Subpool 1 where W known}} * K_{\text{Subpool 1 where W known}} + EAD_{\text{Subpool 2 where W unknown}}}{EAD_{\text{Total}}}$$

Where the institution does not know the delinquency status for more than 5% of underlying exposures in the pool, the position in the *securitisation* must be risk-weighted at 1250%.

3. Where an institution has a *securitisation position* in the form of a derivative to hedge market risks, including interest rate or currency risks, the institution may attribute to that derivative an inferred risk weight equivalent to the risk weight of the reference position calculated in accordance with this Article.

   For the purposes of this paragraph, the reference position shall be the position that is pari passu in all respects to the derivative or, in the absence of such pari passu position, the position that is immediately subordinate to the derivative.

[Note: Paragraphs (1), (2) and (3) of this rule correspond to Article 261 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 262 TREATMENT OF STS SECURITISATIONS UNDER THE SEC-SA**

Under the *SEC-SA* the risk weight for a position in an *STS securitisation* shall be calculated in accordance with Article 261, subject to the following modifications:

risk-weight floor for *senior securitisation positions* = 10%

for the value of p, an institution may for each *STS securitisation* either apply a value of 0.5 or calculate p in accordance with the following formula:

$$p = \min\left[0.5, \max\left[0.3, 0.5 * \left(A + B * \left(\frac{1}{N}\right) + C * K_A + D * LGD + E * M_T\right)\right]\right]$$

[Note: This rule corresponds to Article 262 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 262A TREATMENT OF QUALIFYING SECURITISATIONS UNDER THE SEC-SA**

1. By way of derogation from Article 261, this Article applies when calculating the risk-weighted exposure amount for a position in a *qualifying securitisation* using Article 245(1)(c).

2. Under the *SEC-SA*, the risk-weighted exposure amount for a position in a *qualifying securitisation* using Article 245(1)(c) shall be calculated by multiplying the exposure value of the position as calculated in accordance with Article 248 by the risk weight as determined as follows:

| | |
|---|---|
| 20% | When $A \geq X$ |
| 75% | When $D \leq X$ |
| $20\% * \frac{D - X}{D - A} + 75\% * \frac{X - A}{D - A}$ | When $D > X > A$ |

where:

A and D are determined in accordance with Article 256

X is $1 - \left(0.55 * \frac{\text{property value}}{\text{exposure value}}\right)$, where:

exposure value is calculated in accordance with Article 248

property value is calculated in accordance with Article 124D of the Credit Risk: Standardised Approach (CRR) Part

**Article 263 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE SEC-ERBA**

1. Under the *SEC-ERBA*, the risk-weighted exposure amount for a *securitisation position* shall be calculated by multiplying the exposure value of the position as calculated in accordance with Article 248 by the applicable risk weight in accordance with this Article and Article 270F.

2. For exposures with short-term credit assessments or when a rating based on a short-term credit assessment may be inferred in accordance with paragraph 7, the following risk weights shall apply:

**Table 1**

| **Credit Quality Step** | 1 | 2 | 3 | All other ratings |
|---|---|---|---|---|
| **Risk weight** | 15% | 50% | 100% | 1250% |

3. For exposures with long-term credit assessments or when a rating based on a long-term credit assessment may be inferred in accordance with paragraph 7, the risk weights set out in Table 2 shall apply, adjusted as applicable for *tranche* maturity ($M_T$) in accordance with Article 257 and paragraph 4 and for *tranche* thickness for non-senior *tranches* in accordance with paragraph 5:

**Table 2**

| **Credit Quality Step** | **Senior Tranche** | | **Non-senior (thin) tranche** | |
|---|---|---|---|---|
| | *Tranche* maturity ($M_T$) | | *Tranche* maturity ($M_T$) | |
| | 1 year | 5 years | 1 year | 5 years |
| 1 | 15% | 20% | 15% | 70% |
| 2 | 15% | 30% | 15% | 90% |
| 3 | 25% | 40% | 30% | 120% |
| 4 | 30% | 45% | 40% | 140% |
| 5 | 40% | 50% | 60% | 160% |
| 6 | 50% | 65% | 80% | 180% |
| 7 | 60% | 70% | 120% | 210% |
| 8 | 75% | 90% | 170% | 260% |
| 9 | 90% | 105% | 220% | 310% |
| 10 | 120% | 140% | 330% | 420% |
| 11 | 140% | 160% | 470% | 580% |
| 12 | 160% | 180% | 620% | 760% |

| | | | | |
|---|---|---|---|---|
| 13 | 200% | 225% | 750% | 860% |
| 14 | 250% | 280% | 900% | 950% |
| 15 | 310% | 340% | 1050% | 1050% |
| 16 | 380% | 420% | 1130% | 1130% |
| 17 | 460% | 505% | 1250% | 1250% |
| All other | 1250% | 1250% | 1250% | 1250% |

4. In order to determine the risk weight for *tranches* with a maturity between one and five years, institutions shall use linear interpolation between the risk weights applicable for one and five years maturity respectively in accordance with Table 2.

5. In order to account for *tranche* thickness, institutions shall calculate the risk weight for non-senior *tranches* as follows:

$$\text{RW} = [\text{RW after adjusting for maturity according to paragraph 4}] * [1 - \min(\text{T}, 50\%)]$$

where:

T = *tranche* thickness measured as D – A

where:

| | |
|---|---|
| D | is the detachment point as determined in accordance with Article 256 |
| A | is the attachment point as determined in accordance with Article 256 |

6. The risk weights for non-senior *tranches* resulting from paragraphs 3, 4 and 5 shall be subject to a floor of 15%. In addition, the resulting risk weights shall be no lower than the risk weight corresponding to a hypothetical senior *tranche* of the same *securitisation* with the same credit assessment and maturity.

7. For the purposes of using inferred ratings, institutions shall attribute to an *unrated position* an inferred rating equivalent to the credit assessment of a rated reference position which meets all of the following conditions:

   (a) the reference position ranks pari passu in all respects to the *unrated position* or, in the absence of a pari passu ranking position, the reference position is immediately subordinate to the *unrated position*;

   (b) the reference position does not benefit from any third-party guarantees or other credit enhancements that are not available to the *unrated position*;

   (c) the maturity of the reference position shall be equal to or longer than that of the *unrated position* in question;

   (d) on an ongoing basis, any inferred rating shall be updated to reflect any changes in the credit assessment of the reference position.

8. Where an institution has a *securitisation position* in the form of a derivative to hedge market risks, including interest rate or currency risks, the institution may attribute to that derivative an inferred risk weight equivalent to the risk weight of the reference position calculated in accordance with this Article.

For the purposes of the first subparagraph, the reference position shall be the position that is pari passu in all respects to the derivative or, in the absence of such pari passu position, the position that is immediately subordinate to the derivative.

[Note: This rule corresponds to Article 263 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 264 TREATMENT OF STS SECURITISATIONS UNDER THE SEC-ERBA**

1. Under the *SEC-ERBA*, the risk weight for a position in an *STS securitisation* shall be calculated in accordance with Article 263 and Article 270F, subject to the modifications laid down in this Article.

2. For exposures with short-term credit assessments or when a rating based on a short-term credit assessment may be inferred in accordance with Article 263(7), the following risk weights shall apply:

**Table 3**

| **Credit Quality Step** | 1 | 2 | 3 | All other ratings |
|---|---|---|---|---|
| **Risk weight** | 10% | 30% | 60% | 1250% |

3. For exposures with long-term credit assessments or when a rating based on a long-term credit assessment may be inferred in accordance with Article 263(7), risk weights shall be determined in accordance with Table 4, adjusted for *tranche* maturity ($M_T$) in accordance with Article 257 and Article 263(4) and for *tranche* thickness for non-senior *tranches* in accordance with Article 263(5):

**Table 4**

| **Credit Quality Step** | **Senior tranche** | | **Non-senior (thin) tranche** | |
|---|---|---|---|---|
| | *Tranche* maturity ($M_T$) | | *Tranche* maturity ($M_T$) | |
| | 1 year | 5 years | 1 year | 5 years |
| 1 | 10% | 10% | 15% | 40% |
| 2 | 10% | 15% | 15% | 55% |
| 3 | 15% | 20% | 15% | 70% |
| 4 | 15% | 25% | 25% | 80% |
| 5 | 20% | 30% | 35% | 95% |
| 6 | 30% | 40% | 60% | 135% |
| 7 | 35% | 45% | 95% | 170% |
| 8 | 45% | 55% | 150% | 225% |
| 9 | 55% | 65% | 180% | 255% |
| 10 | 70% | 85% | 270% | 345% |

| | | | | |
|---|---|---|---|---|
| 11 | 120% | 135% | 405% | 500% |
| 12 | 135% | 155% | 535% | 655% |
| 13 | 170% | 195% | 645% | 740% |
| 14 | 225% | 250% | 810% | 855% |
| 15 | 280% | 305% | 945% | 945% |
| 16 | 340% | 380% | 1015% | 1015% |
| 17 | 415% | 455% | 1250% | 1250% |
| All other | 1250% | 1250% | 1250% | 1250% |

[Note: This rule corresponds to Article 264 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 265 SCOPE AND OPERATIONAL REQUIREMENTS FOR THE INTERNAL ASSESSMENT APPROACH**

1. Unless an institution has received the prior *138BA permission* of the *PRA*, the institution may not calculate the risk-weighted exposure amounts for *unrated positions* in *ABCP programmes* or *ABCP transactions* under the Internal Assessment Approach in accordance with Article 266.

   Where an institution has received the prior *138BA permission* of the *PRA* to apply the Internal Assessment Approach, and a specific position in an *ABCP programme* or *ABCP transaction* falls within the scope of application covered by such *138BA permission*, the institution shall apply that approach to calculate the risk-weighted exposure amount of that position.

2. [Note: Provision left blank]

3. [Note: Provision left blank]

4. Institutions which have received *138BA permission* to apply the Internal Assessment Approach shall not revert to the use of other methods for positions that fall within scope of application of the Internal Assessment Approach unless the institution has received the prior *138BA permission* of the *PRA* to do so.

[Note: Paragraphs (1) and (4) of this rule correspond to Article 265(1) and (4) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 266 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE INTERNAL ASSESSMENT APPROACH**

1. Under the Internal Assessment Approach, the institution shall assign the *unrated position* in the *ABCP programme* or *ABCP transaction* to one of the rating grades laid down in the institution's internal assessment methodology which shall include rating grades corresponding to the credit assessment of ECAIs, on the basis of its internal assessment. The position shall be attributed a derived rating which shall be the same as the credit assessments corresponding to that rating grade as laid down in the internal assessment methodology.

2. The rating derived in accordance with paragraph 1 shall be at least at the level of investment grade or better at the time it was first assigned and shall be regarded as an eligible credit assessment by an ECAI for the purposes of calculating risk-weighted exposure amounts in accordance with Article 263 or Article 264, as applicable.

[Note: This rule corresponds to Article 266 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**SUB-SECTION 4 CAPS FOR SECURITISATION POSITIONS**

**Article 267 MAXIMUM RISK WEIGHT FOR SENIOR SECURITISATION POSITIONS: LOOK-THROUGH APPROACH**

1. An institution which has knowledge at all times of the composition of the underlying exposures may assign the *senior securitisation position* a maximum risk weight equal to the exposure-weighted average risk weight that would be applicable to the underlying exposures as if the underlying exposures had not been securitised.

2. In the case of pools of underlying exposures where the institution uses exclusively the *Standardised Approach* or the *IRB Approach*, the maximum risk weight of the *senior securitisation position* shall be equal to the exposure-weighted-average risk weight that would apply to the underlying exposures under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* or the Credit Risk: Internal Ratings Based Approach (CRR) Part, respectively, as if they had not been securitised.

   In the case of *mixed pools* the maximum risk weight shall be calculated as follows:

   (a) where the institution applies the *SEC-IRBA*, the *Standardised Approach* portion and the *IRB Approach* portion of the underlying pool shall each be assigned the corresponding *Standardised Approach* risk weight and *IRB Approach* risk weight respectively;

   (b) where the institution applies the *SEC-SA* or the *SEC-ERBA*, the maximum risk weight for *senior securitisation positions* shall be equal to the *Standardised Approach* weighted-average risk weight of the underlying exposures.

3. For the purposes of this Article, the exposure-weighted average risk weight that would be applicable to underlying exposures under the *IRB Approach* in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part shall be the sum of the exposure-weighted average risk weight that would be applicable to the underlying exposure under the *IRB Approach* in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part and the ratio of:

   (a) the sum of the expected loss amounts that would be applicable to the underlying exposures under the *IRB Approach* in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part multiplied by 12.5; to

   (b) the sum of the exposure values of the underlying exposures.

4. Where the maximum risk weight calculated in accordance with paragraph 1 results in a lower risk weight than the risk-weight floors set out in Articles 259 to 264, as applicable, the former shall be used instead.

[Note: This rule corresponds to Article 267 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 268 MAXIMUM CAPITAL REQUIREMENTS**

1. An *originator* institution, a *sponsor* institution or other institution using the *SEC-IRBA* or an *originator* institution or *sponsor* institution using the *SEC-SA* or the *SEC-ERBA* may apply a maximum aggregated capital requirement for *securitisation positions* it holds in the same *securitisation* equal to the capital requirement in paragraph 1A.

1A. The maximum capital requirement shall be calculated as follows:

Max capital requirement = $U * Y + \sum_i \max(0, V_i - U) * Z_i$

where:

U is a decimal point value between 0 and 1, set by the institution for each *securitisation*;

Y is equal to the credit risk capital requirements calculated in accordance with paragraphs 1B and 2;

$Z_i$ is the capital requirement associated with the $i^{th}$ *tranche*, as would be calculated in accordance with this Part;

$V_i$ is the proportion of interest that the institution holds in the $i^{th}$ *tranche*, expressed as a percentage and calculated as the ratio of the nominal amount of the *securitisation positions* that the institution holds in a given *tranche* to the nominal amount of that *tranche*.

1B. The capital requirement Y in paragraph 1A is equal to the capital requirement that would be calculated under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* or the Credit Risk: Internal Ratings Based Approach (CRR) Part in respect of the underlying exposures had they not been securitised. For the purposes of this Article, the *IRB Approach* capital requirement shall include the amount of the expected losses associated with those exposures calculated under the Credit Risk: Internal Ratings Based Approach (CRR) Part and that of unexpected losses.

2. In the case of *mixed pools*, the maximum capital requirement shall be determined by calculating the exposure-weighted average of the capital requirements of the *IRB Approach* and *Standardised Approach* portions of the underlying exposures in accordance with paragraph 1B.

3. [Note: Provision left blank]

4. When calculating the maximum capital requirement for a *securitisation position* in accordance with this Article, the entire amount of any gain on sale and credit-enhancing interest-only strips arising from the *securitisation* transaction shall be deducted from Common Equity Tier 1 items in accordance with Article 36(1)(k) of the Own Funds (CRR) Part.

[Note: Paragraphs (1), (1A), (1B), (2) and (4) of this rule correspond to Article 268 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**SUB-SECTION 5 MISCELLANEOUS PROVISIONS**

**Article 269 RESECURITISATIONS**

1. For a position in a *resecuritisation*, institutions shall apply the *SEC-SA* in accordance with Article 261, with the following changes:

   (a) W = 0 for any exposure to a *securitisation tranche* within the pool of underlying exposures;

   (b) p = 1.5;

   (c) the resulting risk weight shall be subject to a risk-weight floor of 100%.

2. $K_{SA}$ for the underlying *securitisation* exposures shall be calculated in accordance with Article 255.

3. The maximum capital requirements set out in Articles 267 to 268 shall not be applied to *resecuritisation* positions.

4. Where the pool of underlying exposures consists of a mix of *securitisation tranches* and other types of assets, the $K_A$ parameter shall be determined as the nominal exposure weighted-average of the $K_A$ calculated individually for each subset of exposures.

[Note: This rule corresponds to Article 269 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 269A NPE SECURITISATIONS**

1. The risk weight for a position in an NPE securitisation calculated in accordance with this Part is subject to the requirements laid down in the Non-Performing Exposures Securitisation (CRR) Part.

2. In this Article, 'NPE securitisation' has the same meaning as in Non-Performing Exposures Securitisation (CRR) 1.2.

[Note: This rule corresponds to Article 269A of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 270 SENIOR POSITIONS IN SME SECURITISATIONS**

An *originator* institution may calculate the risk-weighted exposure amounts in respect of a *securitisation position* in accordance with Articles 260, 262 or 264, as applicable, where the following conditions are met:

(a) the *securitisation* meets the requirements for *STS securitisation* set out in SECN 2.2.1R, 2.2.8R to 2.2.29R, and 2.3.1R to 2.3.37R of the *FCA Handbook*;

(aa) the *originator*, *sponsor* and *SSPE* are each established in the *United Kingdom*;

(b) the position qualifies as the *senior securitisation position*;

(c) the *securitisation* is backed by a pool of exposures to undertakings, provided that at least 70% of those in terms of portfolio balance qualify as *SMEs* at the time of issuance of the *securitisation* or in the case of *revolving securitisations* at the time an exposure is added to the *securitisation*;

(d) the credit risk associated with the positions not retained by the *originator* institution is transferred through a guarantee or a counter-guarantee meeting the requirements for unfunded credit protection set out in the Credit Risk Mitigation (CRR) Part that are applicable to institutions using the *Risk-Weight Substitution Method*;

(e) the third party to which the credit risk is transferred is one or more of the following:

(i) the central government of the *United Kingdom*, the *Bank of England*, a *multilateral development bank*, an international organisation listed in Article 118(1) of the Credit Risk: Standardised Approach (CRR) Part or a *promotional entity*, provided that the exposures to the guarantor or counter-guarantor qualify for a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*;

(ii) an institutional investor as defined in the Securitisation Part, provided that the guarantee or counter-guarantee is fully collateralised by cash on deposit with the *originator* institution.

[Note: This rule corresponds to Article 270 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 270A NOTIFICATION OF BREACHES**

1. Where an institution does not meet the requirements in either 2.4, Chapter 2 or Chapter 3 by reason of negligence or omission by the institution, the institution shall notify the *PRA*, if the *PRA* would reasonably expect to be notified.

1A. [Note: provision left blank]

2. [Note: provision left blank]

3. An institution shall notify the *PRA* if the requirements laid down in *due diligence rules* on a *consolidated basis* or *sub-consolidated basis* are breached with reference to the act or omission of an entity established in a *third country* included in the consolidation in accordance with Article 18 of the Groups Part, if the *PRA* would reasonably expect to be notified.

[Note: Paragraph (1) of this rule corresponds to Article 270a(1) of the *CRR* as it applied immediately before its revocation by the *Treasury* and paragraph (3) of this rule corresponds to Article 14(2) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**SECTION 4 EXTERNAL CREDIT ASSESSMENTS**

**Article 270B USE OF CREDIT ASSESSMENTS BY ECAIS**

An institution may only use a credit assessment of a *securitisation position* to determine the risk weight of a *securitisation position* in accordance with this Part where the credit assessment has been issued or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009.

[Note: This rule corresponds to Article 270b of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 270C REQUIREMENTS TO BE MET BY THE CREDIT ASSESSMENTS OF ECAIS**

For the purposes of calculating risk-weighted exposure amounts in accordance with Articles 242 to 270A, institutions shall only use a credit assessment of a *securitisation position* from an ECAI where all of the following conditions are met:

(a) there is no mismatch between the types of payments reflected in the credit assessment and the types of payments to which the institution is entitled under the contract giving rise to the *securitisation position* in question;

(b) the ECAI publishes the credit assessments and information on loss and cash-flow analysis, sensitivity of ratings to changes in the underlying ratings assumptions, including the performance of underlying exposures, and on the procedures, methodologies, assumptions, and key elements underpinning the credit assessments in accordance with Regulation (EC) No 1060/2009. For the purposes of this point, information shall be considered as publicly available where it is published in accessible format. Information that is made available only to a limited number of entities shall not be considered as publicly available;

(c) the credit assessments are included in the ECAI's transition matrix;

(d) the credit assessments are not based or partly based on unfunded support provided by the institution itself. Where a position is based or partly based on unfunded support, the institution shall consider that position as if it were unrated for the purposes of calculating risk-weighted exposure amounts for this position in accordance with Articles 242 to 270A;

(e) the ECAI has committed to publishing explanations on how the performance of underlying exposures affects the credit assessment.

[Note: This rule corresponds to Article 270c of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 270D USE OF CREDIT ASSESSMENTS**

1. An institution may decide to nominate one or more ECAIs, whose credit assessments of *securitisation positions* shall be used in the calculation of its risk-weighted exposure amounts under this Part.

1A. Where an institution has nominated an ECAI under paragraph 1, that ECAI shall not be treated as a nominated ECAI for the purposes of the Credit Risk: Standardised Approach (CRR) Part unless the institution has also nominated that ECAI in accordance with Article 138 of the Credit Risk: Standardised Approach (CRR) Part.

1B. The requirements in this Article do not apply when the institution is using a credit assessment of an ECAI for the purpose of determining a risk weight in accordance with the Credit Risk: Standardised Approach (CRR) Part, and instead the institution shall comply with the requirements in Articles 138 to 141 of that Part.

2. An institution shall use the credit assessments of its *securitisation positions* in a consistent and non-selective manner and, for these purposes, shall comply with the following requirements:

   (a) an institution shall not use an ECAI's credit assessments for its positions in some t*ranches* and another ECAI's credit assessments for its positions in other *tranches* within the same *securitisation* that may or may not be rated by the first ECAI;

   (b) where a position has two credit assessments by ECAIs nominated under paragraph 1, the institution shall use the less favourable credit assessment;

   (c) where a position has three or more credit assessments by ECAIs nominated under paragraph 1, the two most favourable credit assessments shall be used. Where the two most favourable assessments are different, the less favourable of the two shall be used; and

   (d) an institution shall not actively solicit the withdrawal of less favourable ratings.

3. Where the exposures underlying a *securitisation* benefit from full or partial eligible credit protection in accordance with the Credit Risk Mitigation (CRR) Part, and the effect of such protection has been reflected in the credit assessment of a *securitisation position* by an ECAI nominated under paragraph 1, the institution shall use the risk weight associated with that credit assessment. Where the credit protection referred to in this paragraph is not eligible under the Credit Risk Mitigation (CRR) Part, the credit assessment shall not be recognised and the *securitisation position* shall be treated as unrated.

4. Where a *securitisation position* benefits from eligible credit protection in accordance with the Credit Risk Mitigation (CRR) Part and the effect of such protection has been reflected in its credit assessment by an ECAI nominated under paragraph 1, the institution shall treat the *securitisation position* as if it were unrated and calculate the risk-weighted exposure amounts in accordance with the Credit Risk Mitigation (CRR) Part.

[Note: Paragraphs (1) and (2) to (4) of this rule correspond to Article 270d of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 270E SECURITISATION MAPPING**

[Note: Provision left blank]

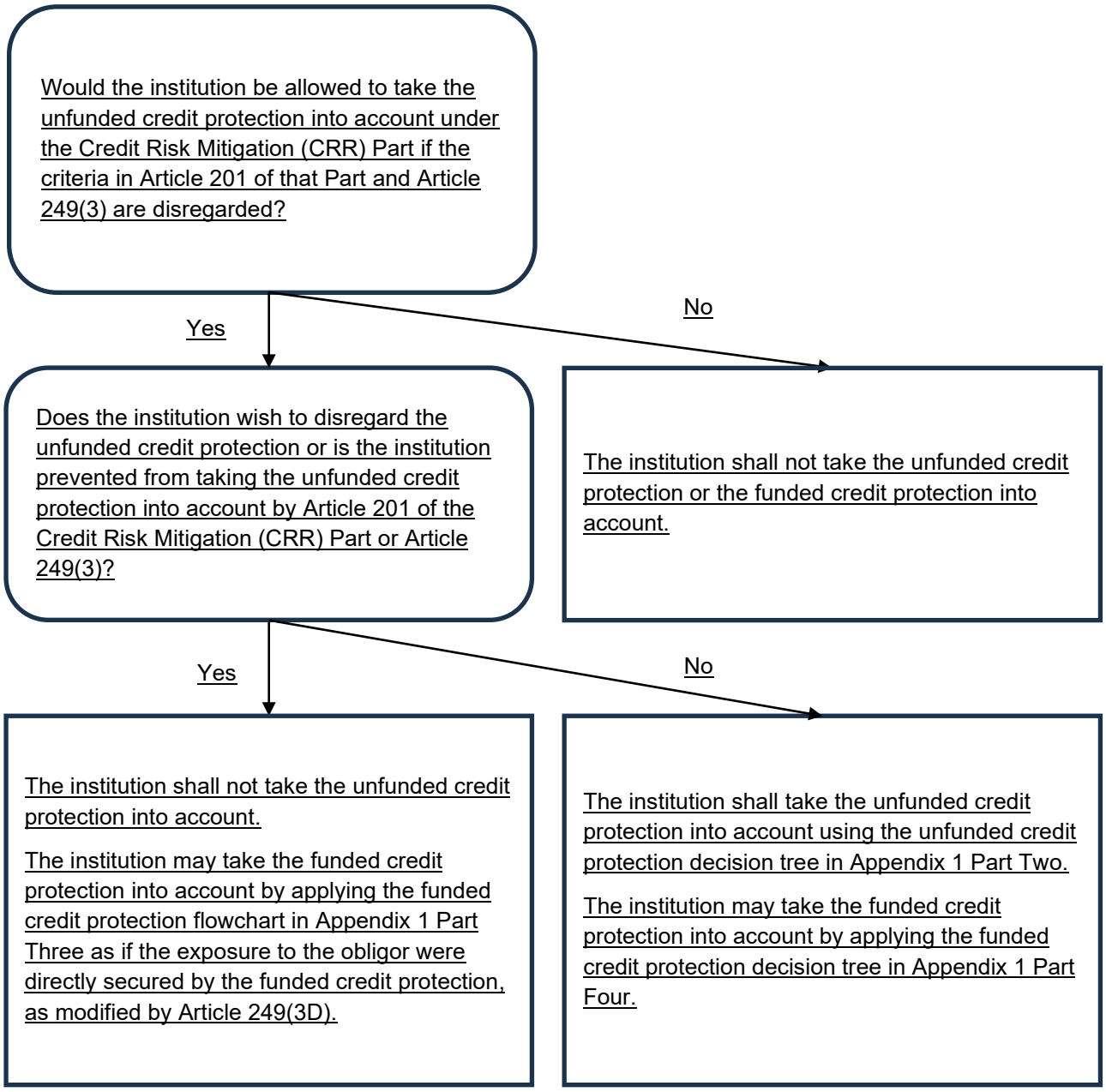
**Article 270F SECURITISATION ECAI MAPPING**

1. For the purposes of ~~Chapter 5 (Securitisation) of Title II of Part Three of the *CRR*~~this Part, an institution shall use the following table setting out the correspondence of the rating categories for *securitisation positions* of each ECAI with the credit quality steps set out in Articles 263 and 264 ~~of the *CRR*~~.

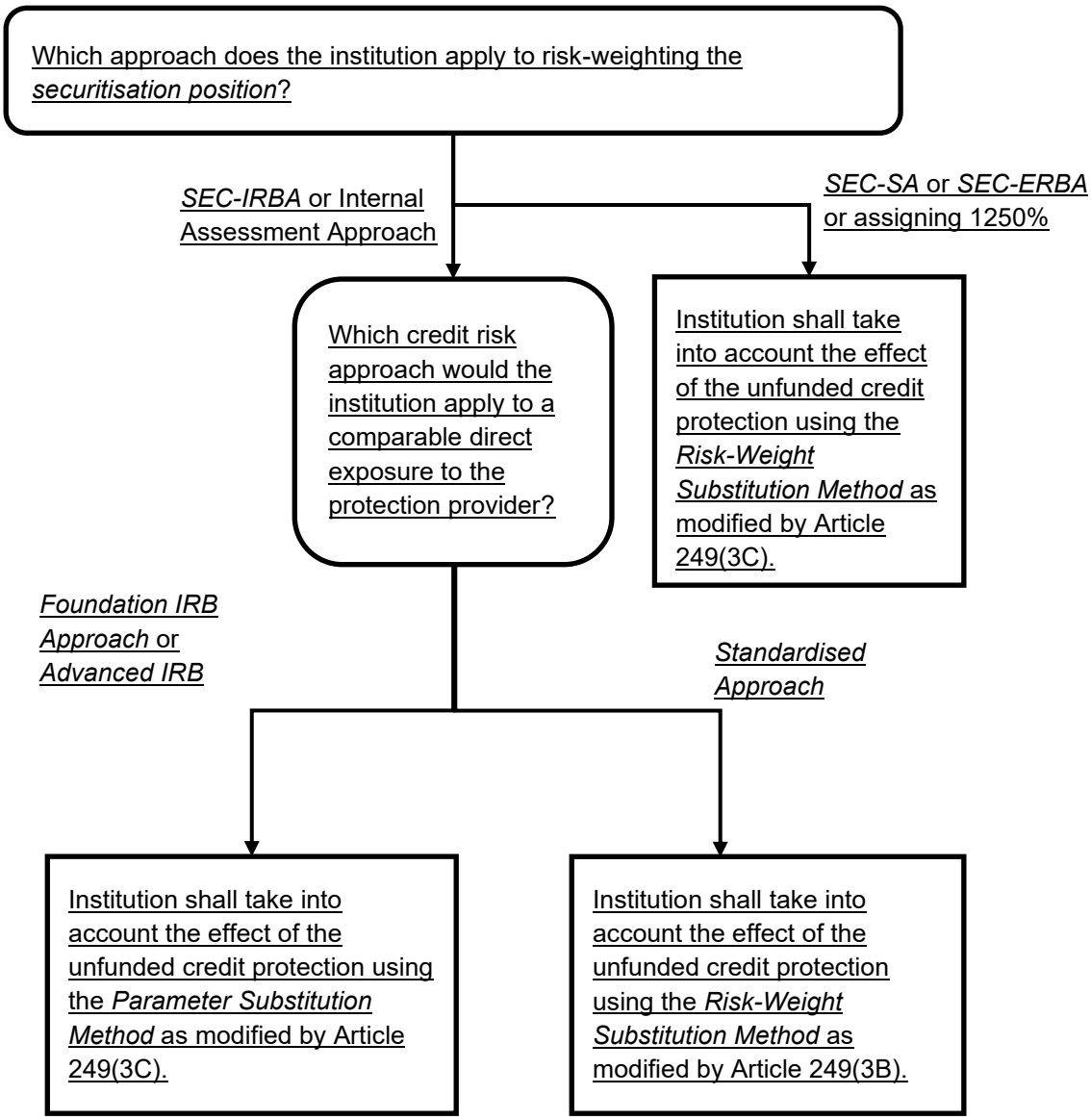
…

**Appendix 1**

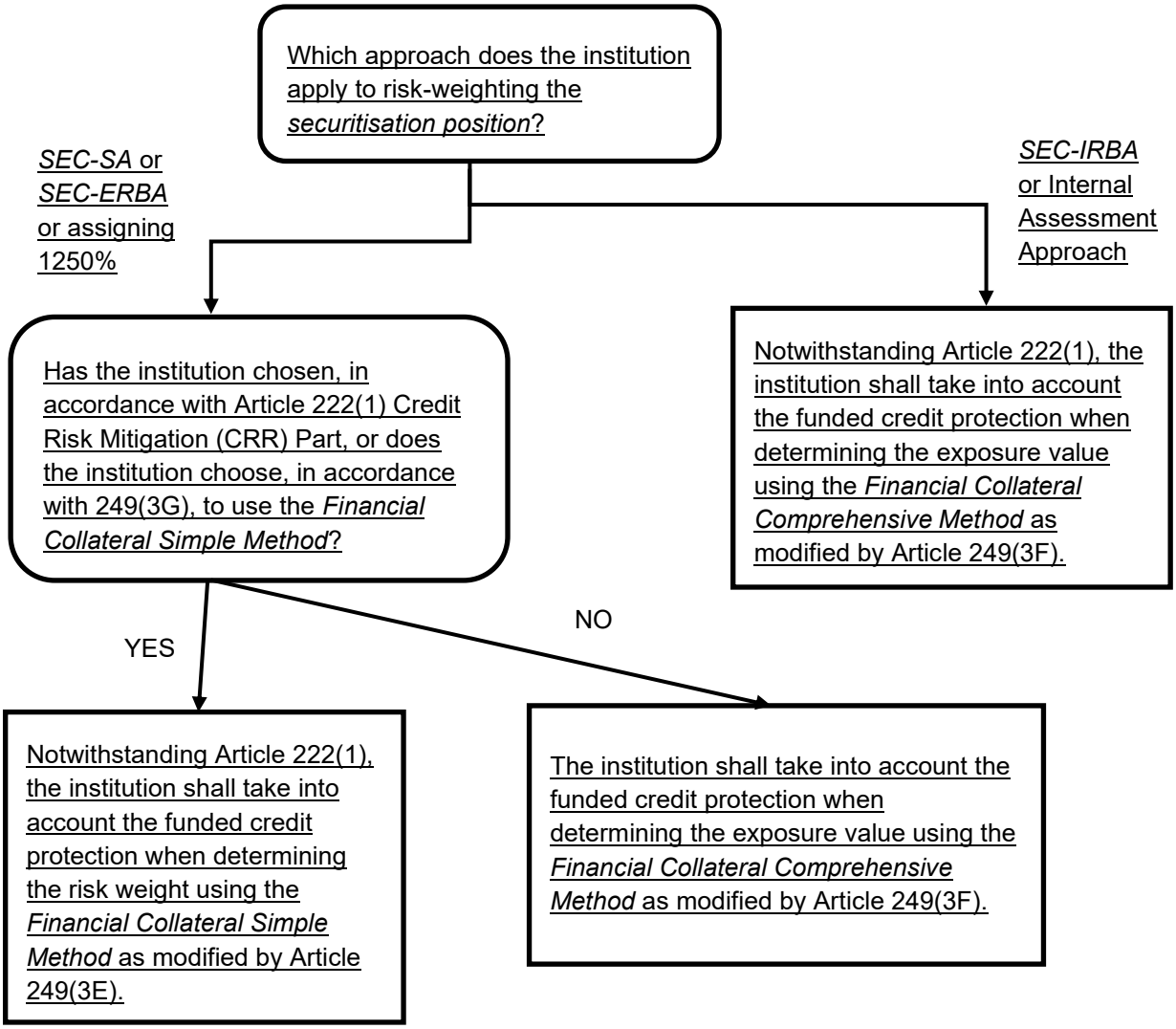
**PART ONE: SECURITISATION POSITION COVERED BY UNFUNDED CREDIT PROTECTION WHICH IS COVERED BY FUNDED CREDIT PROTECTION**



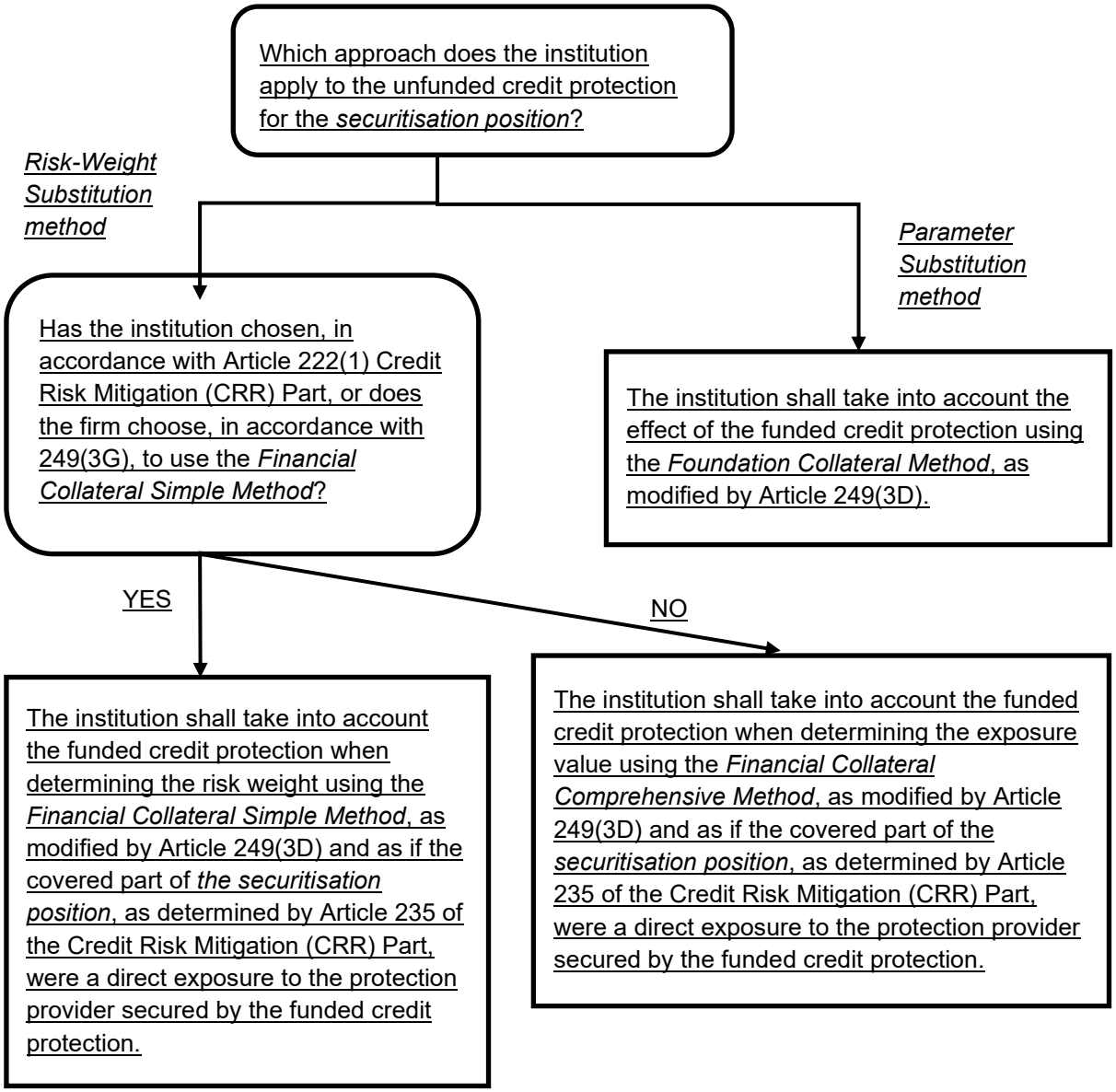
**PART TWO: UNFUNDED CREDIT PROTECTION COVERING A SECURITISATION EXPOSURE**



## PART THREE: FUNDED CREDIT PROTECTION COVERING A SECURITISATION EXPOSURE



**PART FOUR (SUPPLEMENTARY TO PART ONE): FUNDED CREDIT PROTECTION COVERING THE PART OF A SECURITISATION POSITION COVERED BY UNFUNDED PROTECTION**



**Annex D**

**Amendments to the Non-Performing Exposures Securitisation (CRR) Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *CRR firm*; and

(2) a *CRR consolidation entity*.~~;~~

~~for the purpose of its obligations under Parts Two and Three of the *CRR*.~~

1.1A (1) A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

(2) A *CRR consolidation entity* must comply with this Part on a ~~consolidated basis~~*consolidated basis*~~, and for this purpose, references to a *firm* in this Part (other than in 1.1 and 1.1A) are to a *CRR consolidation entity*~~.

(3) A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

1.2 In this Part, the following definitions apply:

*forbearance measure*

means a concession by an institution towards an obligor that is experiencing or is likely to experience difficulties in meeting its financial commitments, where:

(1) a concession may entail a loss for the lender and shall refer to either of the following actions:

(a) a modification of the terms and conditions of a debt obligation, where such modification would not have been granted had the obligor not experienced difficulties in meeting its financial commitments;

(b) a total or partial refinancing of a debt obligation, where such refinancing would not have been granted had the obligor not experienced difficulties in meeting its financial commitments;

(2) at least the following situations shall be considered forbearance measures:

(a) new contract terms are more favourable to the obligor than the previous contract terms, where the obligor is experiencing or is likely to experience difficulties in meeting its financial commitments;

(b) new contract terms are more favourable to the obligor than contract terms offered by the same institution to obligors with a similar risk profile at that time, where the obligor is experiencing or is likely to experience difficulties in meeting its financial commitments;

(c) the exposure under the initial contract terms was classified as non-performing before the modification to the contract terms or would have been classified as non-performing in the absence of modification to the contract terms;

(d) the measure results in a total or partial cancellation of the debt obligation;

(e) the institution approves the exercise of clauses that enable the obligor to modify the terms of the contract and the exposure was classified as non-performing before the exercise of those clauses, or would be classified as non-performing were those clauses not exercised;

(f) at or close to the time of the granting of debt, the obligor made payments of principal or interest on another debt obligation with the same institution, which was classified as a *non-performing exposure* or would have been classified as non-performing in the absence of those payments;

(g) the modification to the contract terms involves repayments made by taking possession of collateral, where such modification constitutes a concession.

(3) the following circumstances are indicators that forbearance measures may have been adopted:

(a) the initial contract was past due by more than 30 days at least once during the three *months* prior to its modification or would be more than 30 days past due without modification;

(b) at or close to the time of concluding the credit agreement, the obligor made payments of principal or interest on another debt obligation with the same institution that was past due by 30 days at least once during the three months prior to the granting of new debt;

(c) the institution approves the exercise of clauses that enable the obligor to change the terms of the contract, and the exposure is 30 days past due or would be 30 days past due were those clauses not exercised;

(4) the difficulties experienced by an obligor in meeting its financial commitments shall be assessed at obligor level, taking into account all the legal entities in the obligor's group which are included in the accounting consolidation of the group, and natural persons who control that group.

[Note: This rule corresponds to Article 47b of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*Non-performing exposure or NPE*

means: ~~an exposure that meets any of the conditions set out in Article 47a(3) of the *CRR*.~~

(1) any of the following:

(a) an exposure in respect of which a default is considered to have occurred in accordance with the Credit Risk: Internal Ratings Based Approach (CRR) Part Article 178;

(b) an exposure which is considered to be impaired in accordance with the applicable accounting framework;

(c) an exposure under probation in accordance with paragraph (6) below, where additional *forbearance measures* are granted or where the exposure becomes more than 30 days past due;

(d) an exposure in the form of a *commitment* that, were it drawn down or otherwise used, would likely not be paid back in full without realisation of collateral;

(e) an exposure in the form of a financial guarantee that is likely to be called by the guaranteed party, including where the underlying guaranteed exposure meets the criteria to be considered as non-performing.

(2) For the purposes of point (1)(a), where an institution has on-balance-sheet exposures to an obligor that are past due by more than 90 days and that represent more than 20% of all on-balance-sheet exposures to that obligor, all on- and off-balance-sheet exposures to that obligor shall be considered to be non-performing.

(3) Exposures that have not been subject to a *forbearance measure* shall cease to be classified as non-performing where all the following conditions are met:

(a) the exposure meets the exit criteria applied by the institution for the discontinuation of the classification as impaired in accordance with the applicable accounting framework and of the classification as defaulted in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 178;

(b) the situation of the obligor has improved to the extent that the institution is satisfied that full and timely repayment is likely to be made;

(c) the obligor does not have any amount past due by more than 90 days.

(4) The classification of a *non-performing exposure* as a non-current asset held for sale in accordance with the applicable accounting framework shall not discontinue its classification as *non-performing exposure*.

(5) *Non-performing exposures* subject to *forbearance measures* shall cease to be classified as non-performing where all the following conditions are met:

(a) the exposures have ceased to be in a situation that would lead to their classification as non-performing under the provisions above;

(b) at least one year has passed since the date on which the *forbearance measures* were granted and the date on which the exposures were classified as non-performing, whichever is later;

(c) there is no past-due amount following the *forbearance measures* and the institution, on the basis of the analysis of the obligor's financial situation, is satisfied that full and timely repayment of the exposure is likely. Full and timely repayment may be considered likely where the obligor has executed regular and timely payments of amounts equal to either of the following:

(i) the amount that was past due before the *forbearance measure* was granted, where there were amounts past due;

(ii) the amount that has been written-off under the *forbearance measures* granted, where there were no amounts past due.

(6) Where a *non-performing exposure* has ceased to be classified as non-performing pursuant to paragraph (5) above, such exposure shall be under probation until all the following conditions are met:

(a) at least two years have passed since the date on which the exposure subject to *forbearance measures* was re-classified as performing;

(b) regular and timely payments have been made during at least half of the period that the exposure would be under probation, leading to the payment of a substantial aggregate amount of principal or interest;

(c) none of the exposures to the obligor is more than 30 days past due.

[Note: This rule corresponds to Article 47a(3) to (7) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*NPE securitisation*

means a securitisation backed by a pool of ~~non-performing exposures~~ *non-performing exposures* the nominal value of which makes up not less than 90% of the entire pool's nominal value at the time of origination and at any later time where assets are added to or removed from the underlying pool due to replenishment or restructuring.

…

**Annex E**

**Amendments to the Counterparty Credit Risk (CRR) 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:

*actual distribution*

means a *distribution of market values* or exposures at a future time period where the distribution is calculated using historical or realised values such as volatilities calculated using past price or rate changes.

[Note: This rule corresponds to Article 272(16) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*contractual cross product netting agreement*

means a bilateral contractual agreement between an institution and a counterparty which creates a single legal obligation (based on netting of covered transactions) covering all bilateral master agreements and transactions belonging to different product categories that are included within the agreement.

For the purposes of this definition, 'different product categories' means:

(1) repurchase transactions, securities and commodities lending and borrowing transactions;

(2) *margin lending transactions*;

(3) the contracts listed in Annex 1 of Chapter 3 of this Part.

[Note: This rule corresponds to Article 272(25) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*counterparty credit risk or CCR*

means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

[Note: This rule corresponds to Article 272(1) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*cross-product netting*

means the inclusion of transactions of different product categories within the same *netting set* pursuant to the cross-product netting rules set out in this Part.

[Note: This rule corresponds to Article 272(11) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*current exposure*

means the larger of zero and the market value of a transaction or portfolio of transactions within a *netting set* with a counterparty that would be lost upon the default of the

counterparty, assuming no recovery on the value of those transactions in insolvency or liquidation.

[Note: This rule corresponds to Article 272(17) of the *CRR* as it applied immediately before its revocation by the Treasury]

*current market value or CMV*

means the net market value of all the transactions within a ~~netting set~~*netting set* gross of any collateral held or posted where positive and negative market values are netted in computing the *CMV*.

[Note: This rule corresponds to Article 272(12) of the *CRR* as it applied immediately before revocation by the *Treasury*.]

*distribution of exposures*

means the forecast of the probability *distribution of market values* that is generated by setting forecast instances of negative net market values equal to zero.

[Note: This rule corresponds to Article 272(14) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*distribution of market values*

means the forecast of the probability distribution of net market values of transactions within a *netting set* for a future date (the forecasting horizon), given the realised market value of those transactions at the date of the forecast.

[Note: This rule corresponds to Article 272(13) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*effective expected exposure at a specific date or Effective EE*

means the maximum *expected exposure* that occurs at that date or any prior date. Alternatively, an institution may define it for a specific date as the greater of the *expected exposure* at that date or the effective *expected exposure* at any prior date.

[Note: This rule corresponds to Article 272(20) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*effective expected positive exposure or Effective EPE*

means the weighted average of effective *expected exposure* over the first year of a *netting set* or, if all the contracts within the *netting set* mature within less than one year, over the time period of the longest maturity contract in the *netting set*, where the weights are the proportion of the entire time period that an individual *expected exposure* represents.

[Note: This rule corresponds to Article 272(22) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*effective maturity*

under the Internal Model Method for a *netting set* with maturity greater than one year means the ratio of the sum of *expected exposure* over the life of the transactions in the *netting set* discounted at the risk-free rate of return, divided by the sum of *expected exposure* over one year in the *netting set* discounted at the risk-free rate.

This effective maturity may be adjusted to reflect *rollover risk* by replacing *expected exposure* with effective *expected exposure* for forecasting horizons under one year.

[Note: This rule corresponds to Article 272(10) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*expected exposure or EE*

means the average of the *distribution of exposures* at a particular future date before the longest maturity transaction in the *netting set* matures.

[Note: This rule corresponds to Article 272(19) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*expected positive exposure or EPE*

means the weighted average over time of *expected exposures*, where the weights are the proportion of the entire time period that an individual *expected exposure* represents.

When calculating the own funds requirement, institutions shall take the average over the first year or, if all the contracts within the *netting set* mature within less than one year, over the time period until the contract with the longest maturity in the *netting set* has matured.

[Note: This rule corresponds to Article 272(21) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*hedging set*

means a group of transactions within a single ~~netting set~~*netting set* for which full or partial offsetting is allowed for determining the potential future exposure under the methods set out in Section 3 or 4 of ~~this~~ Chapter 3.

[Note: This rule corresponds to Article 272(6) of the *CRR* as it applied immediately before revocation by the *Treasury*]

*long settlement transactions*

means transactions where a counterparty undertakes to deliver a security, a commodity, or a foreign exchange amount against cash, other financial instruments, or commodities, or vice versa, at a settlement or delivery date specified by contract that is later than the market standard for this particular type of transaction or five *business days* after the date on which the institution enters into the transaction, whichever is earlier.

[Note: This rule corresponds to Article 272(2) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*margin agreement*

means an agreement or provisions of an agreement under which one counterparty must supply collateral to a second counterparty when an exposure of that second counterparty to the first counterparty exceeds a specified level.

[Note: This rule corresponds to Article 272(7) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*margin lending transactions*

means transactions in which an institution extends credit in connection with the purchase, sale, carrying or trading of securities. Margin lending transactions do not include other loans that are secured by collateral in the form of securities.

[Note: This rule corresponds to Article 272(3) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*net independent collateral amount or NICA*

means the sum of the volatility-adjusted value of net collateral received or posted, as applicable, to the ~~netting set~~*netting set* other than variation margin.

…

*one way margin agreement*

means a ~~margin agreement~~*margin agreement* under which an institution is required to post variation margin to a counterparty but is not entitled to receive variation margin from that counterparty or vice-versa.

…

*peak exposure*

means a high percentile of the *distribution of exposures* at particular future date before the maturity date of the longest transaction in the *netting set*.

[Note: This rule corresponds to Article 272(18) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*risk-neutral distribution*

means a *distribution of market values* or exposures over a future time period where the distribution is calculated using market implied values such as implied volatilities.

[Note: This rule corresponds to Article 272(15) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

*rollover risk*

means the amount by which *EPE* is understated when future transactions with a counterparty are expected to be conducted on an ongoing basis.

The additional exposure generated by those future transactions is not included in calculation of *EPE*.

[Note: This rule corresponds to Article 272(23) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

1.4 For the purposes of Section 7 of Chapter 3 of this Part, 'counterparty' means any legal or natural person that enters into a netting agreement, and has the contractual capacity to do so.

[Note: This rule corresponds to Article 272(24) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

## 2 LEVEL OF APPLICATION

2.1 ~~Title II of Part One (Level of application) of the *CRR* applies to Chapter 3 of this Part as that Title applies to Part Three (Capital Requirements) of the *CRR*.~~A *firm* to which this Part applies shall comply with this Part on an *individual basis*.

2.2 A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

2.3 An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

## 3 COUNTERPARTY CREDIT RISK (PART THREE, TITLE TWO, CHAPTER SIX CRR)

### SECTION 1 DEFINITIONS

### Article 271 DETERMINATION OF THE EXPOSURE VALUE

~~[Note: Article 271 remains in the *CRR*]~~

1. An institution shall determine the exposure value of derivative instruments listed in Annex 1 of Chapter 3 in accordance with this Chapter.

2. An institution may, subject to paragraph 3 of this Article, determine the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, *long settlement transactions* and *margin lending transactions* in accordance with this Chapter instead of the Credit Risk Mitigation (CRR) Part.

3. An institution which has a *138BA permission* to use the Internal Model Method (IMM) must determine the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, *long settlement transactions* and *margin lending transactions* that are within the scope of that *138BA permission* in accordance with the method set out in Section 6 of this Chapter to the extent and subject to any modifications set out in the *138BA permission*.

[Note: This rule corresponds to Article 271 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

### Article 272 DEFINITIONS

[Note: Article 272 (1)~~, (2), (3), (4), (7), (9), (10), (11), and (13) to (25) remain in the *CRR*. Article 272 (6), (8), (12), and (26)~~ – (26) are set out above at rule 1.2 and 1.4. Article 272 (5) has been deleted]

### SECTION 2 METHODS FOR CALCULATING THE EXPOSURE VALUE

### Article 273 METHODS FOR CALCULATING THE EXPOSURE VALUE

…

2. Where an institution is permitted by the ~~competent authorities~~*PRA* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and to apply the method set out in Section 6 of this Chapter in accordance with Article 283(1)~~ and (2)~~, an institution ~~may~~shall determine the exposure value for the following items using the ~~Internal Model Method~~IMM set out in Section 6 of this Chapter:

(a) the contracts listed in Annex ~~II~~1 of ~~the *CRR*~~ this Chapter;

(b) repurchase transactions;

(c) securities or commodities lending or borrowing transactions;

(d) ~~margin lending transactions~~*margin lending transactions*;

(e) ~~long settlement transactions~~*long settlement transactions*,~~.~~

to the extent and subject to any modifications set out in the *138BA permission*.

…

4. Notwithstanding paragraph 3, an institution may choose consistently to include for the purposes of calculating own funds requirements for ~~counterparty credit risk~~*counterparty credit risk* all credit derivatives not included in the trading book and purchased as protection against a non-trading book exposure or against a ~~counterparty credit risk~~*counterparty credit risk* exposure where the credit protection is recognised under the *CRR*.

…

6. Under the methods set out in Sections 3 to 6 of this Chapter, the exposure value for a given counterparty shall be equal to the sum of the exposure values calculated for each ~~netting set~~ *netting set* with that counterparty.

   By way of derogation from the first subparagraph, where one ~~margin agreement~~*margin agreement* applies to multiple~~ netting sets~~ *netting sets* with that counterparty and the institution is using one of the methods set out in Sections 3 to 6 to calculate the exposure value of those ~~netting sets~~*netting sets*, the exposure value shall be calculated in accordance with the relevant Section.

   For a given counterparty, the exposure value for a given ~~netting set~~*netting set* of OTC derivative instruments listed in Annex ~~II~~1 of ~~the *CRR*~~this Part calculated in accordance with this Chapter shall be the greater of zero and the difference between the sum of exposure values across all ~~netting sets~~*netting sets* with the counterparty and the sum of credit valuation adjustments for that counterparty being recognised by the institution as an incurred write-down. The credit valuation adjustments shall be calculated without taking into account any offsetting debit value adjustment attributed to the own credit risk of the firm that has been already excluded from own funds under Article 33(1) Own Funds (CRR) Part.

…

8. An institution which determines the exposure value of *long settlement transactions* in accordance with this Chapter,~~Institutions~~ shall determine the exposure value for exposures arising from ~~long settlement transactions~~*long settlement transactions* by any of the methods set out in Sections 3 to 6 of this Chapter, regardless of which method the institution has chosen for treating OTC derivatives and repurchase transactions, securities or commodities lending or borrowing transactions, and ~~margin lending transactions~~*margin lending transactions*, provided that if an institution has a *138BA permission* to use the IMM for *long settlement transactions*, it shall determine the exposure value of *long settlement transactions* in accordance with its *138BA permission*. In calculating the own funds requirements for ~~long settlement transactions~~*long settlement transactions*, an institution that uses the approach set out in ~~Chapter 3~~the Credit Risk: Internal Ratings Based Approach (CRR) Part may assign the risk weights under the approach set out in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of the *CRR* on a permanent basis and irrespective of the materiality of such positions.

…

**Article 273a CONDITIONS FOR USING SIMPLIFIED METHODS FOR CALCULATING THE EXPOSURE VALUE**

…

4. By way of derogation from paragraph 1 or 2, as applicable, where the derivative business on a ~~consolidated basis~~*consolidated basis* does not exceed the thresholds set out in paragraph 1 or 2, as applicable, an institution which is included in the consolidation and which would have to apply the method set out in Section 3 or 4 because it exceeds those thresholds on an ~~individual basis~~*individual basis*, may, subject to the approval of ~~competent authorities~~the *PRA*, instead choose to apply the method that would apply on a ~~consolidated basis~~*consolidated basis*.

…

5. Institutions shall notify the ~~competent authorities~~ *PRA* of the methods set out in Section 4 or 5 of this Chapter that they use, or cease to use, as applicable, to calculate the exposure value of their derivative positions.

…

**Article 273b NON-COMPLIANCE WITH THE CONDITIONS FOR USING SIMPLIFIED METHODS FOR CALCULATING THE EXPOSURE VALUE OF DERIVATIVES**

1. An institution that no longer meets one or more of the conditions set out in Article 273a(1) or (2) shall immediately notify the ~~competent authority~~*PRA* thereof.

   …

3. Where an institution has ceased to calculate the exposure values of its derivative positions in accordance with Section 4 or 5 of this Chapter, as applicable, it shall only be permitted to resume calculating the exposure value of its derivative positions as set out in Section 4 or 5 of this Chapter where it demonstrates to the ~~competent authority~~*PRA* that all the conditions set out in Article 273a(1) or (2) have been met for an uninterrupted period of one year.

   [Note: This is a permission under section 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

**SECTION 3 STANDARDISED APPROACH FOR COUNTERPARTY CREDIT RISK**

**Article 274 EXPOSURE VALUE**

1. An institution may calculate a single exposure value at ~~netting set~~*netting set* level for all the transactions covered by a contractual netting agreement where all the following conditions are met:

   …

   (b) ~~the netting agreement has been recognised by competent authorities in accordance with Article 296;~~the netting agreement satisfies the requirements referred to in paragraphs 2 and 3 of Article 296 and Article 297;

   …

   Where any of the conditions set out in the first subparagraph are not met, the institution shall treat each transaction as if it was its own ~~netting set~~*netting set*.

2. Institutions shall calculate the exposure value of a ~~netting set~~*netting set* under the standardised approach for ~~counterparty credit risk~~*counterparty credit risk* as follows:

…

2A.

(1) Subject to sub-paragraph 2, for transactions entered into prior to 1 January 2027 with a counterparty referred to in point (a) or (b) of Credit Valuation Adjustment Risk Part 7.1(1), an institution shall add the following percentages of the *alpha add-on* to the exposure value of the ~~netting set~~*netting set*:

...

(2) An institution is not required to add the percentages of the *alpha add-on* required by paragraph 1 to the exposure value of the ~~netting set~~*netting set* from the date where it ceases to apply the treatment in Credit Valuation Adjustment Risk Part 7.1(1) or (2).

...

3. The exposure value of a ~~netting set~~*netting set* that is subject to a contractual ~~margin agreement~~*margin agreement* shall be capped at the exposure value of the same ~~netting set~~*netting set* not subject to any form of ~~margin agreement~~*margin agreement*.

4. Where multiple ~~margin agreements~~*margin agreements* apply to the same ~~netting set~~*netting set*, institutions shall calculate the replacement cost of the ~~netting set~~*netting set* in accordance with Article 275(2) for margined transactions. The potential future exposure of the ~~netting set~~*netting set* shall be calculated in accordance with Article 278 with the modification that AggAddOn shall be set equal to the sum of AggAddOn across each sub-netting set, with sub-netting sets constructed as follows:

(a) all transactions that are unmargined or are subject to a *one way margin agreement* where the institution is required to post, but not entitled to receive, variation margin, within the ~~netting set~~*netting set* form a single sub-netting set;

(b) all margined transactions within the ~~netting set~~*netting set* that share the same ~~margin period of risk~~*margin period of risk* form a single sub-netting set.

5. Institutions may set to zero the exposure value of a ~~netting set~~*netting set* that satisfies all the following conditions:

(a) the ~~netting set~~*netting set* is solely composed of sold options;

(b) the *current market value* of the ~~netting set~~*netting set* is at all times negative;

(c) the premium of all the options included in the ~~netting set~~*netting set* has been received upfront by the institution to guarantee the performance of the contracts;

(d) the ~~netting set~~*netting set* is not subject to any ~~margin agreement~~*margin agreement*.

6. In a ~~netting set~~*netting set*, institutions shall replace a transaction which is a finite linear combination of bought or sold call or put options with all the single options that form that linear combination, taken as an individual transaction, for the purpose of calculating the exposure value of the ~~netting set~~*netting set* in accordance with this Section. Each such combination of options shall be treated as an individual transaction in the ~~netting set~~*netting set* in which the combination is included for the purpose of calculating the exposure value.

7. The exposure value of a credit derivative transaction representing a long position in the underlying may be capped to the amount of outstanding unpaid premium provided it is treated as its own ~~netting set~~*netting set* that is not subject to a ~~margin agreement~~*margin agreement*.

**Article 275 REPLACEMENT COST**

1. Institutions shall calculate the replacement cost RC for ~~netting sets~~*netting sets* that are not subject to a ~~margin agreement~~*margin agreement*, or are subject to a *one way margin agreement* where the institution is required to post, but not entitled to receive, variation margin, in accordance with the following formula:

   RC = max{*CMV* – *NICA*, 0}

   For ~~netting sets~~*netting sets* that are subject to *one way margin agreements* where the institution is required to post, but not entitled to receive, variation margin, NICA shall include VM (as defined in paragraph 2).

2. Institutions shall calculate the replacement cost for single ~~netting sets~~*netting sets* that are subject to ~~margin agreements~~*margin agreements* (other than those subject to the treatment under Article 275(1)) in accordance with the following formula:

   …

   VM = the volatility-adjusted value of the net variation margin received or posted, as applicable, to the ~~netting set~~*netting set* on a regular basis to mitigate changes in the ~~netting set's~~*netting set's CMV*;

   TH = the *margin threshold* applicable to the ~~netting set~~*netting set* under the ~~margin agreements~~*margin agreements* below which the institution cannot call for collateral; and

   MTA = the minimum transfer amount applicable to the ~~netting set~~*netting set* under the ~~margin agreements~~*margin agreements*.

3. Institutions shall calculate the replacement cost for multiple ~~netting sets~~*netting sets* that are subject to the same ~~margin agreement~~*margin agreement* in accordance with the following formula:

   …

   where:

   RC = the replacement cost;

   i = the index that denotes the ~~netting sets~~*netting sets* that are subject to the single ~~margin agreement~~*margin agreement*;

   $CMV_i$ = the *CMV* of ~~netting set~~*netting set* i;

   $VM_{MA}$ = the sum of the volatility-adjusted value of collateral received or posted, as applicable, to multiple ~~netting sets~~*netting sets* on a regular basis to mitigate changes in their *CMV*; and

   $NICA_{MA}$ = the sum of the volatility-adjusted value of collateral received or posted, as applicable, to multiple ~~netting sets~~*netting sets* other than $VM_{MA}$.

   For the purposes of the first subparagraph, $NICA_{MA}$ may be calculated at trade level, at ~~netting set~~*netting set* level or at the level of all the ~~netting sets~~*netting sets* to which the ~~margin agreement~~*margin agreement* applies depending on the level at which the ~~margin agreement~~*margin agreement* applies.

**Article 276 RECOGNITION AND TREATMENT OF COLLATERAL**

1. …

(a) where all the transactions included in a ~~netting set~~*netting set* belong to the trading book, only collateral that is eligible under Articles 197 and 299 shall be recognised;

(b) where a ~~netting set~~*netting set* contains at least one transaction that belongs to the non-trading book, only collateral that is eligible under Article 197 shall be recognised;

…

3. For the purposes of point (d) of paragraph 1, institutions shall set the liquidation period relevant for the calculation of the volatility-adjusted value of any collateral received or posted in accordance with one of the following time horizons:

(a) the longest remaining maturity of transactions in the ~~netting set~~*netting set*, capped at *OneBusinessYear*, for the ~~netting sets~~*netting sets* referred to in Article 275(1);

(b) the ~~margin period of risk~~*margin period of risk* determined in accordance with point (b) of Article 279c(1) for the ~~netting sets~~*netting sets* referred to in Article 275(2) and (3).

**Article 277 MAPPING OF TRANSACTIONS TO RISK CATEGORIES**

1. Institutions shall map each transaction of a ~~netting set~~*netting set* to one of the following risk categories to determine the potential future exposure of the ~~netting set~~*netting set* referred to in Article 278:

…

**Article 277a HEDGING SETS**

1. Institutions shall establish the relevant *hedging sets* for each risk category of a ~~netting set~~*netting set* and assign each transaction to those *hedging sets* as follows:

…

3. Institutions shall be able to make available upon request by the ~~competent authorities~~*PRA* the number of *hedging sets* established in accordance with paragraph 2 of this Article for each risk category, with the primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), or the pair of risk drivers of each of those *hedging sets* and with the number of transactions in each of those *hedging sets*.

…

**Article 278 POTENTIAL FUTURE EXPOSURE**

1. Institutions shall calculate the potential future exposure of a ~~netting set~~*netting set* as follows:

…

a = the index that denotes the risk categories included in the calculation of the potential future exposure of the ~~netting set~~*netting set*;

…

For the purpose of this calculation, institutions shall include the add-on of a given risk category in the calculation of the potential future exposure of a ~~netting set~~*netting set* where at least one transaction of the ~~netting set~~*netting set* has been mapped to that risk category.

2. The potential future exposure of multiple ~~netting sets~~*netting sets* that are subject to one ~~margin agreement~~*margin agreement*, as referred in Article 275(3), shall be calculated as the sum of the potential future exposures of all the individual ~~netting sets~~*netting sets* as if they were not subject to any form of a ~~margin agreement~~*margin agreement*.

3. For the purposes of paragraph 1, the multiplier shall be calculated as follows:

…

$NICA_i$ = the *net independent collateral amount* calculated only for transactions that are included in ~~netting set~~*netting set* i. $NICA_i$ shall be calculated at trade level or at ~~netting set~~*netting set* level depending on the ~~margin agreement~~*margin agreement*.

**Article 279 CALCULATION OF THE RISK POSITION**

For the purpose of calculating the risk category add-ons referred to in Articles 280a to 280f, institutions shall calculate the risk position of each transaction of a ~~netting set~~*netting set* as follows:

…

…

**Article 279b ADJUSTED NOTIONAL AMOUNT**

1. Institutions shall calculate the adjusted notional amount as follows:

(a)…

The start date of a transaction is the earliest date at which at least a contractual payment under the transaction, to or from the institution, is either fixed or exchanged, other than payments related to the exchange of collateral in a ~~margin agreement~~*margin agreement*. Where the transaction has already been fixing or making payments at the calculation date, the start date of a transaction shall be equal to 0.

Where a transaction involves one or more contractual future dates on which the institution or the counterparty may decide to terminate the transaction prior to its contractual maturity, the start date of a transaction shall be equal to the earliest of the following:

(i) the date or the earliest of the multiple future dates at which the institution or the counterparty may decide to terminate the transaction earlier than its contractual maturity;

(ii) the date at which a transaction starts fixing or making payments, other than payments related to the exchange of collateral in a ~~margin agreement~~*margin agreement*.

…

**Article 279c MATURITY FACTOR**

1. Institutions shall calculate the maturity factor as follows:

(a) for transactions included in the ~~netting sets~~*netting sets* referred to in Article 275(1), institutions shall use the following formula:

…

(b) for transactions included in the ~~netting sets~~*netting sets* referred to in Article 275(2) and (3), the maturity factor is defined as:

…
where:

MF = the maturity factor;

MPOR = the ~~margin period of risk~~*margin period of risk* of the ~~netting set~~*netting set* determined in accordance with Article 285(2) to (5); and

When determining the ~~margin period of risk~~*margin period of risk* for transactions between a client and a clearing member, an institution acting either as the client or as the clearing member shall replace the minimum period set out in point (b) of Article 285(2) with five ~~business days~~*business days*.

…

**Article 280a INTEREST RATE RISK CATEGORY ADD-ON**

1. For the purposes of Article 278, institutions shall calculate the interest rate risk category add-on for a given ~~netting set~~*netting set* as follows:

…

where:

…

j = the index that denotes all the interest risk rate *hedging sets* established in accordance with point (a) of Article 277a(1) and with Article 277a(2) for the ~~netting set~~*netting set*; and

…

**Article 280b FOREIGN EXCHANGE RISK CATEGORY ADD-ON**

1. For the purposes of Article 278, institutions shall calculate the foreign exchange risk category add-on for a given ~~netting set~~*netting set* as follows:

…

J = the index that denotes the foreign exchange risk *hedging sets* established in accordance with point (b) of Article 277a(1) and with Article 277a(2) for the ~~netting set~~*netting set*; and

…

**Article 280c CREDIT RISK CATERGORY ADD-ON**

1. For the purposes of paragraph 2, institutions shall establish the relevant credit reference entities of the ~~netting set~~*netting set* in accordance with the following:

…

2. For the purposes of Article 278, institutions shall calculate the credit risk category add-on for a given ~~netting set~~*netting set* as follows:

…

j = the index that denotes all the credit risk *hedging sets* established in accordance with point (c) of Article 277a(1) and with Article 277a(2) for the ~~netting set~~*netting set*; and

…

3. Institutions shall calculate the credit risk category add-on for *hedging set* j as follows:

…

k = the index that denotes the credit reference entities of the ~~netting set~~*netting set* established in accordance with paragraph 1;

…

…

5. Institutions shall calculate the supervisory factor applicable to the credit reference entity k as follows:

…

(i) an institution using the approach referred to in ~~Chapter 3~~the Credit Risk: Internal Ratings Based Approach (CRR) Part shall map the internal rating of the individual issuer to one of the external credit assessments;

(ii) an institution using the approach referred to in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* shall assign $\mathrm{SF}_{k,1}^{\mathrm{Credit}}$ = 0.54% to that credit reference entity; however, where an institution applies Article 128 to risk weight ~~counterparty credit risk~~*counterparty credit risk* exposures to that individual issuer, $\mathrm{SF}_{k,1}^{\mathrm{Credit}}$=1.6% shall be assigned to that credit reference entity;

…

**Article 280d EQUITY RISK CATEGORY ADD-ON**

1. For the purposes of paragraph 2, institutions shall establish the relevant equity reference entities of the ~~netting set~~*netting set* in accordance with the following:

…

2. For the purposes of Article 278, institutions shall calculate the equity risk category add-on for a given ~~netting set~~*netting set* as follows:

…

j = the index that denotes all the equity risk *hedging sets* established in accordance with point (d) of Article 277a(1) and Article 277a(2) for the ~~netting set~~*netting set*; and

…

3. Institutions shall calculate the equity risk category add-on for *hedging set* j as follows:

…

k = the index that denotes the equity reference entities of the ~~netting set~~*netting set* established in accordance with paragraph 1;

…

…

**Article 280e COMMODITY RISK CATEGORY ADD-ON**

1. For the purposes of Article 278, institutions shall calculate the commodity risk category add-on for a given ~~netting set~~*netting set* as follows:

…

j = the index that denotes the commodity *hedging sets* established in accordance with point (e) of Article 277a(1) and with Article 277a(2) for the ~~netting set~~*netting set*; and

…

2. For the purpose of calculating the add-on for a commodity *hedging set* of a given ~~netting set~~*netting set* in accordance with paragraph 4, institutions shall establish the relevant commodity reference types of each *hedging set*. Commodity derivative transactions shall be

assigned to the same commodity reference type only where the underlying commodity instrument of those transactions has the same nature, irrespective of the delivery location and quality of the commodity instrument.

…

…

4. Institutions shall calculate the commodity risk category add-on for *hedging set* j as follows:

…

k = the index that denotes the commodity reference types of the ~~netting set~~*netting set* established in accordance with paragraph 2; and

…

…

**Article 280f OTHER RISKS CATEGORY ADD-ON**

1. For the purposes of Article 278, institutions shall calculate the other risks category add-on for a given ~~netting set~~*netting set* as follows:

…

j = the index that denotes the other risk *hedging sets* established in accordance with point (f) of Article 277a(1) and Article 277a(2) for the ~~netting set~~*netting set*; and

…

**SECTION 4 SIMPLIFIED STANDARDISED APPROACH FOR COUNTERPARTY CREDIT RISK**

**Article 281 CALCULATION OF THE EXPOSURE VALUE**

1. Institutions shall calculate a single exposure value at ~~netting set~~*netting set* level in accordance with Section 3, subject to paragraph 2 of this Article.

2. The exposure value of a ~~netting set~~*netting set* shall be calculated in accordance with the following requirements:

(a) institutions shall not apply the treatment referred to in Article 274(6);

(b) by way of derogation from Article 275(1), for ~~netting sets~~*netting sets* that are not referred to in Article 275(2), institutions shall calculate the replacement cost in accordance with the following formula:

…

(c) by way of derogation from Article 275(2), for ~~netting sets~~*netting sets* of transactions: that are traded on a recognised exchange; that are centrally cleared by a central counterparty authorised in accordance with Article 14 of Regulation (EU) No 648/2012 or recognised in accordance with Article 25 of that Regulation; or for which collateral is exchanged bilaterally with the counterparty in accordance with Article 11 of Regulation (EU) No 648/2012, institutions shall calculate the replacement cost in accordance with the following formula:

…

TH = the *margin threshold* applicable to the ~~netting set~~*netting set* under the ~~margin agreement~~*margin agreement* below which the institution cannot call for collateral; and

MTA = the minimum transfer amount applicable to the ~~netting set~~*netting set* under the ~~margin agreement~~*margin agreement*;

(d) by way of derogation from Article 275(3), for multiple ~~netting sets~~*netting sets* that are subject to a ~~margin agreement~~*margin agreement*, institutions shall calculate the replacement cost as the sum of the replacement cost of each individual ~~netting set~~*netting set*, calculated in accordance with paragraph 1 as if they were not margined;

…

(i) the maturity factor referred to in Article 279c(1) shall be calculated as follows:

(i) for transactions included in ~~netting sets~~*netting sets* referred to in Article 275(1), MF = 1;

(ii) for transactions included in ~~netting sets~~*netting sets* referred to in Article 275(2) and (3), MF = 0.42;

…

## SECTION 5 ORIGINAL EXPOSURE METHOD

### Article 282 CALCULATION OF THE EXPOSURE VALUE

1. Institutions may calculate a single exposure value for all the transactions within a contractual netting agreement where all the conditions set out in Article 274(1) are met. Otherwise, institutions shall calculate an exposure value separately for each transaction, which shall be treated as its own ~~netting set~~*netting set*.

2. The exposure value of a ~~netting set~~*netting set* or a transaction shall be the product of 1.4 times the sum of the current replacement cost and the potential future exposure.

3. The current replacement cost referred to in paragraph 2 shall be calculated as follows:

(a) for ~~netting sets~~*netting sets* of transactions: that are traded on a recognised exchange; centrally cleared by a central counterparty authorised in accordance with Article 14 of Regulation (EU) No 648/2012 or recognised in accordance with Article 25 of that Regulation; or for which collateral is exchanged bilaterally with the counterparty in accordance with Article 11 of Regulation (EU) No 648/2012, institutions shall use the following formula:

…

TH = the *margin threshold* applicable to the ~~netting set~~*netting set* under the ~~margin agreement~~*margin agreement* below which the institution cannot call for collateral; and

MTA = the minimum transfer amount applicable to the ~~netting set~~*netting set* under the ~~margin agreement~~*margin agreement*;

(b) for all other ~~netting sets~~*netting sets* or individual transactions, institutions shall use the following formula:

…

4. Institutions shall calculate the potential future exposure referred to in paragraph 2 as follows:

(a) the potential future exposure of a ~~netting set~~*netting set* is the sum of the potential future exposure of all the transactions included in the ~~netting set~~*netting set*, calculated in accordance with point (b);

…

…

(d) the potential future exposure of ~~netting sets~~*netting sets* referred to in point (a) of paragraph 3 shall be multiplied by 0.42.

…

~~[Note: Articles 283 to 299 remain in the *CRR*]~~

## SECTION 6 INTERNAL MODEL METHOD

### Article 283 PERMISSION TO USE THE INTERNAL MODEL METHOD

1. An institution that has a *138BA permission* from the *PRA* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and to apply the method set out in Section 6 of this Chapter shall use the Internal Model Method (IMM) to calculate the exposure value for any of the following transactions:

   (a) transactions in Article 273(2)(a);

   (b) transactions in Article 273(2)(b), (c) and (d);

   (c) transactions in Article 273(2)(a) to (d),

   to the extent and subject to any modifications set out in the *138BA permission*.

   Where an institution has a *138BA permission* from the *PRA* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and uses the IMM to calculate exposure value for any of the transactions mentioned in points (a) to (c) of the first paragraph, it may also be granted a *138BA permission* to use the IMM for the transactions in Article 273(2)(e), and in this case shall calculate the exposure value for those transactions using the IMM.

   Notwithstanding the third subparagraph of Article 273(1), an institution may choose not to apply this method to exposures that are immaterial in size and risk. In such case, an institution shall apply one of the methods set out in Sections 3 to 5 of this Chapter to these exposures where the relevant requirements for each approach are met.

2. [Note: Provision left blank]

3. Institutions that have been granted a *138BA permission* to use the IMM which provides for implementation of the IMM sequentially across different transaction types shall use the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) for transaction types for which they do not use the IMM during the period of sequential implementation, as specified in the *138BA permission*.

4. For all OTC derivative transactions, and for *long settlement transactions* (where the exposure value of *long settlement transactions* is determined in accordance with this Chapter) for which an institution has not received a *138BA permission* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and use the IMM, the institution shall use the method set out in Section 3 of this Chapter. Those methods may be used in combination on a permanent basis within a group.

5. An institution that has a *138BA permission* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and uses the IMM shall not revert to the use of the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) unless it has a *138BA permission* from the *PRA* to do so.

6. If an institution ceases to comply with the requirements laid down in this Section (Section 6 of this Chapter), it shall notify the *PRA* and do one of the following:

   (a) present to the *PRA* a plan for a timely return to compliance;

   (b) demonstrate to the *PRA* that the effect of non-compliance is immaterial.

[Note: This rule corresponds to Article 283 of the *CRR* as it applied immediately before its revocation by the *Treasury* except there is no corresponding rule for Article 283(2) of the *CRR*]

**Article 284 EXPOSURE VALUE**

1. Where an institution has a *138BA permission* to use the IMM to calculate the exposure value of some or all transactions mentioned in Article 283(1), it shall measure the exposure value of those transactions at the level of the *netting set*.

   The model used by the institution for that purpose shall:

   (a) specify the forecasting distribution for changes in the market value of the *netting set* attributable to joint changes in relevant market variables, such as interest rates, foreign exchange rates; and

   (b) calculate the exposure value for the *netting set* at each of the future dates on the basis of the joint changes in the market variables.

2. In order for the model to capture the effects of margining, the model of the collateral value shall meet the quantitative, qualitative and data requirements for the IMM in accordance with this Section and the institution may include in its forecasting distributions for changes in the market value of the *netting set* only eligible financial collateral as referred to in the Credit Risk Mitigation (CRR) Part Articles 197 and 198, and point (d) of Article 299(2) and Article 299A of this Part.

3. The own funds requirement for *counterparty credit risk* with respect to the *CCR* exposures to which an institution applies the IMM, shall be the higher of the following:

   (a) the own funds requirement for those exposures calculated on the basis of *Effective EPE* using current market data;

   (b) the own funds requirement for those exposures calculated on the basis of *Effective EPE* using a single consistent stress calibration for all *CCR* exposures to which they apply the IMM.

4. Except for counterparties identified as having Specific Wrong-way Risk that fall within the scope of Article 291(4) and (5), institutions shall calculate the exposure value as the product of alpha (α) times *Effective EPE*, as follows:

$$Exposure\ value\ =\ \alpha \cdot Effective\ EPE$$

   where:

   $\alpha\ =\ 1.4$, unless otherwise specified in the institution's *138BA permission*

   *Effective EPE* shall be calculated by estimating *expected exposure* as the average exposure at future date t, where the average is taken across possible future values of relevant market risk factors.

   The model shall estimate *EE* at a series of future dates t1, t2, t3, etc.

5. Institutions shall calculate *Effective EE* recursively as:

$$Effective\ EE_{tk} = \max\{Effective\ EE_{tk-1},\ EE_{tk}\}$$

where:
the current date is denoted as $t_0$;
*Effective* $EE_{t0}$ equals *current exposure*.

6. *Effective EPE* is the average *Effective EE* during the first year of future exposure. If all contracts in the *netting set* mature within less than one year, *EPE* shall be the average of *EE* until all contracts in the *netting set* mature. Institutions shall calculate *Effective EPE* as a weighted average of *Effective EE*:

$$Effective\ EPE = \frac{1}{min\{1\ year, maturity\}} \times \sum_{k=1}^{min\{1\ year, maturity\}} Effective\ EE_{tk} \times \Delta t_k$$

where the weights $\Delta t_k = t_k - t_{k-1}$ allow for the case when future exposure is calculated at dates that are not equally spaced over time.

7. Institutions shall calculate *EE* or *peak exposure* measures on the basis of a *distribution of exposures* that accounts for the possible non-normality of the *distribution of exposures*.

8. An institution may use a measure of the distribution calculated by the IMM that is more conservative than α multiplied by *Effective EPE* as calculated in accordance with the equation in paragraph 4 for every counterparty.

9. Notwithstanding paragraph 4, an institution may use their own estimates of alpha if the *PRA* has granted a *138BA permission* to do so. For an institution that has been granted this *138BA permission*:

   (a) alpha shall equal the ratio of internal capital from a full simulation of *CCR* exposure across counterparties (numerator) and internal capital based on *EPE* (denominator);

   (b) in the denominator, *EPE* shall be used as if it were a fixed outstanding amount.

   When estimated in accordance with this paragraph, alpha shall be no lower than 1.2.

10. For the purposes of an estimate of alpha under paragraph 9 where an institution has been granted a *138BA permission* to use own estimates of alpha, an institution shall ensure that the numerator and denominator are calculated in a manner consistent with the modelling methodology, parameter specifications and portfolio composition. The approach used to estimate alpha shall be based on the institution's internal capital approach, be well documented and be subject to independent validation. In addition, an institution shall review its estimates of alpha on at least a quarterly basis, and more frequently when the composition of the portfolio varies over time. An institution shall also assess the model risk.

11. An institution that has been granted a *138BA permission* to use own estimates of alpha, shall ensure that its internal estimates of alpha capture in the numerator material sources of dependency of *distribution of market values* of transactions or of portfolios of transactions across counterparties. Internal estimates of alpha shall take account of the granularity of portfolios.

12. In establishing the estimates in paragraph 9, institutions shall have regard to the significant variation in estimates of alpha that arises from the potential for mis-specification in the models used for the numerator, especially where convexity is present.

13. Institutions shall where appropriate, condition volatilities and correlations of market risk factors used in the joint modelling of market and credit risk on the credit risk factor to reflect potential increases in volatility or correlation in an economic downturn.

[Note: This rule corresponds to Article 284 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 285 EXPOSURE VALUE FOR NETTING SETS SUBJECT TO A MARGIN AGREEMENT**

1. If the *netting set* is subject to a *margin agreement* and daily mark-to-market valuation, the institution shall calculate *Effective EPE* as set out in this paragraph. An institution shall use one of the following *Effective EPE* measures:

   (a) *Effective EPE*, calculated without taking into account any collateral held or posted by way of margin plus any collateral that has been posted to the counterparty independent of the daily valuation and margining process or *current exposure*;

   (b) *Effective EPE*, calculated as the potential increase in exposure over the *margin period of risk*, plus the larger of:

      (i) the *current exposure* including all collateral currently held or posted, other than collateral called or in dispute;

      (ii) the largest net exposure, including collateral under the *margin agreement*, that would not trigger a collateral call. This amount shall reflect all applicable thresholds, minimum transfer amounts, independent amounts and initial margins under the *margin agreement*.

   An institution which has a model which captures the effects of margining may, with the *138BA permission* of the *PRA*, use the model's *EE* measure directly in the equation in Article 284(5) instead.

   For the purposes of point (b), institutions shall calculate the add-on as the expected positive change of the mark-to-market value of the transactions during the *margin period of risk*. Changes in the value of collateral shall be reflected using *Financial Collateral Comprehensive Method* in accordance with the Credit Risk Mitigation (CRR) Part, but no collateral payments shall be assumed during the *margin period of risk*. The *margin period of risk* is subject to the minimum periods set out in paragraphs 2 to 5.

2. For transactions subject to daily re-margining and mark-to-market valuation, institutions shall use a *margin period of risk* for the purpose of modelling the exposure value with *margin agreements* of not less than:

   (a) five *business days* for *netting sets* consisting only of repurchase transactions, securities or commodities lending or borrowing transactions and *margin lending transactions*;

   (b) 10 *business days* for all other *netting sets*.

3. Points (a) and (b) of paragraph 2 shall be subject to the following exceptions:

   (a) for all *netting sets* where the number of trades exceeds 5000 at any point during a quarter, the *margin period of risk* for the following quarter shall not be less than 20 *business days*. This exception shall not apply to institutions' trade exposures;

   (b) for *netting sets* containing one or more trades involving either illiquid collateral, or an OTC derivative that cannot be easily replaced, the *margin period of risk* shall not be less than 20 *business days*.

   An institution shall determine whether collateral is illiquid or whether OTC derivatives cannot be easily replaced in the context of stressed market conditions, which shall be characterised by the absence of continuously active markets where a counterparty would, within two days or fewer, obtain multiple price quotations that would not move the market or represent a price reflecting a market discount (in the case of collateral) or premium (in the case of an OTC derivative).

An institution shall consider whether trades or securities it holds as collateral are concentrated in a particular counterparty and if that counterparty exited the market precipitously whether the institution would be able to replace those trades or securities.

4. If an institution has been involved in more than two margin call disputes on a particular *netting set* over the immediately preceding two quarters that have lasted longer than the applicable *margin period of risk* under paragraphs 2 and 3, the institution shall use a *margin period of risk* that is at least double the period specified in paragraphs 2 and 3 for that *netting set* for the subsequent two quarters.

5. For re-margining with a periodicity of N days, the *margin period of risk* shall be at least equal to the period specified in paragraphs 2 and 3, F, plus N days minus one day. That is:

   *Margin Period of Risk* = $F + N - 1$

6. If the internal model includes the effect of margining on changes in the market value of the *netting set*, an institution shall model collateral, other than cash of the same currency as the exposure itself, jointly with the exposure in its exposure value calculations for OTC derivatives and securities financing transactions.

7. If an institution is not able to model collateral jointly with the exposure, it shall not recognise in its exposure value calculations for OTC derivatives and securities financing transactions the effect of collateral other than cash of the same currency as the exposure itself, unless it uses *Financial Collateral Comprehensive Method* in accordance with the Credit Risk Mitigation (CRR) Part.

8. An institution using the IMM shall ignore in its models the effect of a reduction of the exposure value due to any clause in a collateral agreement that requires receipt of collateral when counterparty credit quality deteriorates.

[Note: This rule corresponds to Article 285 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 286 MANAGEMENT OF CCR – POLICIES, PROCESSES AND SYSTEMS**

1. An institution shall establish and maintain a *CCR* management framework, consisting of:

   (a) policies, processes and systems to ensure the identification, measurement, management, approval and internal reporting of *CCR*;

   (b) procedures for ensuring that those policies, processes and systems are complied with.

   Those policies, processes and systems shall be conceptually sound, implemented with integrity and documented. The documentation shall include an explanation of the empirical techniques used to measure *CCR*.

2. The *CCR* management framework required by paragraph 1 shall take account of market, liquidity, and legal and operational risks that are associated with *CCR*. In particular, the framework shall ensure that the institution complies with the following principles:

   (a) it does not undertake business with a counterparty without assessing its creditworthiness;

   (b) it takes due account of settlement and pre-settlement credit risk;

   (c) it manages such risks as comprehensively as practicable at the counterparty level by aggregating *CCR* exposures with other credit exposures and at the firm-wide level.

3. An institution using the IMM shall ensure that its *CCR* management framework accounts for the liquidity risks of all of the following:

(a) potential incoming margin calls in the context of exchanges of variation margin or other margin types, such as initial or independent margin, under adverse market shocks;

(b) potential incoming calls for the return of excess collateral posted by counterparties;

(c) calls resulting from a potential downgrade of its own external credit quality assessment.

An institution shall ensure that the nature and horizon of collateral re-use is consistent with its liquidity needs and does not jeopardise its ability to post or return collateral in a timely manner.

4. An institution's management body and senior management shall be actively involved in, and ensure that adequate resources are allocated to, the management of *CCR*. Senior management shall be aware of the limitations and assumptions of the model used and the impact those limitations and assumptions can have on the reliability of the output through a formal process. Senior management shall be also aware of the uncertainties of the market environment and operational issues and of how these are reflected in the model.

5. The daily reports prepared on an institution's exposures to *CCR* in accordance with Article 287(2)(b) shall be reviewed by a level of management with sufficient seniority and authority to enforce both reductions of positions taken by individual credit managers or traders and reductions in the institution's overall *CCR* exposure.

6. An institution's *CCR* management framework established in accordance with paragraph 1 shall be used in conjunction with internal credit and trading limits. Credit and trading limits shall be related to the institution's risk measurement model in a manner that is consistent over time and that is well understood by credit managers, traders and senior management. An institution shall have a formal process to report breaches of risk limits to the appropriate level of management.

7. An institution's measurement of *CCR* shall include measuring daily and intra-day use of credit lines. The institution shall measure *current exposure* gross and net of collateral. At portfolio and counterparty level, the institution shall calculate and monitor *peak exposure* or potential future exposure at the confidence interval chosen by the institution. The institution shall take account of large or concentrated positions, including by groups of related counterparties, by industry and by market.

8. An institution shall establish and maintain a routine and rigorous program of stress testing. The results of that stress testing shall be reviewed regularly and at least quarterly by senior management and shall be reflected in the *CCR* policies and limits set by the management body or senior management. Where stress tests reveal particular vulnerability to a given set of circumstances, the institution shall take prompt steps to manage those risks.

[Note: This rule corresponds to Article 286 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 287 ORGANISATION STRUCTURES FOR CCR MANAGEMENT**

1. An institution using the IMM shall establish and maintain:

(a) a risk control unit that complies with paragraph 2;

(b) a collateral management unit that complies with paragraph 3.

2. The risk control unit shall be responsible for the design and implementation of its *CCR* management, including the initial and on-going validation of the model, and shall carry out the following functions and meet the following requirements:

(a) it shall be responsible for the design and implementation of the *CCR* management system of the institution;

(b) it shall produce daily reports on and analyse the output of the institution's risk measurement model. That analysis shall include an evaluation of the relationship between measures of *CCR* exposure values and trading limits;

(c) it shall control input data integrity and produce and analyse reports on the output of the institution's risk measurement model, including an evaluation of the relationship between measures of risk exposure and credit and trading limits;

(d) it shall be independent from units responsible for originating, renewing or trading exposures and free from undue influence;

(e) it shall be adequately staffed;

(f) it shall report directly to the senior management of the institution;

(g) its work shall be closely integrated into the day-to-day credit risk management process of the institution;

(h) its output shall be an integral part of the process of planning, monitoring and controlling the institution's credit and overall risk profile.

3. The collateral management unit shall carry out the following tasks and functions:

(a) calculating and making margin calls, managing margin call disputes and reporting levels of independent amounts, initial margins and variation margins accurately on a daily basis;

(b) controlling the integrity of the data used to make margin calls, and ensuring that it is consistent and reconciled regularly with all relevant sources of data within the institution;

(c) tracking the extent of re-use of collateral and any amendment of the rights of the institution to or in connection with the collateral that it posts;

(d) reporting to the appropriate level of management the types of collateral assets that are reused, and the terms of such reuse including instrument, credit quality and maturity;

(e) tracking concentration to individual types of collateral assets accepted by the institution;

(f) reporting collateral management information on a regular basis, but at least quarterly, to senior management, including information on the type of collateral received and posted, the size, aging and cause for margin call disputes. That internal reporting shall also reflect trends in these figures.

4. Senior management shall allocate sufficient resources to the collateral management unit required under paragraph 1(b) to ensure that its systems achieve an appropriate level of operational performance, as measured by the timeliness and accuracy of margin calls by the institution and the timeliness of the response of the institution to margin calls by its counterparties. Senior management shall ensure that the unit is adequately staffed to process calls and disputes in a timely manner even under severe market crisis, and to enable the institution to limit its number of large disputes caused by trade volumes.

[Note: This rule corresponds to Article 287 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 288 REVIEW OF CCR MANAGEMENT SYSTEM**

An institution shall regularly conduct an independent review of its *CCR* management system through its internal auditing process. That review shall include both the activities of the control and collateral management units required by Article 287 and shall specifically address, as a minimum:

(a) the adequacy of the documentation of the *CCR* management system and process required by Article 286;

(b) the organisation of the *CCR* control unit required by Article 287(1)(a);

(c) the organisation of the collateral management unit required by Article 287(1)(b);

(d) the integration of *CCR* measures into daily risk management;

(e) the approval process for risk pricing models and valuation systems used by front and back-office personnel;

(f) the validation of any significant change in the *CCR* measurement process;

(g) the scope of *CCR* captured by the risk measurement model;

(h) the integrity of the management information system;

(i) the accuracy and completeness of *CCR* data;

(j) the accurate reflection of legal terms in collateral and netting agreements into exposure value measurements;

(k) the verification of the consistency, timeliness and reliability of data sources used to run models, including the independence of such data sources;

(l) the accuracy and appropriateness of volatility and correlation assumptions;

(m) the accuracy of valuation and risk transformation calculations;

(n) the verification of the model's accuracy through frequent back-testing as set out in points (b) to (e) of Article 293(1);

(o) the compliance of the *CCR* control unit and collateral management unit with the relevant regulatory requirements.

[Note: This rule corresponds to Article 288 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 289 USE TEST**

1. Institutions shall ensure that the *distribution of exposures* generated by the model used to calculate *Effective EPE* is closely integrated into the day-to-day *CCR* management process of the institution, and that the output of the model is taken into account in the process of credit approval, *CCR* management, internal capital allocation and corporate governance.

2. [Note: Provision left blank]

3. Institutions shall ensure that the model used to generate a *distribution of exposures* to *CCR* is part of the *CCR* management framework required by Article 286. This framework shall include the measurement of usage of credit lines, aggregating *CCR* exposures with other credit exposures and internal capital allocation.

4. In addition to *EPE*, an institution shall measure and manage *current exposures*. Where appropriate, the institution shall measure *current exposure* gross and net of collateral. The use test is satisfied if an institution uses other *CCR* measures, such as *peak exposure*, based on the *distribution of exposures* generated by the same model to compute *EPE*.

5. An institution shall have the systems capability to estimate *EE* daily if necessary to calculate its exposures to *CCR*, unless the institution's *138BA permission* to use IMM provides for less frequent calculation in accordance with the terms of the *138BA permission*. The institution shall estimate *EE* along a time profile of forecasting horizons that adequately reflects the time structure of future cash flows and maturity of the contracts and in a manner that is consistent with the materiality and composition of the exposures.

6. An institution shall measure, monitor and control exposure over the life of all contracts in the *netting set* and not only to the one-year horizon. The institution shall have procedures in place to identify and control the risks for counterparties where the exposure rises beyond the one-year horizon. The forecast increase in exposure shall be an input into the institution's internal capital model.

[Note: This rule corresponds to Article 289 of the *CRR* as it applied immediately before its revocation by the *Treasury* except there is no corresponding rule for Article 289(2) of the *CRR*]

**Article 290 STRESS TESTING**

1. An institution shall have a comprehensive stress testing programme for *CCR*, including for use in assessment of own funds requirements for *CCR*, which complies with the requirements laid down in paragraphs 2 to 10.

2. It shall identify possible events or future changes in economic conditions that could have unfavourable effects on an institution's credit exposures and assess the institution's ability to withstand such changes.

3. The stress measures under the programme shall be compared against risk limits and considered by the institution as part of the Internal Capital Adequacy Assessment Part 6.1.

4. The programme shall comprehensively capture trades and aggregate exposures across all forms of *counterparty credit risk* at the level of specific counterparties in a sufficient time frame to conduct regular stress testing.

5. It shall provide for at least monthly exposure stress testing of principal market risk factors such as interest rates, FX, equities, credit spreads, and commodity prices for all counterparties of the institution, in order to identify, and enable the institution when necessary to reduce outsized concentrations in specific directional risks. Exposure stress testing - including single factor, multifactor and material non-directional risks - and joint stressing of exposure and creditworthiness shall be performed at the counterparty-specific, counterparty group and aggregate institution-wide *CCR* levels.

6. It shall apply at least quarterly multifactor stress testing scenarios and assess material non-directional risks including yield curve exposure and basis risks. Multiple-factor stress tests shall, at a minimum, address the following scenarios in which the following occurs:

   (a) severe economic or market events have occurred;

   (b) broad market liquidity has decreased significantly;

   (c) a large financial intermediary is liquidating positions.

7. The severity of the shocks of the underlying risk factors shall be consistent with the purpose of the stress test. When evaluating solvency under stress, the shocks of the underlying risk factors shall be sufficiently severe to capture historical extreme market environments and extreme but plausible stressed market conditions. The stress tests shall evaluate the impact of such shocks on own funds, own funds requirements and earnings. For the purpose of day-to-day portfolio monitoring, hedging, and management of concentrations the testing programme shall also consider scenarios of lesser severity and higher probability.

8. The programme shall include provision, where appropriate, for reverse stress tests to identify extreme, but plausible, scenarios that could result in significant adverse outcomes. Reverse stress testing shall account for the impact of material non-linearity in the portfolio.

9. The results of the stress testing under the programme shall be reported regularly, at least on a quarterly basis, to senior management. The reports and analysis of the results shall cover the largest counterparty-level impacts across the portfolio, material concentrations within segments

of the portfolio (within the same industry or region), and relevant portfolio and counterparty specific trends.

10. Senior management shall take a lead role in the integration of stress testing into the risk management framework and risk culture of the institution and ensure that the results are meaningful and used to manage *CCR*. The results of stress testing for significant exposures shall be assessed against guidelines that indicate the institution's risk appetite, and referred to senior management for discussion and action when excessive or concentrated risks are identified.

[Note: This rule corresponds to Article 290 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 291 WRONG-WAY RISK**

1. For the purposes of this Article:

   (a) 'General Wrong-way Risk' arises when the likelihood of default by counterparties is positively correlated with general market risk factors;

   (b) 'Specific Wrong-way Risk' arises when future exposure to a specific counterparty is positively correlated with the counterparty's *PD* due to the nature of the transactions with the counterparty. An institution shall be considered to be exposed to Specific Wrong-way Risk if the future exposure to a specific counterparty is expected to be high when the counterparty's probability of a default is also high.

2. An institution shall give due consideration to exposures that give rise to a significant degree of Specific and General Wrong-way Risk.

3. In order to identify General Wrong-way Risk, an institution shall design stress testing and scenario analyses to stress risk factors that are adversely related to counterparty creditworthiness. Such testing shall address the possibility of severe shocks occurring when relationships between risk factors have changed. An institution shall monitor General Wrong-way Risk by product, by region, by industry, or by other categories that are relevant to the business.

4. An institution shall maintain procedures to identify, monitor and control cases of Specific Wrong-way Risk for each legal entity, beginning at the inception of a transaction and continuing through the life of the transaction.

5. Institutions shall calculate the own funds requirements for *CCR* in relation to transactions where Specific Wrong-way Risk has been identified and where there exists a legal connection between the counterparty and the issuer of the underlying of the OTC derivative or the underlying of the transactions referred to in points (b), (c) and (d) of Article 273(2), in accordance with the following principles:

   (a) the instruments where Specific Wrong-way Risk exists shall not be included in the same *netting set* as other transactions with the counterparty, and shall each be treated as a separate *netting set*;

   (b) within any such separate *netting set*, for single-name credit default swaps the exposure value equals the full expected loss in the value of the remaining fair value of the underlying instruments based on the assumption that the underlying issuer is in liquidation;

   (c) *LGD* for an institution using the approach set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part shall be 100% for such swap transactions;

(d) for an institution using the approach set out in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*, the applicable risk weight shall be that of an unsecured transaction;

(e) for all other transactions referencing a single name in any such separate *netting set*, the calculation of the exposure value shall be consistent with the assumption of a jump-to-default of those underlying obligations where the issuer is legally connected with the counterparty. For transactions referencing a basket of names or index, the jump-to-default of the respective underlying obligations where the issuer is legally connected with the counterparty shall be applied, if material;

(f) to the extent that this uses existing market risk calculations for own funds requirements for default risk as set out in either the Market Risk: Internal Model Approach (CRR) Part or the Market Risk: Advanced Standardised Approach (CRR) Part that already contain an *LGD* assumption, the *LGD* in the formula used shall be 100%.

6. Institutions shall provide senior management and the appropriate committee of the management body with regular reports on both Specific and General Wrong-way Risks and the steps being taken to manage those risks.

[Note: This rule corresponds to Article 291 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 292 INTEGRITY OF THE MODELLING PROCESS**

1. An institution shall ensure the integrity of modelling process as set out in Article 284 by adopting at least the following measures:

(a) the model shall reflect transaction terms and specifications in a timely, complete, and conservative fashion;

(b) those terms shall include at least contract notional amounts, maturity, reference assets, margining arrangements and netting arrangements;

(c) those terms and specifications shall be maintained in a database that is subject to formal and periodic audit;

(d) a process for recognising netting arrangements that requires legal staff to verify that netting under those arrangements is legally enforceable;

(e) the verification required under point (d) shall be entered into the database mentioned in point (c) by an independent unit;

(f) the transmission of transaction terms and specification data to the *EPE* model shall be subject to internal audit;

(g) there shall be processes for formal reconciliation between the model and source data systems to verify on an ongoing basis that transaction terms and specifications are being reflected in *EPE* correctly or at least conservatively.

2. Current market data shall be used to determine *current exposures*. An institution may calibrate its *EPE* model using either historical market data or market implied data to establish parameters of the underlying stochastic processes, such as drift, volatility and correlation. If an institution uses historical data, it shall use at least three years of such data. The data shall be updated at least quarterly, and more frequently if necessary to reflect market conditions.

To calculate the *Effective EPE* using a stress calibration, an institution shall calibrate *Effective EPE* using either three years of data that includes a period of stress to the credit default spreads of its counterparties or market implied data from such a period of stress.

The requirements in paragraphs 3, 4 and 5 shall be applied by the institution for that purpose.

3. An institution shall verify, at least quarterly, that the stress period used for the calculation under this paragraph coincides with a period of increased credit default swap or other credit (such as loan or corporate bond) spreads for a representative selection of its counterparties with traded credit spreads, and shall be able to produce such verification to the *PRA* on request. In situations where the institution does not have adequate credit spread data for a counterparty, it shall map that counterparty to specific credit spread data based on region, internal rating and business types.

4. An institution shall ensure that the *EPE* model for all counterparties shall use data, either historical or implied, that include the data from the stressed credit period and shall use such data in a manner consistent with the method used for the calibration of the *EPE* model to current data.

5. To evaluate the effectiveness of its stress calibration for *Effective EPE*, an institution shall create several benchmark portfolios that are vulnerable to the main risk factors to which the institution is exposed. The exposure to these benchmark portfolios shall be calculated using (a) a stress methodology, based on *current market values* and model parameters calibrated to stressed market conditions, and (b) the exposure generated during the stress period, but applying the method set out in this Section (end of stress period market value, volatilities, and correlations from the three-year stress period).

   An institution must adjust the stress calibration if the exposures of those benchmark portfolios deviate substantially from each other.

6. An institution shall subject the model to a validation process that is clearly articulated in the institutions' policies and procedures. That validation process shall:

   (a) specify the kind of testing needed to ensure model integrity and identify conditions under which the assumptions underlying the model are inappropriate and may therefore result in an understatement of *EPE*;

   (b) include a review of the comprehensiveness of the model.

7. An institution shall monitor the relevant risks and have processes in place to adjust its estimation of *Effective EPE* when those risks become significant. In complying with this paragraph, the institution shall:

   (a) identify and manage its exposures to Specific Wrong-way Risk arising as specified in Article 291(1)(b) and exposures to General Wrong-way Risk arising as specified in Article 291(1)(a);

   (b) for exposures with a rising risk profile after one year, compare on a regular basis the estimate of a relevant measure of exposure over one year with the same exposure measure over the life of the exposure;

   (c) for exposures with a residual maturity below one year, compare on a regular basis the replacement cost (*current exposure*) and the realised exposure profile, and store data that would allow such a comparison.

8. An institution shall have internal procedures to verify that, prior to including a transaction in a *netting set*, the transaction is covered by a legally enforceable netting contract that meets the requirements set out in Section 7 of Chapter 3.

9. An institution that uses collateral to mitigate its *CCR* shall have internal procedures to verify that, prior to recognising the effect of collateral in its calculations, the collateral meets the legal certainty standards set out in the Credit Risk Mitigation (CRR) Part.

[Note: This rule corresponds to Article 292 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 293 REQUIREMENTS FOR THE RISK MANAGEMENT SYSTEM**

1. An institution shall comply with the following requirements:

   (a) it shall meet the qualitative requirements set out in the Market Risk: Internal Model Approach (CRR) Part;

   (b) it shall conduct a regular programme of back-testing, comparing the risk measures generated by the model with realised risk measures, and hypothetical changes based on static positions with realised measures;

   (c) it shall carry out an initial validation and an on-going periodic review of its *CCR* exposure model and the risk measures generated by it. The validation and review shall be independent of the model development;

   (d) the management body and senior management shall be involved in the risk control process and shall ensure that adequate resources are devoted to credit and *counterparty credit risk* control. In this regard, the daily reports prepared by the independent risk control unit established in accordance Article 287(1)(a) shall be reviewed by a level of management with sufficient seniority and authority to enforce both reductions of positions taken by individual traders and reductions in the overall risk exposure of the institution;

   (e) the internal risk measurement exposure model shall be integrated into the day-to-day risk management process of the institution;

   (f) the risk measurement system shall be used in conjunction with internal trading and exposure limits. In this regard, exposure limits shall be related to the institution's risk measurement model in a manner that is consistent over time and that is well understood by traders, the credit function and senior management;

   (g) an institution shall ensure that its risk management system is well documented. In particular, it shall maintain a documented set of internal policies, controls and procedures concerning the operation of the risk measurement system, and arrangements to ensure that those policies are complied with;

   (h) an independent review of the risk measurement system shall be carried out regularly in the institution's own internal auditing process. This review shall include both the activities of the business trading units and of the independent risk control unit. A review of the overall risk management process shall take place at regular intervals (and no less than once a year) and shall specifically address, as a minimum, all items referred to in Article 288;

   (i) the on-going validation of *counterparty credit risk* models, including back-testing, shall be reviewed periodically by a level of management with sufficient authority to decide the action that will be taken to address weaknesses in the models.

2. [Note: Provision left blank]

3. An institution shall document the process for initial and on-going validation of its *CCR* exposure model and the calculation of the risk measures generated by the models to a level of detail that would enable a third party to recreate, respectively, the analysis and the risk measures. That documentation shall set out the frequency with which back-testing analysis and any other on-going validation will be conducted, how the validation is conducted with respect to data flows and portfolios and the analyses that are used.

4. An institution shall define criteria with which to assess its *CCR* exposure models and the models that input into the calculation of exposure and maintain a written policy that describes the process by which unacceptable performance will be identified and remedied.

5. An institution shall define how representative counterparty portfolios are constructed for the purposes of validating an *CCR* exposure model and its risk measures.

6. The validation of *CCR* exposure models and their risk measures that produce forecast distributions shall consider more than a single statistic of the forecast distribution.

[Note: This rule corresponds to Article 293 of the *CRR* as it applied immediately before its revocation by the *Treasury* except there is no corresponding rule for Article 293(2) of the *CRR*]

**Article 294 VALIDATION REQUIREMENTS**

1. As part of the on-going validation of its *CCR* exposure model and its risk measures, an institution shall ensure that the following requirements are met:

   (a) [Note: Provision left blank]

   (b) the institution using the approach set out in Article 285(1)(b) shall regularly validate its model to test whether realised *current exposures* are consistent with prediction over all margin periods within one year. If some of the trades in the *netting set* have a maturity of less than one year, and the *netting set* has higher risk factor sensitivities without these trades, the validation shall take this into account;

   (c) it shall back-test the performance of its *CCR* exposure model and the model's relevant risk measures as well as the market risk factor predictions. For collateralised trades, the prediction time horizons considered shall include those reflecting typical margin periods of risk applied in collateralised or margined trading;

   (d) if the model validation indicates that *Effective EPE* is underestimated, the institution shall take the action necessary to address the inaccuracy of the model;

   (e) it shall test the pricing models used to calculate *CCR* exposure for a given scenario of future shocks to market risk factors as part of the initial and on-going model validation process. Pricing models for options shall account for the nonlinearity of option value with respect to market risk factors;

   (f) the *CCR* exposure model shall capture the transaction-specific information necessary to be able to aggregate exposures at the level of the *netting set*. An institution shall verify that transactions are assigned to the appropriate *netting set* within the model;

   (g) the *CCR* exposure model shall include transaction-specific information to capture the effects of margining. It shall take into account both the current amount of margin and margin that would be passed between counterparties in the future. Such a model shall account for the nature of *margin agreements* that are unilateral or bilateral, the frequency of margin calls, the *margin period of risk*, the minimum threshold of un-margined exposure the institution is willing to accept, and the minimum transfer amount. Such a model shall either estimate the mark-to-market change in the value of collateral posted or apply the rules set out in the Credit Risk Mitigation (CRR) Part;

   (h) the model validation process shall include static, historical back-testing on representative counterparty portfolios. An institution shall conduct such back-testing on a number of representative counterparty portfolios that are actual or hypothetical at regular intervals. Those representative portfolios shall be chosen on the basis of their sensitivity to the material risk factors and combinations of risk factors to which the institution is exposed;

(i) an institution shall conduct back-testing that is designed to test the key assumptions of the *CCR* exposure model and the relevant risk measures, including the modelled relationship between tenors of the same risk factor, and the modelled relationships between risk factors;

(j) the performance of *CCR* exposure models and its risk measures shall be subject to appropriate back-testing practice. The back-testing programme shall be capable of identifying poor performance in an *EPE* model's risk measures;

(k) an institution shall validate its *CCR* exposure models and all risk measures out to time horizons commensurate with the maturity of trades for which exposure is calculated using IMM in accordance to the Article 283;

(l) an institution shall regularly test the pricing models used to calculate counterparty exposure against appropriate independent benchmarks as part of the on-going model validation process;

(m) the on-going validation of an institution's *CCR* exposure model and the relevant risk measures shall include an assessment of the adequacy of the recent performance;

(n) the frequency with which the parameters of an *CCR* exposure model are updated shall be assessed by an institution as part of the initial and on-going validation process;

(o) the initial and on-going validation of *CCR* exposure models shall assess whether or not the counterparty level and *netting set* exposure calculations of exposure are appropriate.

2. An institution may use a measure that is more conservative than the metric used to calculate regulatory exposure value for every counterparty in place of alpha multiplied by *Effective EPE*, if the *PRA* has granted a *138BA permission* to use IMM. The degree of relative conservatism will be assessed at the regular supervisory reviews of the *EPE* models. An institution that has been granted a *138BA permission* shall validate the conservatism regularly, and on-going assessment of model performance shall cover all counterparties for which the models are used.

3. [Note: Provision left blank]

[Note: This rule corresponds to Article 294 of the *CRR* as it applied immediately before its revocation by the *Treasury* except there is no corresponding rule for Article 294(1)(a) and Article 294(3) of the *CRR*]

## SECTION 7 CONTRACTUAL NETTING

### Article 295 RECOGNITION OF CONTRACTUAL NETTING AS RISK-REDUCING

Institutions may treat as risk reducing in accordance with Article 298 only the following types of contractual netting agreements where the institution meets the requirements set out in paragraphs 2 and 3 of Article 296 and Article 297:

(a) bilateral contracts for novation between an institution and its counterparty under which mutual claims and obligations are automatically amalgamated in such a way that the novation fixes one single net amount each time it applies so as to create a single new contract that replaces all former contracts and all obligations between parties pursuant to those contracts and is binding on the parties;

(b) other bilateral agreements between an institution and its counterparty;

(c) *contractual cross product netting agreements* for institutions that have received a *138BA permission* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and use the method set out in Section 6 of Chapter 3 for transactions falling under the scope of that method.

Netting across transactions entered into by different legal entities of a group shall not be recognised for the purposes of calculating the own funds requirements.

[Note: This rule corresponds to Article 295 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 296 RECOGNITION OF CONTRACTUAL NETTING AGREEMENTS**

1. [Note: Provision left blank]

2. An institution shall not use a contractual netting agreement for determining exposure values in this Part, unless it meets the following requirements:

   (a) the institution has concluded a contractual netting agreement with its counterparty which creates a single legal obligation, covering all included transactions, such that, in the event of default by the counterparty it would be entitled to receive or obliged to pay only the net sum of the positive and negative mark-to-market values of included individual transactions;

   (b) the institution has written and reasoned legal opinions to the effect that, in the event of a legal challenge of the netting agreement, the institution's claims and obligations would not exceed those referred to in point (a), and the institution must be able to make available these legal opinions upon request by the *PRA*. The legal opinion shall refer to the applicable law of:

      (i) the jurisdiction in which the counterparty is incorporated;

      (ii) if a branch of an undertaking is involved, which is located in a country other than that where the undertaking is incorporated, the jurisdiction in which the branch is located;

      (iii) the jurisdiction whose law governs the individual transactions included in the netting agreement;

      (iv) the jurisdiction whose law governs any contract or agreement necessary to effect the contractual netting;

   (c) credit risk to each counterparty is aggregated to arrive at a single legal exposure across transactions with each counterparty. This aggregation shall be factored into credit limit purposes and internal capital purposes;

   (d) the contract shall not contain any clause which, in the event of default of a counterparty, permits a non-defaulting counterparty to make limited payments only, or no payments at all, to the estate of the defaulting party, even if the defaulting party is a net creditor (i.e. walk-away clause).

   If an institution is unable to obtain sufficiently robust and reasoned legal opinions establishing that contractual netting is legally valid and enforceable under the law of each of the jurisdictions referred to in point (b) the contractual netting agreement shall not be recognised as risk-reducing for either of the counterparties.

3. The legal opinions referred to in point (b) may be drawn up by reference to types of contractual netting. The following additional conditions shall be fulfilled by *contractual cross product netting agreements*:

   (a) the net sum referred to in point (a) of paragraph 2 is the net sum of the positive and negative close out values of any included individual bilateral master agreement and of the positive and negative mark-to-market value of the individual transactions (the 'cross-product net amount');

   (b) the legal opinions referred to in point (b) of paragraph 2 shall address the validity and enforceability of the entire *contractual cross product netting agreement* under its terms and

the impact of the netting arrangement on the material provisions of any included individual bilateral master agreement.

[Note: This rule corresponds to Article 296 of the *CRR* as it applied immediately before its revocation by the *Treasury* except there is no corresponding rule for Article 296(1) of the *CRR*]

**Article 297 OBLIGATIONS OF INSTITUTIONS**

1. An institution shall establish and maintain procedures to ensure that the legal validity and enforceability of its contractual netting is reviewed in the light of changes in the law of relevant jurisdictions referred to in Article 296(2)(b).

2. The institution shall maintain all required documentation relating to its contractual netting in its files.

3. The institution shall factor the effects of netting into its measurement of each counterparty's aggregate credit risk exposure and the institution shall manage its *CCR* on the basis of those effects of that measurement.

4. In the case of *contractual cross product netting agreements* referred to in Article 295, the institution shall maintain procedures under Article 296(2)(c) to verify that any transaction which is to be included in a *netting set* is covered by a legal opinion referred to in Article 296(2)(b).

   Taking into account the *contractual cross product netting agreement*, the institution shall continue to comply with the requirements for the recognition of bilateral netting and the requirements of the Credit Risk Mitigation (CRR) Part for the recognition of credit risk mitigation, as applicable, with respect to each included individual bilateral master agreement and transaction.

[Note: This rule corresponds to Article 297 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 298 EFFECTS OF RECOGNITION OF NETTING AS RISK-REDUCING**

Netting for the purposes of Sections 3 to 6 of this Chapter shall be recognised as set out in those Sections.

[Note: This rule corresponds to Article 298 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**SECTION 8 ITEMS IN THE TRADING BOOK**

**Article 299 ITEMS IN THE TRADING BOOK**

1. For the purposes of the application of this Article, Annex 1 of Chapter 3 of this Part shall include a reference to derivative instruments for the transfer of credit risk as mentioned in paragraph 8 of Part 1 of Schedule 2 to the *Regulated Activities Order*.

2. When calculating risk-weighted exposure amounts for counterparty risk of items in the trading book, institutions shall comply with the following principles:

   (a) [Note: Provision left blank]

   (b) institutions shall not use the *Financial Collateral Simple Method* set out in Credit Risk Mitigation (CRR) Part Article 222 for the recognition of the effects of financial collateral;

   (c) [Note: Provision left blank]

   (d) for exposures arising from OTC derivative instruments booked in the trading book, institutions may recognise commodities that are eligible to be included in the trading book

as eligible collateral provided that the requirements in paragraphs (a) to (c) of Article 299A are met;

(e) for the purposes of calculating volatility adjustments where financial instruments or commodities which are not eligible under the Credit Risk Mitigation (CRR) Part are lent, sold or provided, or borrowed, purchased or received by way of collateral or otherwise under such a transaction, and an institution is using the *Financial Collateral Comprehensive Method* in accordance with the Credit Risk Mitigation (CRR) Part, institutions shall treat such instruments and commodities in the same way as non-main index equities listed on a recognised exchange;

(f) where an institution has permission to use the SFT VaR Method defined in the Credit Risk Mitigation (CRR) Part 1.2, it may also apply that approach in the trading book;

(g) in relation to the recognition of master netting agreements covering repurchase transactions, securities or commodities lending or borrowing transactions, or other capital market-driven transactions, institutions shall only recognise netting across positions in the trading book and the non-trading book when the netted transactions fulfil the following conditions:

(i) all transactions are marked to market daily;

(ii) any items borrowed, purchased or received under the transactions may be recognised as eligible financial collateral under the Credit Risk Mitigation (CRR) Part without the application of points (d) to (f) of this paragraph;

(h) where a credit derivative included in the trading book forms part of an internal hedge and the credit protection is recognised in accordance with the Credit Risk Mitigation (CRR) Part Article 204, institutions shall apply one of the following approaches:

(i) treat it as if there were no counterparty risk arising from the position in that credit derivative;

(ii) consistently include for the purpose of calculating the own funds requirements for *counterparty credit risk* all credit derivatives in the trading book forming part of internal hedges or purchased as protection against a *CCR* exposure where the credit protection is recognised as eligible under the Credit Risk Mitigation (CRR) Part.

[Note: This rule corresponds to Article 299 (except for Article 299(2)(c)) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

**Article 301 MATERIAL SCOPE**

1. This Section applies to the following contracts and transactions, for as long as they are outstanding with a CCP:

(a) the derivative contracts listed in Annex ~~II~~1 ~~of the *CRR*~~of this Part and credit derivatives;

(b) securities financing transactions and *fully guaranteed deposit lending or borrowing transactions*; and

(c) ~~long settlement transactions~~*long settlement transactions*.

…

**Article 304 TREATMENT OF CLEARING MEMBERS' EXPOSURES TO CLIENTS**

1. An institution that acts as a *clearing member* and, in that capacity, acts as a financial intermediary between a *client* and a CCP shall calculate the own funds requirements for its

*CCP-related transactions* with that *client* in accordance with Sections 1 to 8 of this Chapter~~,~~ ~~with Section 4 of Chapter 4 of this Title and with Title VI~~ and the Credit Risk Mitigation (CRR) Part and the Credit Valuation Adjustment Risk Part, as applicable.

…

3. Where an institution that acts as a *clearing member* uses the methods set out in Section 3 or 6 of this Chapter to calculate the own funds requirement for its exposures, the following provisions shall apply:

   (a) by way of derogation from Article 285(2), the institution may use a ~~margin period of risk~~ *margin period of risk* of at least five ~~business days~~*business days* for its exposures to a *client*;

   (b) the institution shall apply a ~~margin period of risk~~*margin period of risk* of at least 10 *business days* for its exposures to a CCP;

   (c) by way of derogation from Article 285(3), where a ~~netting set~~*netting set* included in the calculation meets the condition set out in point (a) of that paragraph, the institution may disregard the limit set out in that point, provided that the ~~netting set~~*netting set* does not meet the condition set out in point (b) of that paragraph and does not contain disputed trades or exotic options;

   (d) where a CCP retains variation margin against a transaction, and the institution's collateral is not protected against the insolvency of the CCP, the institution shall apply a ~~margin period of risk~~*margin period of risk* that is the lower of one year and the remaining maturity of the transaction, with a floor of 10 *business days*.

…

**Article 305 TREATMENT OF CLIENTS' EXPOSURES**

1. An institution that is a *client* shall calculate the own funds requirements for its *CCP-related transactions* with its *clearing member* in accordance with Sections 1 to 8 of this Chapter, ~~with Section 4 of Chapter 4 of this Title and with Title VI~~ the Credit Risk Mitigation (CRR) Part and the Credit Valuation Adjustment Risk Part, as applicable.

2. …

   (b) laws, regulations, rules and contractual arrangements applicable to or binding that institution or the CCP facilitate the transfer of the *client's* positions relating to those contracts and transactions and of the corresponding collateral to another *clearing member* within the applicable ~~margin period of risk~~*margin period of risk* in the event of default or insolvency of the original *clearing member*. In such circumstance, the *client's* positions and the collateral shall be transferred at market value unless the *client* requests to close out the position at market value;

   …

…

**Article 306 OWN FUNDS REQUIREMENTS FOR TRADE EXPOSURES**

…

2. By way of derogation from paragraph 1, where assets posted as collateral to a CCP or a *clearing member* are *bankruptcy remote* in the event that the CCP, the *clearing member* or one or more of the other clients of the *clearing member* becomes insolvent, an institution may attribute an exposure value of zero to the ~~counterparty credit risk~~*counterparty credit risk* exposures for those assets.

3. An institution shall calculate exposure values of its trade exposures with a CCP in accordance with Sections 1 to 8 of this Chapter and with ~~Section 4 of Chapter 4~~the Credit Risk Mitigation (CRR) Part, as applicable.

…

**ARTICLE 311 OWN FUNDS REQUIREMENTS FOR EXPOSURES TO CCPS THAT CEASE TO MEET CERTAIN CONDITIONS**

…

2. Where the condition set out in paragraph 1 is met, institutions shall, within three ~~months~~*months* of becoming aware of the circumstance referred to therein, do the following with respect to their exposures to that CCP:

…

(c) treat their exposures to that CCP, other than the exposures listed in points (a) and (b) of this paragraph, as exposures to a corporate in accordance with the Standardised Approach for credit risk set out in the Credit Risk Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*.

## Annex 1 of Chapter 3

## Types of derivatives

1. Interest-rate contracts:

(a) single-currency interest rate swaps;

(b) basis-swaps;

(c) forward rate agreements;

(d) interest-rate futures;

(e) interest-rate options;

(f) other contracts of similar nature.

2. Foreign-exchange contracts and contracts concerning gold:

(a) cross-currency interest-rate swaps;

(b) forward foreign-exchange contracts;

(c) currency futures;

(d) currency options;

(e) other contracts of a similar nature;

(f) contracts of a nature similar to (a) to (e) concerning gold.

3. Contracts of a nature similar to those in points 1(a) to (e) and 2(a) to (d) of this Annex concerning other reference items or indices. This includes as a minimum all instruments specified in paragraphs 4 to 7, 9, 10 and 11 of Part 1 of Schedule 2 to the *Regulated Activities Order* not otherwise included in point 1 or 2 of this Annex.

[Note: This Annex corresponds to Annex II of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Annex F**

**Settlement Risk (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# SETTLEMENT RISK (CRR)


1. **APPLICATION**
2. **LEVEL OF APPLICATION**
3. **OWN FUNDS REQUIREMENTS FOR SETTLEMENT RISK (PART THREE, TITLE V, CRR)**

**ARTICLE 378 SETTLEMENT/DELIVERY RISK**
**ARTICLE 379 FREE DELIVERIES**
**ARTICLE 380 OWN FUNDS REQUIREMENTS IN THE EVENT OF A SYSTEM WIDE FAILURE**

## 1 APPLICATION

1.1 This Part applies to:

(a) a *firm* that is a *CRR firm*; and

(b) a *CRR consolidation entity*.

## 2 LEVEL OF APPLICATION

2.1 A *firm* to which this Part applies shall comply with this Part on an *individual basis*.

2.2 A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

2.3 An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

## 3 OWN FUNDS REQUIREMENTS FOR SETTLEMENT RISK (PART THREE, TITLE V, CRR)

### Article 378 SETTLEMENT/DELIVERY RISK

In the case of transactions in which debt instruments, equities, foreign currencies and commodities excluding repurchase transactions and securities or commodities lending and securities or commodities borrowing are unsettled after their due delivery dates, an institution shall calculate the price difference to which it is exposed.

The price difference is calculated as the difference between the agreed settlement price for the debt instrument, equity, foreign currency or commodity in question and its current market value, where the difference could involve a loss for the credit institution.

The institution shall multiply that price difference by the appropriate factor in the right column of the following Table 1 in order to calculate the institution's own funds requirement for settlement risk.

**Table 1**

| **Number of working days after due settlement date** | (%) |
|---|---|
| 5 - 15 | 8 |
| 16 - 30 | 50 |
| 31 - 45 | 75 |
| 46 or more | 100 |

[Note: This rule corresponds to Article 378 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

### Article 379 FREE DELIVERIES

1. An institution shall be required to hold own funds, as set out in Table 2, where the following occurs:

(a) it has paid for securities, foreign currencies or commodities before receiving them or it has delivered securities, foreign currencies or commodities before receiving payment for them;

(b) in the case of cross-border transactions, one day or more has elapsed since it made that payment or delivery.

**Table 2 Capital treatment for free deliveries**

| Column 1 | Column 2 | Column 3 | Column 4 |
|---|---|---|---|
| Transaction Type | Up to first contractual payment or delivery leg | From first contractual payment or delivery leg up to four days after second contractual payment or delivery leg | From five *business days* post second contractual payment or delivery leg until extinction of the transaction |
| Free delivery | No capital charge | Treat as an exposure | Treat as an exposure risk weighted at 1250% |

2. In applying a risk weight to free delivery exposures treated according to Column 3 of Table 2, an institution using the *IRB Approach* set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part may assign *PDs* to counterparties, for which it has no other non-trading book exposure, on the basis of the counterparty's external rating. Institutions using the *Advanced IRB Approach* may apply the *LGD* set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part Article 161(1) to free delivery exposures treated according to Column 3 of Table 2 provided that they apply it to all such exposures. Alternatively, an institution using the *IRB Approach* set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part may apply the risk weights of the *Standardised Approach*, as set out in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR* provided that it applies them to all such exposures or may apply a 100% risk weight to all such exposures.

   If the amount of positive exposure resulting from free delivery transactions is not material, institutions may apply a risk weight of 100% to these exposures, except where a risk weight of 1250% in accordance with Column 4 of Table 2 in paragraph 1 is required.

3. As an alternative to applying a risk weight of 1250% to free delivery exposures according to Column 4 of Table 2 in paragraph 1, institutions may deduct the value transferred plus the current positive exposure of those exposures from Common Equity Tier 1 items in accordance with the Own Funds (CRR) Part Article 36(1)(k).

[Note: This rule corresponds to Article 379 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Article 380 OWN FUNDS REQUIREMENTS IN THE EVENT OF A SYSTEM WIDE FAILURE**

Where a system wide failure of a settlement system, a clearing system or a CCP occurs, the own funds requirements calculated as set out in Articles 378 and 379 do not apply until the situation is rectified. In this case, the failure of a counterparty to settle a trade shall not be deemed a default for purposes of credit risk.

[Note: This rule corresponds to Article 380 of the *CRR* as it applied immediately before its revocation by the *Treasury*]

**Annex G**

**Amendments to the Credit Risk Part**

This Part is deleted.

**Part**

# CREDIT RISK [DELETED]

This Part has been deleted in its entirety.

## Annex H

## Amendments to the Credit Risk: General Provisions (CRR) Part

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

…

### 2 LEVEL OF APPLICATION

**~~Application of requirements on an individual basis~~**

2.1 ~~An institution shall~~A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.~~ A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

**~~Application of requirements on a consolidated basis~~**

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

**~~Application of requirements on a sub-consolidated basis~~**

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: This rule sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]~~

**~~Organisational structure and control mechanisms~~**

2.7 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.8 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 2.8 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

## 3 CREDIT RISK GENERAL PROVISIONS

…

### Article 109 TREATMENT OF SECURITISATION POSITIONS

Institutions shall calculate the risk-weighted exposure amount for a position they hold in a *securitisation* in accordance with the Securitisation (CRR) Part.

[This rule corresponds to Article 109 of the *CRR* as it applied immediately before revocation by the *Treasury*]

~~[Note: Provision not in *PRA* Rulebook]~~

### Article 110 TREATMENT OF CREDIT RISK ADJUSTMENTS

…

3. Institutions using the *IRB Approach* that apply the *Standardised Approach* for a part of their exposures on a ~~consolidated~~*consolidated basis* or ~~individual basis~~*individual basis*, in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Articles 148 and 150 shall determine the part of general credit risk adjustments that shall be assigned to the treatment of general credit risk adjustments under the *Standardised Approach* and to the treatment of general credit risk adjustments under the *IRB Approach* as follows:

   …

…

**Annex I**

**Amendments to the Credit Risk: Internal Ratings Based Approach (CRR) Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 In this Part, the following definitions shall apply:

…

*group credit risk risk-weighted exposure amount*

means the sum of points (a) and (f) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92 on a ~~consolidated basis~~*consolidated basis* where the institution is a member of a *consolidation group* and measured on an ~~individual basis~~*individual basis* otherwise.

…

…

## 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 ~~An institution to which this Part applies shall~~ Subject to Rule 2.1A a *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.1A Where a *UK parent institution* and its *subsidiaries*, the *subsidiaries* of a UK parent financial holding company or a UK parent mixed financial holding company use the *IRB Approach* on a unified basis, the requirements set out in Articles 169 to 191 may be complied with by such parent and its *subsidiaries* considered together in a way that is consistent with the structure of the relevant group and its risk management systems, processes and methodologies.

[Note: This rule corresponds to Article 20(6) of the *CRR* as it applied immediately before revocation by the *Treasury*]

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.~~A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

2.5 ~~The expression 'consolidated situation' applies for the same purposes as it does for the purposes of Part Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

**~~Application of requirements on a sub-consolidated basis~~**

2.6 ~~An institution to which this Part applies that is required to comply with Part Two and Part Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: Rule 2.6 sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]~~

**~~Organisational Structure and Control Mechanisms~~**

2.7 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.8 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 2.8 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

…

## 3 CREDIT RISK: INTERNAL RATINGS BASED APPROACH (CRR) PART

### SECTION 1 PERMISSION BY THE PRA TO USE THE IRB APPROACH

…

### Article 143 PERMISSION TO USE THE IRB APPROACH

…

6. An institution may, with the prior permission of the *PRA*, use the *Overseas Model Approach*, if it can demonstrate to the satisfaction of the *PRA* that its use of the *Overseas Model Approach* complies with the following conditions:

   (a) the aggregate amount of risk-weighted exposure amounts calculated using the *Overseas Model Approach* is no more than 7.5% of the *group credit risk risk-weighted exposure amounts* and the aggregate exposure value using the *Overseas Model Approach* is no more than 7.5% of the group's total exposure value, as calculated by the institution on a ~~consolidated basis~~*consolidated basis* and prior to the application of the *output floor*;

   …

…

**Article 143C RATING SYSTEMS: MATERIAL CHANGES TO THE IRB APPROACH**

1. For the purposes of Article 143(3), changes to the *IRB Approach* shall be considered material if they fulfil any of the following conditions:

   (a) they fall under any of the changes to the range of application of a *rating system* described in Appendix 2, Part 1, Section 1;

   (b) they fall under any changes to the *rating systems* described in Appendix 2, Part 2, Section 1;

   (c) the change results in the institution's risk-weighted exposure amounts:

      (i) decreasing by 1.5% or more for either of the following:

         (1) on a ~~consolidated basis~~*consolidated basis*, the overall *UK* parent institution's risk-weighted exposure amounts for credit and dilution risk;

         (2) the overall risk-weighted exposure amounts for credit and dilution risk in the case of an institution which is neither a parent institution, nor a subsidiary;

      (ii) decreasing by 15% or more of the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the *rating system*.

…

**Article 147 METHODOLOGY TO ASSIGN EXPOSURES TO EXPOSURE CLASSES AND EXPOSURE SUBCLASSES**

…

4. The following exposures shall be assigned to the *exposure class* referred to in point (b) of paragraph 2 (exposures to institutions):

   (a) exposures to institutions, with the exception of any exposures that are assigned to the *exposure class* referred to in point (e) of paragraph 2 (*equity exposures*) in accordance with paragraph 6;

   (b) exposures to financial institutions treated as exposures to institutions in accordance with ~~Article 119(5) of *CRR*~~Credit Risk: Standardised Approach (CRR) Part Article 119(5), with the exception of any exposures that are assigned to the *exposure class* referred to in point (e) of paragraph 2 (*equity exposures*) in accordance with paragraph 6.

…

**Article 147A TREATMENT BY EXPOSURE CLASS AND EXPOSURE SUBCLASS**

1. An institution shall, for the purpose of calculating the own funds requirement for credit risk, for exposures assigned to the *exposure class* or *exposure subclass*, as the case may be, set out in this Article, use the following specified approaches:

   …

   (j) for point (f) of Article 147(2) (items representing securitisation positions), the approach set out in ~~Chapter 5 of Title II of Part Three of *CRR*;~~the Securitisation (CRR) Part;

…

**Article 152 TREATMENT OF EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS**

…

4. An institution that applies the look-through approach in accordance with paragraphs 2 and 3 and is either using the *Standardised Approach* or does not meet the conditions for using the

methods set out in this Part or one or more of the methods set out in ~~Chapter 5 of Title II of Part Three of *CRR*~~the Securitisation (CRR) Part for all or parts of the underlying exposures of the CIU, shall calculate risk-weighted exposure amounts and expected loss amounts in accordance with the following principles:

…

(b) for exposures assigned to the items representing securitisation positions *exposure class* referred to in point (f) of Article 147(2), the institution shall apply the treatment set out in ~~Article 254 of *CRR*~~Securitisation (CRR) Part Article 254 as if those exposures were directly held by the institution;

…

…

**SUB-SECTION 2 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT RISK**

**Article 153 RISK-WEIGHTED EXPOSURE AMOUNTS FOR EXPOSURES TO CORPORATES AND INSTITUTIONS**

…

7.

(a) For purchased corporate receivables, refundable purchase price discounts, collaterals or partial guarantees that provide first loss protection for default losses, dilution losses, or both, may be treated as a first loss protection by an institution that is the purchaser of the receivables or by the beneficiary of the collateral or of the partial guarantee in accordance with ~~Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*.~~Securitisation (CRR) Part Articles 254 to 266.

(b) An institution that is the seller providing the refundable purchase price discount or the provider of a collateral or a partial guarantee shall treat those as an exposure to a first loss position in accordance with ~~Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*.~~Securitisation (CRR) Part Articles 254 to 266.

…

**Article 154 RISK-WEIGHTED EXPOSURE AMOUNTS FOR RETAIL EXPOSURES**

…

6. An institution may, for purchased retail receivables, if the institution is the purchaser of the receivables or the beneficiary of collateral or of a partial guarantee, treat refundable purchase price discounts, collaterals or partial guarantees that provide first loss protection for default losses, dilution losses, or both, as a first loss protection in accordance with ~~Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*.~~Securitisation (CRR) Part Articles 254 to 266. An institution that is the seller providing the refundable purchase price discount or the provider of a collateral or a partial guarantee shall treat those as an exposure to a first loss position in accordance with ~~Sub-sections 2 and 3 of Section 3 of Chapter 5 of Title II of Part Three of *CRR*.~~Securitisation (CRR) Part Articles 254 to 266.

…

**Article 158 TREATMENT BY EXPOSURE TYPE**

…

2. An institution shall calculate the expected loss amounts for securitised exposures in accordance with ~~Chapter 5 of Title II of Part Three of *CRR*.~~the Securitisation (CRR) Part.

…

**Article 162 MATURITY: CORPORATES AND INSTITUTIONS**

…

2A.

…

(c) for exposures arising from fully or nearly-fully collateralised derivative instruments listed in ~~Annex II of *CRR*~~Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part and fully or nearly-fully collateralised margin lending transactions which are subject to a master netting agreement, where the documentation:

…

(g) for an institution using the Internal Model Method set out in ~~Section 6 of Chapter 6 of Title II of Part Three of *CRR*~~Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part to calculate the exposure values, M shall be calculated for exposures to which it applies this method, and for which the maturity of the longest-dated contract contained in the netting set is greater than one year, in accordance with the following formula:

…

(h) an institution that uses an internal model to calculate a one-sided *CVA* and that uses the Internal Model Method set out in ~~Section 6 of Chapter 6 of Title II of Part Three of *CRR*~~Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part to calculate the exposure values, may, as an alternative to point (g) and subject to the prior permission of the *PRA*, use the effective credit duration estimated by the internal model as M.

…

3. In application of the calculation methods set out in paragraph 2A, an institution shall, where the documentation requires daily re-margining and daily revaluation and includes provisions that allow for the prompt liquidation or set-off of collateral in the event of default or failure to re-margin, set M as at least one day, instead of the minimum set out in paragraph 2A, for:

(a) fully or nearly-fully collateralised derivative instruments listed in ~~Annex II of *CRR*;~~ Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part;

…

…

**Article 166B EXPOSURE VALUE FOR CORPORATES, INSTITUTIONS AND RETAIL: COUNTERPARTY CREDIT RISK**

1. An institution that takes into account credit risk mitigation techniques in calculating the exposure value of securities financing transactions and long settlement transactions shall calculate such exposure value consistently with Credit Risk Mitigation (CRR) Part Article 191A in accordance with either ~~Chapter 6 of Title II of Part Three of *CRR* and~~ Chapter 3 of ~~Counterparty Credit Risk (CRR) Part~~the Counterparty Credit Risk (CRR) Part~~,~~ or Chapter 3 of Credit Risk Mitigation (CRR) Part; provided that where the institution takes into account a master netting agreement in relation to a set of securities financing transactions, it shall calculate the exposure value for all transactions covered by that master netting agreement as a single exposure value at netting set level

2. In the case of any contract listed in ~~Annex II of *CRR*~~,Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, the exposure value shall be determined by the methods set out in ~~Chapter 6 of Title II of Part Three of *CRR*~~the Counterparty Credit Risk (CRR) Part ~~and Sections 3 to 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part~~ and shall not take into account any credit risk adjustment made.

3. Unless otherwise determined by paragraph 1, where an exposure takes the form of securities or commodities sold, posted or lent under securities financing transactions or long settlement transactions, the institution shall use the exposure value of the securities or commodities determined in accordance with Groups Part Article 24~~ of *CRR*~~. The institution shall, where it uses the *Financial Collateral Comprehensive Method*, increase such exposure value by the volatility adjustment appropriate to such securities or commodities, as prescribed in Credit Risk Mitigation (CRR) Part Articles 223 to 224.

…

**Annex J**

**Amendments to the Credit Risk Mitigation (CRR) 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:

…

*IMM*

means the internal model method set out in ~~Articles 283 to 294 of *CRR*.~~Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part.

*IMM Permission*

means a permission granted to an institution in accordance with ~~Article 283 of *CRR*.~~Counterparty Credit Risk (CRR) Part Article 283.

…

~~*margin period of risk*~~

~~has the meaning given in Article 272(9) of *CRR*.~~

…

## 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 ~~An institution to which this Part applies shall~~A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under paragraph 1 of Article 9 of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

~~[Note: Rule 2.2 applies paragraph 1 of Article 9 of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* to which this Part applies shall comply with this Part on the basis of its consolidated situation.~~A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in point 47 of Article 4(1) of *CRR*]~~

**~~Application of requirements on a sub-consolidated basis~~**

2.6 ~~An institution to which this Part applies that is required to comply with Part Two (Own Funds and Eligible Liabilities) and Part Three (Capital Requirements) of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: This rule sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]~~

**~~Organisational Structure and Control Mechanisms~~**

2.7 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.8 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes, and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 2.8 sets out an equivalent provision to the third sentence of paragraph 1 of Article 11 of *CRR* that applies to this Part]~~

## 3 CREDIT RISK MITIGATION (CHAPTER 4 OF TITLE II OF PART THREE OF CRR)

### SECTION 1 GENERAL REQUIREMENTS

### Article 191A USE OF CREDIT RISK MITIGATION TECHNIQUES UNDER THE STANDARDISED APPROACH AND THE IRB APPROACH

…

4. Notwithstanding any other provision in this Part specifying the applicability of any of Articles 192 to 239, any such article shall apply to an institution using the *IMM*, the *LGD Modelling Collateral Method* or the *LGD Adjustment Method*, or to an institution taking into account funded credit protection covering an exposure arising from a derivative instrument listed in ~~Annex II of *CRR*,~~Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, or to an institution applying the methods set out in Sections 3 to 5 of Chapter 3 of Counterparty Credit Risk (CRR) to a long settlement transaction in accordance with Counterparty Credit Risk (CRR) Part Article 271(2) ~~of *CRR*~~, in each case solely to the extent provisions elsewhere in this *PRA* Rulebook or *CRR* cross-refer to such article. Absent such cross-reference, such articles shall not apply to institutions using any such method or institutions taking into account such funded credit protection covering any such exposure.

…

### Article 194 PRINCIPLES GOVERNING THE ELIGIBILITY OF CREDIT RISK MITIGATION TECHNIQUES

…

3. An institution may only recognise funded credit protection in the calculation of the effect of credit risk mitigation where the assets relied upon for protection:

   (a) are included in the list of eligible assets set out in Articles 197 to 200 or are eligible collateral pursuant to ~~Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A,~~Counterparty Credit Risk (CRR) Part Articles 299 or 299A, as applicable; and

…

**Article 197 ELIGIBILITY OF COLLATERAL UNDER THE FINANCIAL COLLATERAL SIMPLE METHOD, THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD, THE FOUNDATION COLLATERAL METHOD AND THE SFT VAR METHOD**

---

1. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use the following items as eligible collateral:

   …

   (c) debt securities issued by:

      (i) institutions; or

      (ii) financial institutions exposures to which may be treated as exposures to institutions under ~~Article 119(5) of *CRR*,~~ Credit Risk: Standardised Approach (CRR) Part Article 119(5),

      where the securities have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of exposures to institutions under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*;

      …

   (h) securitisation positions that are not resecuritisation positions and which are subject to a 100% risk weight or lower in accordance with ~~Article 261 to Article 264 of *CRR*.~~Securitisation (CRR) Part Articles 261 to 264.

…

4. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use as eligible collateral debt securities issued by other institutions, or financial institutions exposures to which may be treated as exposures to institutions under ~~Article 119(5) of *CRR*~~ Credit Risk: Standardised Approach (CRR) Part Article 119(5) where such debt securities do not have a credit assessment by an ECAI where:

…

9. This Article shall be without prejudice to ~~Article 299 of *CRR* and Counterparty Credit Risk (CRR) Part Article 299A.~~Counterparty Credit Risk (CRR) Part Articles 299 and 299A.

…

**Article 198 ADDITIONAL ELIGIBILITY OF COLLATERAL UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD, THE FOUNDATION COLLATERAL METHOD AND THE SFT VAR METHOD**

1. In addition to the collateral referred to in Article 197, an institution using the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method*, may, without prejudice to ~~Article 299 of *CRR* and Counterparty Credit Risk (CRR) Part Article 299A,~~Counterparty Credit Risk (CRR) Part Articles 299 and 299A, also use the following items as eligible collateral:

…

**Article 200 OTHER FUNDED CREDIT PROTECTION**

1. An institution may use the following *other funded credit protection* as eligible collateral when using the *Other Funded Credit Protection Method*:

   …

   (c) instruments issued by another institution (or by a financial institution exposures to which may be treated as exposures to institutions under ~~Article 119(5) of *CRR*),~~Credit Risk: Standardised Approach (CRR) Part Article 119(5)), which instruments will be repurchased by that institution or financial institution on request.

[Note: This rule corresponds to Article 200 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 UNFUNDED CREDIT PROTECTION**

**Article 201 ELIGIBILITY OF PROTECTION PROVIDERS UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. An institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use the following parties as eligible providers of unfunded credit protection:

   …

   (f) institutions, (and financial institutions exposures to which may be treated as exposures to institutions under ~~Article 119(5) of *CRR*);~~ Credit Risk: Standardised Approach (CRR) Part Article 119(5));

   …

…

**Article 220 USING THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD FOR MASTER NETTING AGREEMENTS**

…

2. For the purpose of calculating $\mathrm{E}^{*}$, the institution shall:

   …

   (b) …

…

These calculations pursuant to points (i) and (ii) shall exclude groups of securities and commodities where:

…

(2) the securities and commodities either:

(A) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to ~~Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A;~~Counterparty Credit Risk (CRR) Part Articles 299 or 299A; or

…

3. The institution shall calculate $\mathrm{E}^*$ in accordance with the following formula:

…

$\mathrm{m}$ = the index that denotes all groups of securities, types of commodities, or cash positions under the *master netting agreement*. This index shall exclude groups of securities and types of commodities where:

…

(b) the securities or commodities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to ~~Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A;~~Counterparty Credit Risk (CRR) Part Articles 299 or 299A; or

…

…

$\mathrm{N}$ = the total number of distinct groups of the same securities and distinct types of the same commodities under the *master netting agreement*; for the purposes of this calculation, those groups and types $\mathrm{E}_\mathrm{m}$ for which $\left|\mathrm{E}_\mathrm{m}\right|$ is less than $\frac{1}{10} \cdot \max_\mathrm{m}\left(\left|\mathrm{E}_\mathrm{m}\right|\right)$ shall not be counted. This index shall exclude groups of securities and types of commodities where:

…

(b) the securities or commodities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to ~~Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A;~~Counterparty Credit Risk (CRR) Part Articles 299 or 299A; or

…

**Article 221 USING THE SFT VAR METHOD**

…

1B. The transactions referred to in paragraphs 1A(a) and 3 are securities financing transactions and *capital market-driven transactions*, but excluding derivative transactions, that are:

…

(c) in the case of margin lending transactions, transactions covered under a *master netting agreement* that meets the requirements set out in ~~Articles 295 to 298 of *CRR*~~ Section 7 of Chapter 3 of the Counterparty Credit Risk (CRR) Part provided that the *SFT VaR Method* is used for all transactions covered by the agreement.

…

4. An institution shall comply with the following qualitative standards:

…

(j) the institution's approach meets the requirements set out in paragraphs 8 and 9 of ~~Article 292 and Article 294 of *CRR*~~;Counterparty Credit Risk (CRR) Part Articles 292 and 294;

…

6. An institution with an *SFT VaR Method Permission* shall calculate $E^*$ in accordance with the following formula:

$$E^* = \max\left\{0\,, \left(\sum_i E_i - \sum_i C_i\right) + \text{potential change in value}\right\}$$

where:

$E_i$ = the exposure value for each separate exposure $i$ under the *master netting agreement* (or the exposure if there is no *master netting agreement*) that would apply in the absence of the credit protection. This calculation shall exclude securities lent, sold with an agreement to repurchase, or transacted in a manner similar to either securities lending or a repurchase agreement where:

…

(b) the securities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to ~~Article 299 of *CRR* or~~ Counterparty Credit Risk (CRR) Part Articles 299 or 299A; or

…

$C_i$ = the value of the securities borrowed, purchased, or received or the cash borrowed or received in respect of each such exposure $i$. This calculation shall exclude securities borrowed, purchased, or received where:

…

(b) the securities either:

(i) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to ~~Article 299 of *CRR* or~~ Counterparty Credit Risk (CRR) Part Articles 299 or 299A; or

(ii) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207.

When calculating risk-weighted exposure amounts under this paragraph, an institution shall use the previous *business day's* model output.

7. The calculation of the potential change in value referred to in paragraph 6 shall be subject to all the following standards:

…

(f) it shall not reflect types of securities where:

…

(ii) the securities either:

(A) are not included in the lists of eligible collateral set out in Articles 197 and 198 and are not eligible collateral pursuant to ~~Article 299 of *CRR* or Counterparty Credit Risk (CRR) Part Article 299A;~~Counterparty Credit Risk (CRR) Part Articles 299 or 299A; or

(B) do not meet the requirements laid down in paragraphs 2 to 4 of Article 207.

Where the institution has a securities financing transaction or similar transaction or netting set which meets the criteria set out in ~~Article 285(2), (3) and (4) of *CRR*~~Counterparty Credit Risk (CRR) Article 285(2), (3) and (4), the minimum liquidation period shall be brought in line with the *margin period of risk* that would apply under those paragraphs, in combination with ~~Article 285(5) of *CRR*~~Counterparty Credit Risk (CRR) Article 285(5).

…

**Article 223 FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

…

1. In order to take account of price volatility, an institution shall apply volatility adjustments to the market value of collateral, as set out in Articles 224, 226, and 227, when valuing financial collateral.

Where collateral is denominated in a currency that differs from the currency in which the underlying exposure is denominated, the institution shall add an adjustment reflecting currency volatility to the volatility adjustment appropriate to the collateral as set out in Articles 224, 226, and 227.

In the case of OTC derivatives transactions covered by netting agreements ~~recognised by the *PRA* under~~ that meet the requirements set out in ~~Articles 295 to 298 of *CRR*~~Section 7 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, the institution shall apply a volatility adjustment reflecting currency volatility when there is a mismatch between the collateral currency and the settlement currency. Where multiple currencies are involved in the transactions covered by the netting agreement, the institution shall apply a single volatility adjustment.

…

**Article 224 SUPERVISORY VOLATILITY ADJUSTMENT UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

…

2. The calculation of volatility adjustments in accordance with paragraph 1 shall be subject to the following conditions:

…

Where an institution has a transaction or netting set which meets the criteria set out in ~~Article 285(2), (3) and (4) of *CRR*~~Counterparty Credit Risk (CRR) Article 285(2), (3) and (4), the liquidation period shall be brought in line with the *margin period of risk* that would apply under those paragraphs. Where this results in a liquidation period for which volatility adjustments are not set out in paragraph 1, the institution shall scale up or down, as applicable, the volatility adjustment for such liquidation period using the formula in paragraph 2 of Article 226.

6. For unrated debt securities issued by institutions (or financial institutions exposures to which may be treated as exposures to institutions under ~~Article 119(5) of *CRR*~~)Credit Risk: Standardised Approach (CRR) Part Article 119(5)) and satisfying the eligibility criteria in paragraph 4 of Article 197, the institution shall apply the same volatility adjustment as for securities issued by institutions or corporates with an external credit assessment associated with credit quality step 2 or 3.

…

**Article 227 CONDITIONS FOR APPLYING A 0% VOLATILITY ADJUSTMENT UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

…

3. The following entities are core market participants:

…

(ba) financial institutions exposures to which may be treated as exposures to institutions under ~~Article 119(5) of *CRR*;~~Credit Risk: Standardised Approach (CRR) Part Article 119(5);

…

…

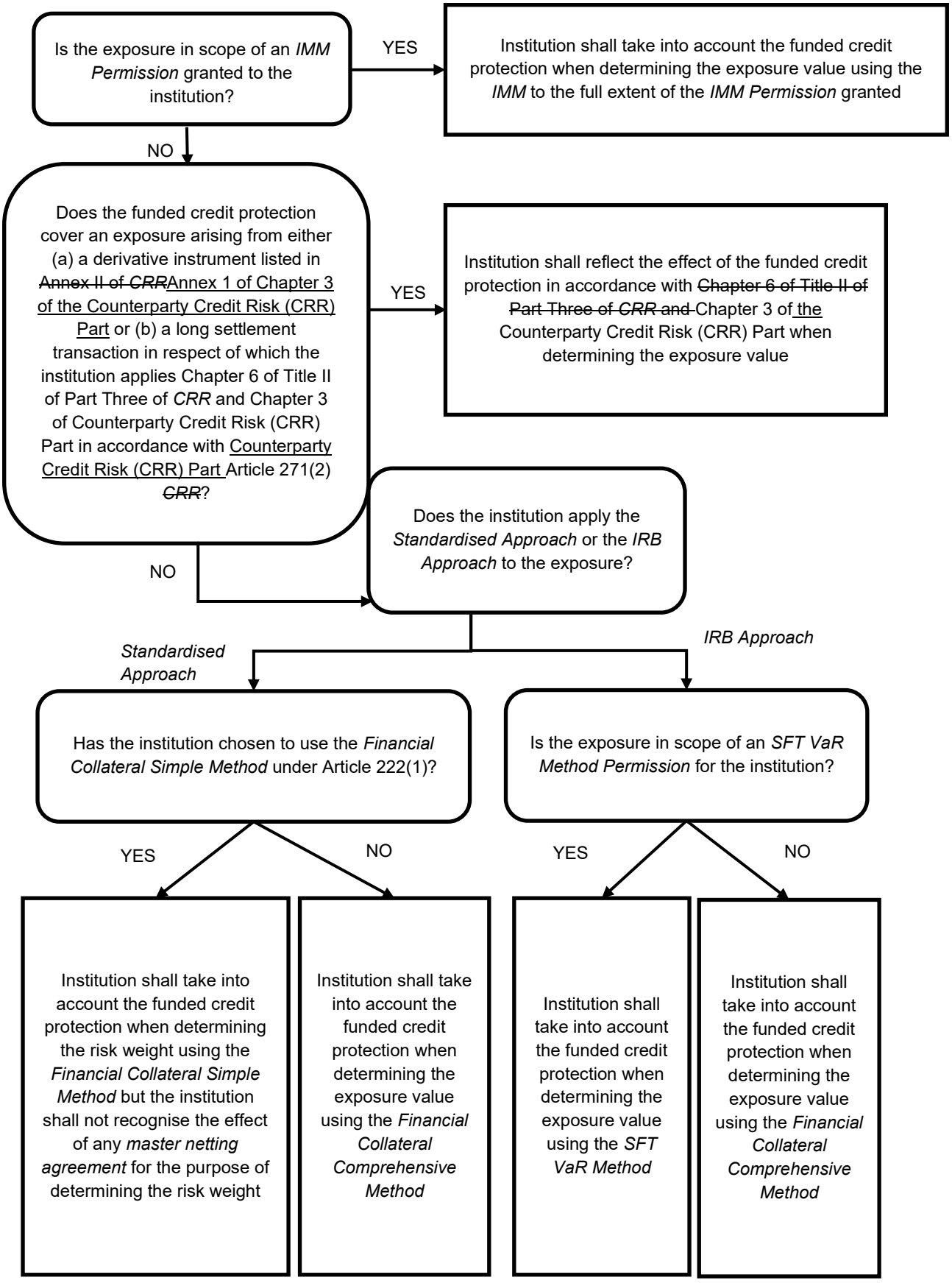
**Article 234 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS AND EXPECTED LOSS AMOUNTS IN THE EVENT OF PARTIAL PROTECTION AND TRANCHING**

1. Where an institution transfers a part of the risk of a loan in one or more tranches, the institution shall comply with the requirements set out in ~~Chapter 5 of Title II of Part Three of *CRR*.~~the Securitisation (CRR) Part. An institution shall consider materiality thresholds on payments below which no payment shall be made in the event of loss to be equivalent to retained first loss positions and to give rise to a tranched transfer of risk.

…

…

## Appendix 1 PART ONE: FUNDED CREDIT PROTECTION COVERING AN EXPOSURE THAT GIVES RISE TO COUNTERPARTY CREDIT RISK



## Annex K

## Amendments to the Credit Risk: Standardised Approach (CRR) Part

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

…

### 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 ~~An institution shall~~A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: This rule sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]~~

### 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

## 4 STANDARDISED APPROACH

### SECTION 1 GENERAL PRINCIPLES

…

### Article 111 EXPOSURE VALUE

…

2. The exposure value of a derivative instrument listed in ~~Annex II of *CRR*~~Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part shall be determined in accordance with ~~Chapter 6 of Title II of Part Three of *CRR* and Sections 3 to 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part~~the Counterparty Credit Risk (CRR) Part.

2A. An institution that takes into account credit risk mitigation techniques in calculating the exposure value of securities financing transactions and long settlement transactions shall calculate such exposure values consistently with Credit Risk Mitigation (CRR) Part Article 191A in accordance with either ~~Chapter 6 of Title II of Part Three of *CRR* and~~ Chapter 3 of ~~Counterparty Credit Risk (CRR) Part~~the Counterparty Credit Risk (CRR) Part~~,~~ or Chapter 3 of Credit Risk Mitigation (CRR) Part; provided that where the institution takes into account a master netting agreement in relation to a set of securities financing transactions, it shall calculate the exposure value for all transactions covered by that master netting agreement as a single exposure value at netting set level.

…

### Article 112 EXPOSURE CLASSES

**…**

2. An institution shall assign exposures to the exposure classes listed in Column A of Table A2 according to the criteria in the corresponding row of Column B of Table A2. Where an exposure meets the criteria for more than one exposure class it shall be assigned to the exposure class that has the highest position in Table A2.

Table A2

| | **Column A: Exposure Class** | **Column B: Criteria** |
|---|---|---|
| (1) | Items representing securitisation positions (point (m) of paragraph 1). | Exposures to securitisation positions for which a risk-weight treatment is set out in ~~Chapter 5 of Title II of Part Three of *CRR*.~~the Securitisation (CRR) Part. |

| | | |
|---|---|---|
| … | … | … |
| (10) | Exposures to institutions (point (f) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Articles 119 to 121~~ or Article 119(5) of *CRR*~~. |
| … | … | … |

**Article 113 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS**

…

4. Risk-weighted exposure amounts for securitised exposures shall be calculated in accordance with ~~Chapter 5 of Title II of Part Three of *CRR*.~~the Securitisation (CRR) Part.

…

**Article 114 EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS**

…

2. Exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 1 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

Table 1

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 0% | 20% | 50% | 100% | 100% | 150% |

…

**Article 115 EXPOSURES TO REGIONAL GOVERNMENTS OR LOCAL AUTHORITIES**

1. Unless they are treated as exposures to central governments under paragraph 2, fall within scope of Article 115(4) of *CRR* or receive a risk weight as specified in paragraph 5, exposures to regional governments or local authorities shall be assigned risk weights as follows:

   (a) where a credit assessment by a nominated ECAI is not available for the exposure to the regional government or local authority:

      (i) the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 1A which corresponds to a credit assessment for which exposures to the central government of the jurisdiction in which the regional government or local authority is based as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~, where a credit assessment by a nominated ECAI is available for that central government; or

   …

   (b) in respect of exposures for which a credit assessment by a nominated ECAI is available, the exposure shall be assigned a risk weight in accordance with the credit quality step in

Table 1B which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~:

Table 1B

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 50% | 100% | 100% | 150% |

…

**Article 116 EXPOSURES TO PUBLIC SECTOR ENTITIES**

1. Subject to paragraphs 3 and 3A, in respect of exposures to *UK* public sector entities for which a credit assessment by a nominated ECAI is not available:

   (a) the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 2 which corresponds to a credit assessment for the central government of the *UK* as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~, where a credit assessment by a nominated ECAI is available for the central government of the *UK*; or

…

2. Subject to paragraphs 3 and 3A, exposures to *UK* public sector entities for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in the following Table 2A which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~:

   Table 2A

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 50% | 100% | 100% | 150% |

…

**Article 117 EXPOSURES TO MULTILATERAL DEVELOPMENT BANKS**

1. Exposures to *multilateral development banks* that are not referred to in paragraph 2 shall be assigned risk weights in accordance with the following provisions:

   (a) exposures to a *multilateral development bank* for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 2B which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~:

   Table 2B

| **Credit** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| **quality step** | | | | | | |
| **Risk weight** | 20% | 30% | 50% | 100% | 100% | 150% |

…

**Article 119 EXPOSURES TO INSTITUTIONS**

…

5. ~~[Note: Provision not in *PRA* Rulebook]~~Exposures to financial institutions that are subject to the requirements laid down in Part 9C rules shall be treated as exposures to institutions.

6. ~~[Note: Provision not in *PRA* Rulebook]~~[Note: Provision left blank]

[Note: This rule corresponds to Articles 119(1), (5) and (6) of *CRR* as ~~it~~ they applied immediately before revocation by the *Treasury*]

…

**Article 120 EXPOSURES TO RATED INSTITUTIONS**

1. Subject to paragraph 2A, exposures to institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was more than three *months* shall be assigned a risk weight in accordance with the credit quality step in Table 3 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

   Table 3

| | | | | | | |
|---|---|---|---|---|---|---|
| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
| **Risk weight** | 20% | 30% | 50% | 100% | 100% | 150% |

2. Subject to paragraph 3, exposures to institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was three *months* or less shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

2A. Subject to paragraph 3, exposures to institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was six *months* or less and the exposure arose from the movement of goods shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

   Table 4

| | | | | | | |
|---|---|---|---|---|---|---|
| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 20% | 20% | 50% | 50% | 150% |

2B. Subject to paragraph 3, exposures to institutions for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 4A which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

Table 4A

| | | | | |
|---|---|---|---|---|
| **Credit quality step** | 1 | 2 | 3 | Others |
| **Risk weight** | 20% | 50% | 100% | 150% |

…

**Article 122 EXPOSURES TO CORPORATES**

…

2. Exposures to corporates for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 6 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

Table 6

| | | | | | | |
|---|---|---|---|---|---|---|
| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
| **Risk weight** | 20% | 50% | 75% | 100% | 150% | 150% |

3. Exposures to corporates for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 6A which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

Table 6A

| | | | | |
|---|---|---|---|---|
| **Credit quality step** | 1 | 2 | 3 | Others |
| **Risk weight** | 20% | 50% | 100% | 150% |

…

**Article 129 EXPOSURES IN THE FORM OF ELIGIBLE COVERED BONDS**

1. Subject to paragraph 6, *eligible covered bonds* are CRR covered bonds which meet the requirements in paragraphs 3 and 7 and are collateralised by any of the following eligible assets:

…

(b) exposures to or guaranteed by:

…

(v) *third country* public sector entities that are risk-weighted in accordance with Article 116(1) or (2) and that qualify for the credit quality step 1 as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~;

(vi) *third country* regional governments or *third country* local authorities that are risk-weighted in accordance with Article 115(1) or which are risk-weighted as exposures to institutions or central governments or central banks in accordance with Article 115(4) of *CRR* and that qualify for the credit quality step 1 as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~; or

(vii) exposures within the meaning of this point (b) that qualify as a minimum for the credit quality step 2 as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of the issuing institutions;

(c) exposures to institutions that have a credit assessment which corresponds with a credit quality step of 1 or 2 as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~, provided that the total exposures of this kind shall not exceed 15% of the nominal amount of outstanding covered bonds of the issuing institution;

…

4. *Eligible covered bonds* for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 7 which corresponds to the credit assessment of the ECAI as mapped in Article 136A~~Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016~~.

Table 7

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 10% | 20% | 20% | 50% | 50% | 100% |

…

**Article 130 ITEMS REPRESENTING SECURITISATION POSITIONS**

~~[Note: Provision not in *PRA* Rulebook]~~[Note: Provision left blank]

…

**Article 132 OWN FUNDS REQUIREMENTS FOR EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS**

…

8.

(a) An institution shall notify the *PRA* if either:

(i) the total risk-weighted exposure amounts for all of its exposures in the form of units or shares in *relevant CIUs* exceed 0.5% of the institution's total risk-weighted exposures for credit risk and dilution risk calculated in accordance with Title II of Part Three of *CRR* and the Credit Risk: General Provisions (CRR) Part, the Credit Risk: Standardised Approach (CRR) Part, the Credit Risk: Internal Ratings Based Approach (CRR) Part, the Credit Risk Mitigation (CRR) Part, the Securitisation (CRR) Part, and the Counterparty Credit Risk (CRR) Part; or

(ii) the total exposure values for all of its exposures in the form of units or shares in *relevant CIUs* exceed GBP 500 million;

in each case calculated on an ~~individual~~*individual basis* or ~~consolidated basis~~*consolidated basis*.

…

**Article 132A APPROACHES FOR CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS OF CIUS**

…

2. Where the conditions set out in Article 132(3) are met, an institution that does not have sufficient information about the individual underlying exposures of a CIU to use the look-through approach may calculate the risk-weighted exposure amount of those exposures in accordance with the limits set in the CIU's mandate and relevant law.

An institution shall carry out the calculations referred to in the first sub-paragraph under the assumption that the CIU first incurs exposures to the maximum extent allowed under its mandate or relevant law in the exposures attracting the highest own funds requirement and then continues incurring exposures in descending order until the maximum total exposure limit is reached, and that the CIU applies leverage to the maximum extent allowed under its mandate or relevant law, where applicable.

An institution shall carry out the calculations referred to in the first sub-paragraph in accordance with the methods set out in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*, ~~Chapter 5 of Title II of Part Three of *CRR*~~,the Securitisation (CRR) Part, and in Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part, as applicable.

…

**Article 136A THE CORRESPONDENCE OF THE RATING CATEGORIES OF EACH ECAI WITH THE CREDIT QUALITY STEPS SET OUT IN ~~SECTION 2 OF CHAPTER 2 (STANDARDISED APPROACH) OF TITLE II OF PART THREE OF THE CRR~~THIS PART**

1 The correspondence of the rating categories of each ECAI with the credit quality steps set out in ~~Section 2 of Chapter 2 (Standardised Approach) of Title II of Part Three of the *CRR*~~this Part shall be that set out in the following table:

…

2 Where a rating scale is not mapped to credit quality steps in paragraph 1, for the purposes of assigning a risk weight to an exposure to an institution, the correspondence of the rating

categories within that rating scale to the credit quality steps shall be the same as that of a different rating scale which is mapped in paragraph 1, if the following conditions are met:

(a) the rating scales are produced by the same ECAI;

(b) the rating methodologies and key rating assumptions that the ECAI uses to assign items to the rating categories within the unmapped rating scale do not incorporate assumptions of implicit government support; and

(c) the rating methodologies and key rating assumptions that the ECAI uses to assign items to the rating categories in the relevant mapped and unmapped rating scales are identical except for the consideration given to assumptions of implicit government support.

…

## SECTION 3 USE OF THE ECAI CREDIT ASSESSMENTS FOR THE DETERMINATION OF RISK WEIGHTS

### Article 138 GENERAL REQUIREMENTS

…

3. Where an institution has nominated an ECAI under paragraph 1, that ECAI shall not be treated as a nominated ECAI for the purposes of paragraph 1 of Article 270D of the Securitisation (CRR) Part unless the institution has also nominated that ECAI in accordance with that Article.

4. The requirements in this Article and Articles 139 to 141 do not apply when the institution is using a credit assessment of a *securitisation* position by an ECAI for the purpose of calculating its risk-weighted exposure amounts in accordance with the Securitisation (CRR) Part, and instead the institution shall comply with the requirements in Article 270D of that Part.

**Annex L**

**Amendments to the Own Funds (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

2.1 ~~Title II of Part One (Level of application) of *CRR* applies to Chapter 3 and 4 of this Part as that Title applies to Part Three (Capital Requirements) of *CRR*.~~An institution must comply with this Part on an *individual basis*, except that an institution that is a parent undertaking or a subsidiary or included in the scope of consolidation pursuant to Article 18 of the Groups Part is not required to comply with Articles 89, 90 and 91 of this Part on an *individual basis*.

2.2 A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

2.3 An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

…

## 3 OWN FUNDS (PART TWO CRR)

…

### Article 39 TAX OVERPAYMENTS, TAX LOSS CARRY BACKS AND DEFERRED TAX ASSETS THAT DO NOT RELY ON FUTURE PROFITABILITY

…

2. Deferred tax assets that do not rely on future profitability shall be limited to deferred tax assets which were created before 23 November 2016 and which arise from temporary differences, where all the following conditions are met:

   …

   (b) the institution is able under the applicable national tax law of the *United Kingdom*, or any part of it, or of a *third country* to offset a tax credit referred to in point (a) against any tax liability of the institution or any other undertaking included in the same consolidation as the institution for tax purposes under that law or any other undertaking subject to the supervision on a ~~consolidated basis~~*consolidated basis* in accordance with the Groups Part~~Chapter 2 of Title II of Part One *CRR*~~;

…

### Article 81 MINORITY INTERESTS THAT QUALIFY FOR INCLUSION IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL

1. Minority interests shall comprise the sum of Common Equity Tier 1 items of a subsidiary where the following conditions are met:

   (a) the subsidiary is one of the following:

      (i) an institution;

(ii) a *CRR firm*;

(iia) an intermediate financial holding company or intermediate mixed financial holding company that is subject to *a sub-consolidation requirement*~~the requirements of *CRR* on a sub-consolidated basis~~;

(iib) an intermediate investment holding company that is subject to the requirements of rules made under Part 9C *FSMA* on a ~~consolidated basis~~*consolidated basis*;

(iic) an *FCA investment firm*;

(b) the subsidiary is included fully in the consolidation pursuant to the Groups Part~~Chapter 2 of Title II of Part One of *CRR*~~;

(c) the Common Equity Tier 1 items, referred to in the introductory part of this paragraph, are owned by ~~persons~~ *persons* other than the undertakings included in the consolidation pursuant to the Groups Part~~Chapter 2 of Title II of Part One of *CRR*~~.

…

**Article 82 QUALIFYING ADDITIONAL TIER 1, TIER 1, TIER 2 CAPITAL AND QUALIFYING OWN FUNDS**

Qualifying Additional Tier 1, Tier 1, Tier 2 capital and qualifying own funds shall comprise the minority interest, Additional Tier 1 or Tier 2 instruments, as applicable, plus the related retained earnings and share premium accounts, of a subsidiary where the following conditions are met:

(a) the subsidiary is either of the following:

(i) an institution;

(ii) a *CRR firm*;

(iia) an intermediate financial holding company or intermediate mixed financial holding company that is subject to a *sub-consolidation requirement*~~the requirements of *CRR* on a sub-consolidated basis~~;

(iib) an intermediate investment holding company that is subject to the requirements of rules made under Part 9C *FSMA* on a consolidated basis;

(iic) an *FCA investment firm*;

(b) the subsidiary is included fully in the scope of consolidation pursuant to the Groups Part ~~Chapter 2 of Title II of Part One of *CRR*~~;

(c) those instruments are owned by persons other than the undertakings included in the consolidation pursuant to ~~Chapter 2 of Title II of Part One of *CRR*~~the Groups Part.

[Note 1: This rule corresponds to Article 82 of *CRR* as it applied immediately before its revocation except that there is no corresponding rule for Article 82(a)(iii)]

[Note 2: Article 83 of *CRR* has been revoked and not replaced in these rules]

**Article 84 MINORITY INTERESTS INCLUDED IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL**

1. Institutions shall determine the amount of minority interests of a subsidiary that is included in consolidated Common Equity Tier 1 capital by subtracting from the minority interests of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

(a) the Common Equity Tier 1 capital of the subsidiary minus the lower of the following:

…

(ii) the amount of consolidated Common Equity Tier 1 capital that relates to that subsidiary that is required on a ~~consolidated basis~~*consolidated basis* to meet the sum of the requirement laid down in point (a) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations, the combined buffer defined in the Capital Buffers Part, and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by Common Equity Tier 1 capital;

...

2. The calculation referred to in paragraph 1 shall be undertaken on a ~~sub-consolidated basis~~*sub-consolidated basis* for each subsidiary referred to in Article 81(1).

An institution may choose not to undertake this calculation for a subsidiary referred to in Article 81(1). Where an institution takes such a decision, the minority interest of that subsidiary may not be included in consolidated Common Equity Tier 1 capital.

3. ~~Where the *PRA* derogates from the application of prudential requirements on an individual basis, as laid down in Article 7 of *CRR*, minority interests within the subsidiaries to which the waiver is applied shall not be recognised in own funds at the sub-consolidated or at the consolidated level, as applicable.~~[Deleted]

…

**Article 85 QUALIFYING TIER 1 INSTRUMENTS INCLUDED IN CONSOLIDATED TIER 1 CAPITAL**

---

1. Institutions shall determine the amount of qualifying *Tier 1 capital* of a subsidiary that is included in consolidated own funds by subtracting from the qualifying *Tier 1 capital* of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

(a) the *Tier 1 capital* of the subsidiary minus the lower of the following:

…

(ii) the amount of consolidated *Tier 1 capital* that relates to the subsidiary that is required on a ~~consolidated basis~~*consolidated basis* to meet the sum of the requirement laid down in point (b) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part, and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by *Tier 1 Capital*;

(b) the qualifying *Tier 1 capital* of the subsidiary expressed as a percentage of all Tier 1 instruments of that undertaking plus the related share premium accounts, retained earnings and other reserves.

2. The calculation referred to in paragraph 1 shall be undertaken on a ~~sub-consolidated basis~~*sub-consolidated basis* for each subsidiary referred to in Article 81(1).

An institution may choose not to undertake this calculation for a subsidiary referred to in Article 81(1). Where an institution takes such a decision, the qualifying *Tier 1 capital* of that subsidiary may not be included in consolidated *Tier 1 capital*.

3. ~~Where the *PRA* derogates from the application of prudential requirements on an individual basis, as laid down in Article 7 of *CRR*, Tier 1 instruments within the subsidiaries to which the waiver is applied shall not be recognised as own funds at the sub-consolidated or at the consolidated level, as applicable.~~[Deleted]

…

[Note 1: This rule corresponds to Article 85 of *CRR* as it applied immediately before its revocation]

[Note 2: Related provisions in Article 34a of Chapter 4 of the Own Funds (CRR) Part]

**Article 87 QUALIFYING OWN FUNDS INCLUDED IN CONSOLIDATED OWN FUNDS**

1. Institutions shall determine the amount of qualifying own funds of a subsidiary that is included in consolidated own funds by subtracting from the qualifying own funds of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

   (a) the own funds of the subsidiary minus the lower of the following:

   …

   (ii) the amount of own funds that relates to the subsidiary that is required on a ~~consolidated basis~~*consolidated basis* to meet the sum of the requirement laid down in point (c) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part, and any additional local supervisory own funds requirement in *third countries*;

   (b) the qualifying own funds of the undertaking, expressed as a percentage of all own funds instruments of the subsidiary that are included in Common Equity Tier 1, Additional Tier 1 and Tier 2 items and the related share premium accounts, the retained earnings and other reserves.

2. The calculation referred to in paragraph 1 shall be undertaken on a ~~sub-consolidated basis~~*sub-consolidated basis* for each subsidiary referred to in Article 81(1). An institution may choose not to undertake this calculation for a subsidiary referred to in Article 81(1). Where an institution takes such a decision, the qualifying own funds of that subsidiary may not be included in consolidated own funds.

3. ~~Where the *PRA* derogates from the application of prudential requirements on an individual basis, as laid down in Article 7 of CRR, own funds instruments within the subsidiaries to which the waiver is applied shall not be recognised as own funds at the sub-consolidated or at the consolidated level, as applicable.~~[Deleted]

…

[Note 1: This rule corresponds to Article 87 of *CRR* as it applied immediately before its revocation]

[Note 2**:** Related provisions in Article 34a of the Own Funds (CRR) Part]

…

## 4 RULES SUPPLEMENTING THE CRR WITH REGARDS TO OWN FUNDS REQUIREMENTS (PREVIOUSLY REGULATION (EU) NO 241/2014)

…

### CHAPTER V MINORITY INTEREST AND ADDITIONAL TIER 1 AND TIER 2 INSTRUMENTS ISSUED BY SUBSIDIARIES

### Article 34a MINORITY INTERESTS INCLUDED IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL

…

3. …

(c) the amount of consolidated Common Equity Tier 1 capital required, according to point (ii) of Article 84(1)(a) of the *CRR*, shall be the contribution of the subsidiary on a *consolidated basis*~~the basis of its consolidated situation~~ to the Common Equity Tier 1 own funds requirements of the institution for which the eligible minority interests are calculated on a ~~consolidated~~ basis *consolidated basis*. For the purpose of calculating the contribution, all intra-group transactions between *undertakings* included in the prudential scope of consolidation of the institution shall be eliminated.

…

**Annex M**

**Amendments to the Capital Buffers Part**

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

…

## 5 APPLICATION ON AN INDIVIDUAL, SUB-CONSOLIDATED AND CONSOLIDATED BASIS

**Application on an individual basis**

5.1 This Part applies to a *firm* on an ~~individual basis~~*individual basis* whether or not it also applies to the *firm* on a *consolidated basis* or *sub-consolidated basis*.

5.1A ~~If this Part applies to a *firm* on an individual basis, the *firm* must comply with the rules in this Part to the same extent and in the same manner as it is required to comply with the *firm's* obligations laid down in Parts Two and Three of the *CRR*.~~[Deleted]

**Application on a consolidated basis**

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

5.3 A *PRA approved parent holding company*, a *PRA designated parent holding company*, a *PRA designated intermediate holding company* or a *PRA designated institution* ~~responsible for meeting CRR requirements on a *consolidated basis*~~ must comply with this Part on a *consolidated basis*.

5.4 [Deleted~~.~~]

**Sub-consolidation**

5.5 [Deleted~~.~~]

5.5A An *Article 109 undertaking* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

**Extent and manner of prudential consolidation**

5.6 ~~If this Part applies to an *Article 109 undertaking* on a *consolidated basis* or on a *sub-consolidated basis*, the *Article 109 undertaking* must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Parts Two and Three of the *CRR* on a *consolidated basis* or *sub-consolidated basis*.~~[Deleted]

~~[Note: Art 129(1) (part) and 130(1) (part) of the *CRD*]~~

**Annex N**

**Amendments to the Credit Valuation Adjustment Risk 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:

...

~~*margin period of risk*~~

~~has the meaning in Counterparty Credit Risk (CRR) Part 1.3.~~

...

~~*netting set*~~

~~has the meaning in Article 272(4) of *CRR*.~~

*…*

## 2 LEVEL OF APPLICATION

2.1 A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

2.2 ~~Where a *firm* has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.~~ A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

2.3 ~~A *CRR consolidation entity* must comply with this Part on the basis of its consolidated situation.~~ A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

2.4 ~~For the purposes of 2.3, references to a *firm* in this Part (other than in 1.1 and 2.1) mean a *CRR consolidation entity*.~~[Deleted]

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

2.6 ~~A *firm* which is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis must comply with this Part on the same basis.~~[Deleted]

~~**Organisational Structure and Control Mechanisms**~~

2.7 ~~A *CRR consolidation entity* and a *firm* shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

2.8 ~~A *CRR consolidation entity* and a *firm* shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

…

4.3 For the purposes of 4.2, a *firm* must calculate $\mathrm{SCVA_C}$ in accordance with the following formula:

$$\mathrm{SCVA_C} = \frac{1}{\alpha} \cdot \mathrm{RW_C} \cdot \sum_{\mathrm{NS}} \mathrm{M_{NS}} \cdot \mathrm{EAD_{NS}} \cdot \mathrm{DF_{NS}}$$

where:

…

$\mathrm{M_{NS}}$ is the effective maturity for the *netting set*, calculated:

(1) for a *firm* using the methods set out in ~~Section 6 of Chapter 6 of Title II of Part Three of *CRR*~~Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part:

(a) in accordance with point (g) of paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162 for *netting sets* with a maturity of greater than one year, except that $\mathrm{M_{NS}}$ is not capped at five years but instead at the longest contractual remaining maturity in the *netting set*; or

(b) paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162 for *netting sets* with a maturity of less than one year;

(2) for a *firm* not using the methods set out in ~~Section 6 of Chapter 6 of Title II of Part Three of *CRR*~~Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part using the average notional weighted maturity in accordance with paragraph 2 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162, except $\mathrm{M_{NS}}$ is not capped at five years but instead at the longest contractual remaining maturity in the *netting set*;

$\mathrm{EAD_{NS}}$ is the exposure at default of the *netting set*, calculated in the same manner in which the *firm* calculates exposure at default for determining own funds requirements for counterparty credit risk, in accordance with either Sections 3 to 5 of Counterparty Credit Risk (CRR) Part or ~~Section 6 of Chapter 6 of Title II of Part Three of *CRR*~~Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part;

$\mathrm{DF_{NS}}$, the supervisory discount factor for the *netting set*, is:

(1) 1 if a *firm* has been granted permission from the *PRA* under ~~Article 283 of *CRR*~~ Counterparty Credit Risk (CRR) Part Article 283 to use the Internal Model Method to calculate the exposure at default as part of its own funds requirements calculation for counterparty credit risk; or

…

…

5.9 For the purposes of point (c) of 5.6(2):

…

(2) a *firm* may recognise collateral as risk mitigation if:

(a) the collateral management requirements specified in ~~Article 287 of *CRR*~~Counterparty Credit Risk (CRR) Part Article 287 are satisfied;

…

# Annex O

## Amendments to the Definition of Capital Part

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

### 1 APPLICATION AND DEFINITIONS

…

1.1A

(1) A *CRR firm* must comply with this Part on an ~~individual basis~~*individual basis* ~~and as applicable on a *sub-consolidated basis*~~.

(2) A *CRR consolidation entity* must comply with this Part (other than Chapter 2) on a *consolidated basis* ~~and for this purpose, references to a *firm* in this Part (other than in 1.1 and 1.1A) mean a *CRR consolidation entity*~~.

(3) A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

1.2 In this Part the following definitions shall apply:

*Side agreement*

means any document containing an agreement or other arrangement, including a proposed agreement or other arrangement, related to the capital instrument (whether or not explicitly referred to in the instrument) which could affect the assessment of compliance of the instrument with ~~Part Two of *CRR*~~Chapter 3 of the Own Funds (CRR) Part.

…

### 2 HOLDINGS OF OWN FUNDS INSTRUMENTS ISSUED BY FINANCIAL SECTOR ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATED SUPERVISION

2.1 For the purposes of calculating *own funds* on an ~~individual basis~~*individual basis* and a *sub-consolidated basis*, *firms* subject to supervision on a *consolidated basis* must deduct holdings of *own funds instruments* issued by *financial sector entities* included in the scope of consolidated supervision in accordance with Chapter 3 of the Own Funds (CRR) Part~~Part Two of the *CRR*~~, except where the exception in 2.3 or 2.7 applies.

…

### 7A PRE-ISSUANCE NOTIFICATION (PIN) REGIME FOR COMMON EQUITY TIER 1 INSTRUMENT

7A.1 Where a *firm*, or another member of its *group* that is not a *firm* but is included in the supervision on a *consolidated basis* of the *firm*, intends to:

(1) issue a capital instrument that it considers will qualify under Chapter 3 of the Own Funds (CRR) Part~~Part Two of *CRR*~~ as a *Common Equity Tier 1 instrument*; or

…

the *firm* shall, at least one *month* before the intended date of issuance or intended date of amendment or variation, as applicable, notify the *PRA* of that intention, except that where there are exceptional circumstances which make it impracticable to give such a period of notice, the *firm* must give as much notice as is reasonably practicable in those circumstances.

7A.2 When notifying *PRA* under 7A.1 the *firm* must:

…

(3) provide a properly reasoned draft independent legal opinion from an appropriately qualified individual confirming that the capital instrument qualifies as a *Common Equity Tier 1 instrument* under ~~Part Two of *CRR*~~Chapter 3 of the Own Funds (CRR) Part; and

…

…

**7B PRE-ISSUANCE NOTIFICATION (PIN) REGIME FOR ADDITIONAL TIER 1 INSTRUMENT**

7B.1 Where a *firm*, or another member of its *group* that is not a *firm* but is included in the supervision on a *consolidated basis* of the *firm*, intends to:

(1) issue a capital instrument that it considers will qualify under Chapter 3 of the Own Funds (CRR) Part~~Part Two of *CRR*~~ as an *Additional Tier 1 instrument*; or

...

…

7B.2 When notifying the *PRA* under 7B.1 the *firm* must:

…

(3) provide a properly reasoned draft independent legal opinion from an appropriately qualified individual confirming that the capital instrument qualifies as an Additional Tier 1 instrument under ~~Part Two of *CRR*~~Chapter 3 of the Own Funds (CRR) Part; and

…

**7C POST ISSUANCE NOTIFICATION (PIN) REGIME FOR TIER 2 INSTRUMENT**

…

7C.2 When giving notice under 7C.1 the *firm* must:

...

(3) provide a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the capital instrument qualifies as a Tier 2 instrument under ~~Part Two of *CRR*~~Chapter 3 of the Own Funds (CRR) Part.

…

**7D FURTHER NOTIFICATIONS ETC.**

…

7D.3 …

(3) Where in compliance with this chapter a *CRR consolidation entity* provides the *PRA* with a notification or other information a *firm* shall not be required to provide the same notification or information on an ~~individual basis~~*individual basis*.

## Annex P

## Amendments to the Designation Part

This Part is deleted.

**Part**

**DESIGNATION [DELETED]**

This Part has been deleted in its entirety.

**Annex Q**

**Amendments to the Disclosure (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution that is not a parent undertaking or a subsidiary or included in the consolidation pursuant to Article 18 of the Groups Part must ~~*CRR* shall~~ comply with this Part on an ~~individual basis~~*individual basis*.

[Note: rule 2.1 sets out an equivalent provision to Article 6(1) and the first subparagraph of Article 6(3) of the *CRR* that apply to this Part]

2.2 The institutions referred to in Article 6(1a) of the *CRR* and institutions that are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution shall comply with Article 437a and point (h) of Article 447 on an ~~individual basis~~*individual basis*.

[Note: rule 2.2 sets out an equivalent provision to the second subparagraph of Article 6(3) of the *CRR* that applies to this Part]

2.3 Large subsidiaries of UK parent institutions, UK parent financial holding companies or UK parent mixed financial holding companies and large subsidiaries of parent undertakings established in a third country shall disclose the information specified in Articles 437, 438, 440, 442, 450, 451, 451a and 453 on an ~~individual basis~~*individual basis* or on a ~~sub-consolidated basis~~*sub-consolidated basis*.

[Note: rule 2.3 corresponds to the second subparagraph of Article 13(1) of the *CRR* as it applied immediately before revocation by the *Treasury* and sets out an equivalent provision to the second subparagraph of Article 13(3) of the *CRR* that applies to this Part]

**Application of requirements on a consolidated basis**

2.4 A UK parent institution ~~shall~~must comply with this Part on *a consolidated basis*~~the basis of its consolidated situation~~.

[Note: rule 2.4 corresponds to the first subparagraph of Article 13(1) of the *CRR* as it applied immediately before revocation by the *Treasury*]

2.5 Rule 2.4 shall not apply to a *CRR consolidation entity* or a resolution entity where it is included in an equivalent disclosure on a ~~consolidated basis~~*consolidated basis* provided by a parent undertaking established in a third country.

[Note: rule 2.5 sets out an equivalent provision to the first subparagraph of Article 13(3) of the *CRR* that applies to this Part]

2.6 An institution identified as a resolution entity that is a G-SII or that is part of a G-SII shall comply with Article 437a and point (h) of Article 447 on the basis of the ~~consolidated situation~~*consolidated situation* of its resolution group.

[Note: rule 2.6 corresponds to Article 13(2) of the *CRR* as it applied immediately before revocation by the *Treasury*]

2.7 ~~For the purposes of applying this Part on a consolidated basis, the terms "institution" and "UK parent institution" shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: rule 2.7 sets out an equivalent provision to Article 11(2) of the *CRR* that applies to this Part]~~

2.8 ~~The expression "consolidated situation" applies for the purposes of this Part as it does for the purposes of Parts Two and Three of the *CRR*.~~[Deleted]

~~[Note: the term "consolidated situation" is defined in Article 4(1)(47) of the *CRR*.]~~

**Application of requirements on a sub-consolidated basis**

2.9 An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement~~that is required to comply with Parts Two and Three of the *CRR* on a sub-consolidated basis shall comply with this Part on the same basis~~.

~~[Note: rule 2.9 sets out an equivalent provision to Article 11(6) of the *CRR* that applies to this Part]~~

…

## 4 DISCLOSURE (PART EIGHT CRR)

…

### Article 438 DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

Institutions shall disclose the following information regarding their compliance with Article 92 and rules 3.1(1)(a) and 3.4 of the Internal Capital Adequacy Assessment Part of the *PRA* Rulebook:

…

(f) the exposure value and the risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or *insurance holding company* that the institutions do not deduct from their own funds in accordance with Article 49 when calculating their capital requirements on an ~~individual~~*individual basis*, ~~sub-consolidated~~ *sub-consolidated basis* and ~~consolidated basis~~*consolidated basis*;

…

### Article 439 DISCLOSURE OF EXPOSURES TO COUNTERPARTY CREDIT RISK

1. Institutions shall disclose the following information regarding their exposure to counterparty credit risk as referred to in ~~Chapter 6 of Title II of Part Three:~~the Counterparty Credit Risk (CRR) Part:

…

**Annex R**

**Amendments to the Financial Conglomerates Part**

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

…

**ANNEX 2 – CAPITAL ADEQUACY CALCULATIONS FOR FINANCIAL CONGLOMERATES**

…

4 Table

| | | | |
|---|---|---|---|
| **A mixed financial holding company** | 4.1 | A *mixed financial holding company* must be treated in the same way as: | |
| | | (a) | a *financial holding company*, if ~~Part One, Title II, Chapter 2 of the *CRR* and~~ the Groups Part ~~are~~is applied; |
| | | (b) | an *insurance holding company*, if the rules in Solvency II Firms: Group Supervision are applied; or |
| | | (c) | an *investment holding company* (if the rules in *MIFIDPRU* are applied). |

…

8 Table: Application of sectoral consolidation rules

| | | |
|---|---|---|
| ***Banking sector*** | 8 | ~~Part One, Title II, Chapter 2 of the *CRR* and~~ the Groups Part. |
| ***Insurance sector*** | | Group Supervision |
| ***CRR investment services sector*** | | in relation to a *designated investment firm* which is a member of a *financial conglomerate* for which the *PRA* is the *coordinator*, ~~Part One, Title II, Chapter 2 of the *CRR* and~~ the *PRA* Rulebook. |
| ***MIFIDPRU investment services sector*** | | in relation to a *MIFIDPRU investment firm* which is a member of a *financial conglomerate* for which the *PRA* is the *coordinator*, *MIFIDPRU*. |

…

**Annex S**

**Amendments to the General Organisational Requirements Part**

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

…

## 7 GROUP ARRANGEMENTS

...

7.1A ~~If this Part applies to an *Article 109 undertaking* on a *consolidated basis* or on a *sub-consolidated basis*, the *Article 109 undertaking* must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Parts Two to Eight of the *CRR* on a *consolidated basis* or *sub-consolidated basis*.~~[Deleted]

7.2 Compliance with the obligations referred to in 7.1 must enable the *consolidation group* or *sub-consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the *CRD*]

## Annex T

## Amendments to the Group Risk Systems Part

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

### 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to a *CRR firm* that is a member of a *group* save that 2.3 applies to an *Article 109 undertaking*.

…

### 2 GROUP SYSTEMS AND CONTROLS

…

2.3 An *Article 109 undertaking* must comply with 2.1(2) in relation to any ~~*UK consolidation group* or non-*UK* sub-group~~*consolidation group* of which it is a member, as well as in relation to its *group*.

…

2.3A An *Article 109 undertaking* to which this Part is applied in a *sub-consolidation requirement* must comply with 2.1(2) and 2.4 on a *sub-consolidated basis*, as set out in that requirement.

…

**Annex U**

**Amendments to the Internal Capital Adequacy Assessment Part**

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

…

## 13 DOCUMENTATION OF RISK ASSESSMENTS

13.1 A *firm* must make a written record of the assessments required under this Part. These assessments must include assessments carried out on a *consolidated basis* and on an ~~individual basis~~*individual basis*. In particular it must make a written record of:

(a) the major sources of risk identified in accordance with the overall Pillar 2 rule in 3.1**;**

(b) how it intends to deal with those risks; and

(c) details of the stress tests and scenario analyses carried out, including any assumptions made in relation to scenario design, and the resulting financial resources estimated to be required in accordance with the general stress test and scenario analysis rule in 12.1.

…

## 14 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS, A CONSOLIDATED BASIS AND A SUB-CONSOLIDATED BASIS

**The ICAAP rules**

14.1 ~~A *firm* that is neither a *subsidiary* of a *parent undertaking* incorporated in or formed under the law of any part of the *UK* nor a *parent undertaking* must comply with the *ICAAP rules* on an individual basis.~~[Deleted]

14.2 A *firm* that is not a member of a *consolidation group* must comply with the *ICAAP rules* on an ~~individual basis~~*individual basis*.

[Note: Art 108(1) of the *CRD*]

14.2A ~~If the *ICAAP rules* apply to a *firm* on an individual basis, the *firm* must comply with the *ICAAP rules* to the same extent and in the same manner as it is required to comply with the obligations laid down in Parts Two to Four and Part Seven of the *CRR*.~~[Deleted]

14.3 A *firm* which is a *UK parent institution* must comply with the *ICAAP rules* on a *consolidated basis*.

…

14.4A A *PRA approved parent holding company* or a *PRA designated parent holding company* must comply with the *ICAAP rules* on ~~the basis of its *consolidated situation*~~a *consolidated basis* and a *PRA designated intermediate holding company* or a *PRA designated institution* responsible for meeting ~~*CRR*~~ requirements on a *consolidated basis* must comply with the *ICAAP rules* on the basis of the *consolidated situation* of its *UK parent financial holding company* or *UK parent mixed financial holding company*.

…

14.6 ~~If the *ICAAP rules* apply to an *Article 109 undertaking* on a *consolidated basis* or on a *sub-consolidated basis* that person must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in the *CRR* on a *consolidated basis* or *sub-consolidated basis*.~~An *Article 109 undertaking* to which this Part is applied in a *sub-consolidation requirement* must comply with the *ICAAP rules*, the *risk control rules*, Internal

Capital Adequacy Assessment 2.1 and Chapter 15 on a *sub-consolidated basis*, as set out in that requirement.

…

14.10 ~~A~~An *Article 109 undertaking* must also carry out the allocation in 14.8 in a way that:

(a) takes into account the nature, level and distribution of the risks between all entities within the *consolidated group* or *sub-consolidation group*; and

(b) ensures the amount allocated to each *Article 109 undertaking* adequately reflects the risks to which that *Article 109 undertaking* is exposed on an ~~individual basis~~*individual basis*.

**The risk control rules**

14.11 The *risk control rules* apply to a *firm* on an ~~individual basis~~*individual basis* whether or not they also apply to the ~~firm~~*firm* on a *consolidated basis* or *sub-consolidated basis*.

[Note: Art 109(1) (part) of the *CRD*]

**Level of application of the overall financial adequacy rule**

14.12 Where a *firm*~~,~~ ~~a *PRA approved parent holding company*, a *PRA designated parent holding company*, a *PRA designated intermediate holding company* or a *PRA designated institution*~~ is responsible for meeting ~~*CRR* requirements~~*PRA* rules on a *consolidated basis*, it must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member meet the standards set out in the *risk control rules* on a *consolidated basis*.

14.12A Where a *firm*, a *PRA approved intermediate holding company*, a *PRA designated intermediate holding company*, a *PRA designated parent holding company* or a *PRA designated institution* ~~is responsible for meeting *CRR* requirements on a *sub-consolidated basis*~~, is subject to a *sub-consolidation requirement* it must ensure that the risk management processes and internal control mechanisms at the level of the *sub-consolidation group* of which it is a member meet the standards set out in the *risk control rules* on a *sub-consolidated basis*.

…

14.14 The overall financial adequacy rule in 2.1 applies to a *firm* on an ~~individual basis~~*individual basis* whether or not it also applies to the *firm* on a *consolidated basis* or *sub-consolidated basis*.

…

## 15 REVERSE STRESS TESTING

…

15.3 Where the *firm* is a member of a ~~*UK consolidation group*~~*consolidation group* it must conduct the reverse stress test on an ~~individual basis~~*individual basis* as well as on a *consolidated basis* in relation to the ~~*UK consolidation group*~~*consolidation group*.

…

**Annex V**

**Amendments to the Internal Liquidity Adequacy Assessment Part**

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

…

## 14 APPLICATION OF THIS PART ON AN INDIVIDUAL OR DOMESTIC LIQUIDITY SUB-GROUP BASIS AND A CONSOLIDATED BASIS

14.1 (1) This Part applies to a *firm* on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*) unless (2) applies.

(2) A *firm* must comply with this Part at the level of its *domestic liquidity sub-group* where the *PRA* has granted the ~~firm~~*firm* permission under 2.2 of the Liquidity (CRR) Part of the *PRA* Rulebook.

[Note: This rule corresponds to Article 8(5) of the *CRR* as it applied immediately before revocation by the *Treasury*]

(3) (1) and (2) apply to a *firm* whether or not this Part applies to the *firm* on a *consolidated basis*.

14.1A ~~If this Part applies to a *firm* on an individual basis, the *firm* must comply with the rules in this Part to the same extent and in the same manner as it is required to comply with the *firm's* obligations laid down in Part Six of the *CRR*.~~[Deleted]

14.2 Where a *firm*, a *PRA approved parent holding company*, a *PRA designated parent holding company*, a *PRA designated intermediate holding company* or a *PRA designated institution* is a member of a *consolidation group*, that *person* must ensure that the arrangements, processes and mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3 – 13 on a *consolidated basis*.

14.2A Where a *firm*, a *PRA approved intermediate holding company*, a *PRA designated intermediate holding company*, a *PRA designated parent holding company* or a *PRA designated institution* is a member of a *sub-consolidation group*, that ~~person~~*person* must ensure that the arrangements, processes and mechanisms at the level of the *sub-consolidation group* of which it is a member comply with the obligations set out in 3 – 13 on a *sub-consolidated basis*.

14.3 Compliance with 14.2 and 14.2A must enable the *consolidation group* or *sub-consolidation group* (as the case may be) to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) (part) of the *CRD*]

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

…

14.6A A *PRA approved parent holding company* or a *PRA designated parent holding company* must comply with this Part on the basis of its *consolidated situation* and a *PRA designated intermediate holding company* responsible for compliance with ~~the *CRR*~~*PRA* rules on a *consolidated basis* must comply with this Part on the basis of the *consolidated situation* of the *UK parent financial holding company* or *UK parent mixed financial holding company*.

14.7 [Deleted~~.~~]

14.8 ~~If this Part applies to an *Article 109 undertaking* on a *consolidated basis* or on a *sub-consolidated basis*, the *Article 109 undertaking* must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Part Six of the *CRR* on a *consolidated basis* or *sub-consolidated basis*.~~An *Article 109 undertaking* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

…

**Annex W**

**Amendments to the Large Exposures (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

~~*[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of CRR that applies to this Part]*~~

2.2 ~~Where a *firm* has been given permission under Article 9(1) of *CRR* it must incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~[Deleted]

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

…

~~**Application of requirements on a consolidated basis**~~

2.4 A *CRR consolidation entity* must comply with this Part on a *consolidated basis*~~the basis of its consolidated situation~~.

~~[Note: Rule 2.4 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.5 ~~For the purposes of applying this Part on a *consolidated basis*, the terms "firm", "institution" and "UK parent institution" include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.5 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.6 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidation situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.7 ~~A *firm* that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, must comply with this Part on the same basis.~~A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: This rule sets out Article 11(6) of *CRR* that it applies to this Part]~~

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS

3.1 ~~A *CRR consolidation entity* and *firm* must set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part is duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and *firm* must ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of the *CRR* that applies to this Part]~~

…

## 4 LARGE EXPOSURES (PART FOUR CRR)

…

### Article 396 COMPLIANCE WITH LARGE EXPOSURES REQUIREMENTS

…

2. ~~Where compliance by a *firm* on an individual or sub-consolidated basis with the obligations imposed in this Part is waived under Article 7(1), or the provisions of Article 9 are applied in the case of parent institutions,~~A *UK parent institution* with an *individual consolidation permission* must take measures ~~must be taken~~ to ensure the satisfactory allocation of risks within the group.

[Note: This rule corresponds to Article 396 of *CRR* as it applied immediately before revocation by the *Treasury*~~.~~]

…

**Annex X**

**Amendments to the Leverage Ratio – Capital Requirements and Buffers Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

(1) every *CRR firm* that:

(a1) has *retail deposits* equal to or greater than £75 billion, as determined in accordance with 1.1B, on an ~~individual basis~~*individual basis*; or

(a2) that has *foreign assets* equal to or greater £10 billion, as determined in accordance with 1.1A, on an ~~individual basis~~*individual basis*;

…

…

(1A) every *CRR consolidation entity* that:

(a) has *retail deposits* equal to or greater than £75 billion as determined in accordance with 1.1B; or

(b) has *foreign assets* equal to or greater than £10 billion, as determined in accordance with 1.1A,

in each case, on a *consolidated basis* ~~on the basis of its *consolidated situation*~~; and

(2) a *ring-fenced body* that is subject to a *sub-consolidation requirement* ~~required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis*~~ and that:

(a) has *retail deposits* equal to or greater than £75 billion as determined in accordance with 1.1B; or

(b) has *foreign assets* equal to or greater than £10 billion, as determined in accordance with 1.1A,

in each case~~,~~ on a *sub-consolidated basis* specified in such requirement~~an *RFB sub-consolidated basis*~~.

…

## 2 BASIS OF APPLICATION

2.1 A *firm* that is in scope of this Part by virtue of 1.1(1) must comply with this Part on an ~~individual basis~~*individual basis*, unless it is:

(a) a *CRR consolidation entity* subject to 2.2; or

(b) a *ring-fenced body* subject to 2.4 which is the ultimate *parent undertaking* within its *sub-consolidation group*.

2.1A ~~Where a *firm* has been given permission under Article 9(1) of the *CRR* it shall incorporate relevant *subsidiaries* in the calculation undertaken to comply with rule 2.1.~~[Deleted]

2.1B …

2.2 A *CRR consolidation entity* which is in scope of this Part by virtue of 1.1(1A) must comply with this Part on a *consolidated basis*~~the basis of its *consolidated situation*~~.

2.2A ~~The expression "consolidated situation" applies for the purposes of this Part as it does for the purposes of Parts Two and Three of the *CRR*.~~[Deleted]

~~[Note: the term "consolidation situation" is defined in Article 4(1)(47) of the *CRR*]~~

2.2B ~~For the purposes of 2.2, references to a *firm* in this Part (other than in 1.1) include a *CRR consolidation entity*.~~[Deleted]

2.3 [Deleted]

2.4 A *ring-fenced body* which is in scope of this Part by virtue of 1.1(2), must comply with this Part on the same *sub-consolidated basis* ~~as it is required to comply with Parts Two and Three of the *CRR*~~.

…

**Annex Y**

**Amendments to the Leverage Ratio (CRR) Part**

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

…

## 3 LEVERAGE RATIO (PART SEVEN CRR)

…

### Article 429a EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE

…

1. By way of derogation from Article 429(4) of this Chapter, an institution may exclude any of the following exposures from its *total exposure measure*:

   (a) the amounts deducted from Common Equity Tier 1 items in accordance with point (d) of Article 36(1) of Chapter 3 of the Own Funds ~~and Eligible Liabilities~~ (CRR) Part;

...

**Annex Z**

**Amendments to the Liquidity (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution ~~shall~~must comply with the *Liquidity Parts* on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*).

~~[Note: This rule sets out Article 6(4) of the *CRR* as it applies to the *Liquidity Parts*]~~

**Domestic liquidity sub-groups**

2.2 An institution may apply to the *PRA* for a permission that:

(a) disapplies the requirement in 2.1 in full or in part; and

(b) provides for the requirements in the *Liquidity Parts* to apply:

(i) on a ~~consolidated basis~~*consolidated basis* or a ~~sub-consolidated basis~~*sub-consolidated basis* in relation to the institution and all or some of its subsidiary institutions; or

(ii) to the institution and one or more other institutions that are subsidiaries of the same *qualifying parent undertaking* as the institution,

as a single liquidity sub-group, with such modifications as may be specified in the permission.

[Note: This rule corresponds to Article 8(1) of the *CRR* as it applied immediately before revocation by the *Treasury* and sets out an equivalent provision to the second paragraph of Article 11(4) of the *CRR* as it applies to the *Liquidity Parts*]

[Note: This is a permission under section 144G of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

....

**Application of requirements on a consolidated basis**

2.4 A *CRR consolidation entity* ~~shall~~must comply with the *Liquidity Parts* on a *consolidated basis*~~the basis of its consolidated situation~~.

~~[Note: This rule sets out Article 11(4), first paragraph of the *CRR* as it applies to the *Liquidity Parts*]~~

2.5 ~~For the purposes of applying the *Liquidity Parts* on a consolidated basis, the terms "institution", "credit institution" and "UK parent institution" shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: This rule sets out Article 11(2) of the *CRR* as it applies to the *Liquidity Parts*]~~

2.6 ~~The expression "consolidated situation" applies for the purposes of this Part as it does for the purposes of Parts Two and Three of the *CRR*, except that paragraphs (3) to (6) and (9) of Article 18 do not apply.~~In this Part the term '*consolidated situation*' shall be applied as if the reference to Article 18 of the Groups Part omitted paragraphs (3) to (6).

~~[Note: The term "consolidation situation" is defined in Article 4(1)(47) of the *CRR* as it applied immediately before revocation by the *Treasury*.]~~

**Application of requirements on a sub-consolidated basis**

2.7 An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement~~that is required to comply with Parts Two and Three of the *CRR* on a sub-consolidated basis, shall comply with the *Liquidity Parts* on the same basis~~.

~~[Note: This rule sets out Article 11(6) of the *CRR* as it applies to the *Liquidity Parts*]~~

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of the *Liquidity Parts* are duly processed and forwarded.~~[Deleted]

~~[Note: This rule sets out the second sentence of Article 11(1) of the *CRR* as it applies to the *Liquidity Parts*]~~

3.2 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of the *Liquidity Parts*.~~[Deleted]

~~[Note: This rule sets out the third sentence of Article 11(1) of the *CRR* as it applies to the *Liquidity Parts*]~~

## 4 LIQUIDITY (PART SIX CRR)

…

### Article 414 COMPLIANCE WITH LIQUIDITY REQUIREMENTS

…

3. An institution with *total assets*:

(a) equal to or greater than GBP 5 billion on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*) or ~~consolidated basis~~*consolidated basis* must be capable at all times of reporting to the *competent authority* at a daily frequency by *the end of the business day* all of the following templates:
   (i) (unless it is an *SDDT* or an *SDDT consolidation entity*) Annex XVIII Template C 70 as specified in the Reporting (CRR) Part of the *PRA* Rulebook;
   (ii) Annex XXIV Templates C 72, C 73, C 74, C 75 and C 76 as specified in the Reporting (CRR) Part of the *PRA* Rulebook; and
   (iii) *data item* PRA 110 as specified in the Regulatory Reporting Part;

(b) of less than GBP 5 billion on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*) or ~~consolidated basis~~*consolidated basis* must be capable at all times of reporting to the *competent authority data item* PRA 110 as specified in the Regulatory Reporting Part at a *weekly* frequency by *the end of the business day*.

…

**Article 428A APPLICATION ON A CONSOLIDATED BASIS**

Where the net stable funding ratio set out in this Title IV (The Net Stable Funding Ratio) applies on a ~~consolidated basis~~*consolidated basis* in accordance with rule 2.4 of this Part, the following provisions shall apply:

…

…

**5 APPLICATION OF THE NET STABLE FUNDING REQUIREMENT TO SMALL DOMESTIC DEPOSIT TAKERS AND SDDT CONSOLIDATION ENTITIES**

…

5.2 An *SDDT* must comply with this chapter on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*).

5.3 An *SDDT consolidation entity* must comply with this chapter on a *consolidated basis* ~~the basis of its consolidated situation and for that purpose the term *firm* shall be read as including an *SDDT consolidation entity* (if it would not otherwise be included)~~.

…

**Annex AA**

**Amendments to the Liquidity Coverage Ratio (CRR) Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 Chapters 1 to 2~~3~~ of the Liquidity (CRR) Part ~~of the *PRA* Rulebook~~ apply in relation to this Part.

…

## 2 RULES ON STANDARDS FOR THE LIQUIDITY COVERAGE REQUIREMENT FOR CREDIT INSTITUTIONS (PREVIOUSLY REGULATION (EU) NO 2015/61)

…

### Article 2 SCOPE AND APPLICATION

…

3. Where a *CRR consolidation entity* is required to comply with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part on a *consolidated basis*~~of the *PRA* Rulebook on the basis of its consolidated situation~~ all the following provisions shall apply:

   …

   (d) investment firms within the group shall be subject to Article 4 of this Chapter 2 of the Liquidity Coverage Ratio (CRR) Part ~~of the *PRA* Rulebook~~ on a ~~consolidated basis~~*consolidated basis* and to Article 412 of *CRR* in relation to the definition of liquid assets, liquidity outflows and inflows for both individual and consolidated purposes. Other than as specified in this point, investment firms shall remain subject to the detailed liquidity coverage ratio requirement for investment firms as laid down in the Liquidity Coverage Requirement - UK Designated Investment Firms Part ~~of the *PRA* Rulebook~~;

   …

…

### Article 15 CIUS

1. Shares or units in CIUs shall qualify as liquid assets of the same level as the liquid assets underlying the relevant *undertaking* up to an absolute amount of GBP 440 million (or equivalent amount in domestic currency) for each credit institution on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*), provided that:

   (a) the requirements in Article 132(3) of *CRR* are complied with;
   (b) the CIU invests only in liquid assets and derivatives, in the latter case only to the extent necessary to mitigate interest rate, currency or credit risk in the portfolio.

…

## Annex AB

### Amendments to the Liquidity Coverage Requirement - UK Designated Investment Firms Part

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

…

**4 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS**

4.1 This Part applies to a *firm* on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*) whether or not it also applies to the *firm* on a *consolidated basis*.

4.1A ~~If this Part applies to a *firm* on an individual basis, the *firm* must comply with the rules in this Part to the same extent and in the same manner as it is required to comply with the *firm's* obligations laid down in Part Six of the *CRR*.~~[Deleted]

4.2 A *CRR consolidation entity* must comply with this Part on a *consolidated basis* ~~on the basis of its *consolidated situation*~~.

4.3 [deleted]

4.4 ~~If this Part applies to a *firm* or a *CRR consolidation entity* on a *consolidated basis* or on a *sub-consolidated basis*, it must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Part Six of the *CRR* on a *consolidated basis* or *sub-consolidated basis*.~~A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

…

**Annex AC**

**Amendments to the Market Risk: Advanced Standardised Approach (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 An institution ~~shall~~must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~A *CRR consolidation entity* must comply with this Part on *a consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: This rule sets out Article 11(6) of *CRR* that it applies to this Part]~~

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

…

**Annex AD**

**Amendments to the Market Risk: General Provisions (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 An institution ~~shall~~must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: This rule sets out Article 11(6) of *CRR* that it applies to this Part]~~

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 2.7 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 2.8 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

## 4 GENERAL PROVISIONS (PART THREE, TITLE IV, CHAPTER 1 CRR)

…

### Article 325a1 TREATMENT OF NON-TRADING BOOK POSITIONS SUBJECT TO FOREIGN EXCHANGE RISK OR COMMODITY RISK

…

4. Where an institution computes the own funds requirements for market risk on a ~~consolidated basis~~*consolidated basis*, the institution shall identify the currency of denomination of an item as the reporting currency of the institution which recognises that item in its individual financial statement, where all of the following conditions are met:

…

### Article 325b PERMISSION FOR CONSOLIDATED REQUIREMENTS

1. Subject to paragraph 2, and only for the purpose of calculating net positions and own funds requirements for market risk on a ~~consolidated basis~~*consolidated basis*, institutions may use positions in one institution or *undertaking* to offset positions in another institution or *undertaking*.

…

3. Where there are *undertakings* located in *third countries*, all the following conditions shall be met in addition to those set out in paragraph 2:

   (a) such *undertakings* have been authorised in a *third country* and either satisfy the definition of a credit institution or are *third country investment firms*;

   (b) on an ~~individual basis~~*individual basis*, such *undertakings* comply with own funds requirements equivalent to those laid down in *CRR* and *CRR rules*; and

   (c) no regulations exist in the *third countries* in question which might significantly affect the transfer of funds within the group.

4. Where the *PRA* has granted the permission in paragraph 2, an institution shall calculate the own funds requirements for market risk on a ~~consolidated basis~~*consolidated basis* for all institutions and *undertakings* which have been granted such permission as the sum of:

   (a) the own funds requirements for market risk for all the positions that have been allocated to a dedicated general interest rate internal hedge portfolio in accordance with paragraph 9 of Trading Book (CRR) Part Article 106; and

   (b) the own funds requirements for market risk for all the positions that have not been allocated to a dedicated general interest rate internal hedge portfolio in accordance with paragraph 9 of Trading Book (CRR) Part Article 106.

5. Where the *PRA* has not granted the permission in paragraph 2 for all institutions or *undertakings* in a group, an institution shall calculate the own funds requirements for market risk for that group as the sum of:

   (a) the own funds requirements calculated in accordance with paragraph 4; and

   (b) the sum of own funds requirements for each institution or *undertaking* that has not been granted the permission in paragraph 2, each calculated on an ~~individual basis~~*individual basis* and in accordance with points (a) and (b) of paragraph 4.

[Note: This rule corresponds to Article 325b of *CRR* as it applied immediately before revocation by the *Treasury*]

**Annex AE**

**Amendments to the Market Risk: Internal Model Approach (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 An institution ~~shall~~must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~A *CRR consolidation entity* must comply with this Part on *a consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: Rule 2.6 sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]~~

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS ~~[DELETED]~~

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

…

## Annex AF

## Amendments to the Market Risk: Simplified Standardised Approach (CRR) Part

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

…

### 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

2.1 An institution ~~shall~~must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~A *CRR consolidation entity* must comply with this Part on *a consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: This rule sets out Article 11(6) of *CRR* that it applies to this Part]~~

### 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

…

## 4 OWN FUNDS REQUIREMENTS FOR POSITION RISK (PART THREE, TITLE IV, CHAPTER TWO CRR)

…

### Article 337 OWN FUNDS REQUIREMENT FOR SECURITISATION INSTRUMENTS

1. For instruments in the trading book that are securitisation positions, an institution shall weight the net positions as calculated in accordance with paragraph 1 of Article 327 with 8% of the risk weight the institution would apply to the position in its non-trading book according to Securitisation (CRR) Part Articles 247 to 270A~~Section 3 of Chapter 5 of Title II of Part 3 of *CRR*~~.

2. [Note: Provision left blank]

3. For securitisation positions that are subject to an additional risk weight in accordance with Securitisation (CRR) Part Article 247(6)~~ of *CRR*~~, an institution shall apply 8% of the total risk weight.

4. An institution shall sum its weighted positions resulting from the application of paragraphs 1, 2 and 3 regardless of whether they are long or short, in order to calculate its own funds requirement against specific risk.

5. Where an originator institution of a traditional securitisation does not meet any of the conditions ~~for significant risk transfer~~ set out in paragraph 1 of Article 244~~ of *CRR*~~ of the Securitisation (CRR) Part, the originator institution shall include the exposures underlying the securitisation in its calculation of own funds requirement as if those exposures had not been securitised.

   Where an originator institution of a synthetic securitisation does not meet any of the conditions~~ for significant risk transfer~~ set out in paragraph 1 of Article 245~~ of *CRR*~~of the Securitisation (CRR) Part, the originator institution shall include the exposures underlying the securitisation in its calculation of own funds requirements as if those exposures had not been securitised and shall ignore the effect of the synthetic securitisation for credit protection purposes.

[Note: Paragraphs 1, 3, 4 and 5 of this rule correspond to Article 337(1), (3), (4) and (5) of *CRR* as it applied immediately before revocation by the *Treasury*]

…

## 5 OWN FUNDS REQUIREMENTS FOR FOREIGN-EXCHANGE RISK (PART THREE, TITLE IV, CHAPTER THREE CRR)

…

**Article 352a DETERMINATION OF OWN FUNDS REQUIREMENTS FOR NON-DELTA RISK OF OPTIONS AND WARRANTS**

…

2. When calculating own funds requirements on a ~~consolidated basis~~*consolidated basis* an institution may combine the use of different approaches. On an ~~individual basis~~*individual basis*, an institution may only combine the scenario approach and the delta plus approach subject to the conditions established in paragraphs 6 to 11.

…

**Annex AG**

**Amendments to the Operational Risk Part**

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

…

## 2 LEVEL OF APPLICATION

2.1 A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

2.2 ~~Where a *firm* has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with 2.1.~~A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

2.3 ~~A *CRR consolidation entity* must comply with this Part on the basis of its consolidated situation.~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

2.4 ~~For the purposes of 2.3, references to a *firm* in this Part (other than in 1.1 and 2.1) mean a *CRR consolidation entity*.~~[Deleted]

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: the term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

2.6 ~~A *firm* which is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis must comply with this Part on the same basis.~~[Deleted]

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and a *firm* shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

3.2 ~~A *CRR consolidation entity* and a *firm* shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

…

**Annex AH**

**Amendments to the Record Keeping Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.1B (1) A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

(2) A *CRR consolidation entity* must arrange for orderly records to be kept relating to the *consolidated situation* of the *group*~~, and for this purpose, references to a *firm* in this Part (other than in 1.1 and 1.1B) mean a *CRR consolidation entity*~~.

(3) A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

…

**Annex AI**

**Amendments to the Recovery Plans 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:

*Article 1(1)(b) entity*

means a *financial institution* that is established in the *UK* when the *financial institution* is a *subsidiary* of a *credit institution* or *investment firm*, or of an *Article 1(1)(c) entity* or an *Article 1(1)(d) entity*, and is covered by the supervision of the *parent undertaking* on a *consolidated basis* (but excluding the effect of Articles 18 to 24 of the Groups Part) ~~in accordance with Articles 6 to 17 of *CRR*~~.

…

**Annex AJ**

**Amendments to the Regulatory Reporting Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.1A Where this Part requires a *data item* to be submitted on a *consolidated basis* or *sub-consolidated basis* the *firm* or *CRR consolidation entity* must comply on that basis ~~and for this purpose, references to a *firm* in this Part, other than in 1.1(1) and 24, mean a *CRR consolidation entity*~~.

1.2 In this Part, the following definitions shall apply:

…

~~*individual consolidation permission*~~

~~means a *CRR permission* under Article 9 of the *CRR*.~~

…

## 7 REGULATED ACTIVITY GROUP 1

…

7.1

…

(35) …

(a) It must complete it on an ~~individual basis~~*individual basis* (excluding the effect of any *individual consolidation permission*). ~~Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.~~

…

(e) If it is a *UK bank* or *building society* controlled by a *UK parent financial holding company* or by a *UK parent mixed financial holding company* it must complete the item on the basis of the *consolidated situation* of that holding company ~~if the *PRA* is responsible for supervision of the *firm* on a *consolidated basis* in accordance with Part 6 of the *Capital Requirements Regulations*~~.

…

…

7.2 …

(13)

…

(b) If the reporting frequency would otherwise be monthly, the item is to be reported:

(i) every *business day* if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, equal to or greater than £5 billion on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ or *UK consolidation group* basis; and

(ii) weekly if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, of less than £5 billion on both an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ and *UK consolidation group* basis,

if (and for as long as) there is a specific liquidity stress or market liquidity stress in relation to the *firm*, *branch* or group in question.

…

(14) The reporting frequency is as follows:

(a) weekly if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, equal or greater than EUR 30 billion on either an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ or *UK consolidation group* basis. This requirement stops applying if the *total assets* of the *firm* on both an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ and *UK consolidation group* basis reduce to less than EUR 30 billion for at least four consecutive weekly reporting periods, in which case the *firm* is required to start reporting this *data item* monthly after the end of last consecutive reporting period; and

(b) monthly if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, of less than EUR 30 billion on both an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ and *UK consolidation group* basis. This requirement stops applying if during any monthly reporting period the *total assets* of the *firm*, on either an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ or *UK consolidation group* basis, become equal to or greater than EUR 30 billion, in which case the *firm* is required to start reporting this *data item* weekly after the end of that reporting period.

…

## 9 REGULATED ACTIVITY GROUP 3

…

9.2 …

(19) A firm must complete this item separately on each of the following bases that are applicable.

(a) It must complete it on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~. ~~Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.~~

…

(f) If it is a *UK designated investment firm* controlled by a *UK parent financial holding company* or by a *UK parent mixed financial holding company* the *firm* must complete the item on the basis of the *consolidated situation* of that holding company if: (1) there is no *subsidiary* of the holding company which is a *credit institution* to which (e) applies; and (2) the *PRA* is responsible for the supervision of the *firm* on a *consolidated basis*.

If the *data item* is required to be completed by the *firm* on a *consolidated basis* (pursuant to (d), (e) or (f) above) or on a *sub-consolidated basis* (pursuant to (c) above), the *firm* must carry out the consolidation or sub-consolidation to the same extent and in the same manner as it is required to comply with the Liquidity (CRR) Part and Liquidity Coverage Ratio (CRR) Part~~obligations laid down in Part Six of the *CRR*~~ on a *consolidated basis* or *sub-consolidated basis*.

…

9.3 …

(7) If the report is on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ the reporting is quarterly. If the report is on a *consolidated basis*, the reporting frequency is half yearly.

…

(10) …

(b) If the reporting frequency would otherwise be monthly, the item is to be reported:

(i) every *business day* if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, equal to or greater than £5 billion on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ or *UK consolidation group* basis; and

(ii) weekly if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, of less than £5 billion on both an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ and *UK consolidation group* basis,

…

…

(11) The reporting frequency is as follows:

(a) weekly if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, equal or greater than EUR 30 billion on either *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ or *UK consolidation group* basis. This requirement stops applying if the *total assets* of the *firm* on both an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ and *UK consolidation group* basis reduce to less than EUR 30 billion for at least four consecutive weekly reporting periods, in which case the *firm* is required to start reporting this *data item* monthly after the end of last consecutive reporting period; and

(b) monthly if the *firm* has *total assets*, calculated in accordance with provisions implementing Council Directive 86/635/EEC, of less than EUR 30 billion on both an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ and *UK consolidation group* basis. This requirement stops applying if during any monthly reporting period the *total assets* of the *firm*, on either an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ or *UK consolidation group* basis, become equal to or greater than EUR 30 billion, in which case the *firm* is required to start reporting this *data item* weekly after the end of that reporting period.

…

## 20 CAPITAL+ REPORTS

…

20.6 A firm satisfies Capital+ condition 1:

…

(3) if the *firm* is not part of a *consolidation group*, where it has *retail deposits* equal to or greater than £50 billion and *total assets* equal to or greater than £320 billion on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~; or

…

20.7 A *firm* satisfies *Capital+ condition 2* if it:

(1) satisfies *Capital+ condition 1* in accordance with 20.6(1) or 20.6(2); and

(2) has *total assets* equal to or greater than £50 billion on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~.

20.8 A *firm* satisfies *Capital+ condition 3*:

…

(3) if the *firm* is not part of a *consolidation group*, where it has *retail deposits* greater than £50 billion and *total assets* greater than £5 billion but less than £320 billion on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~; or

…

20.9 A *firm* satisfies *Capital+ condition 4* if it:

(1) satisfies *Capital+ condition 3* in accordance with 20.8(1) or 20.8(2); and

(2) has *total assets* equal to or greater than £50 billion on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~.

…

20.11 A *firm* satisfies *Capital+ condition 6* if it has *total assets* greater than £5 billion on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~ and:

(1) if it is not part of a *consolidation group*, where it does not satisfy *Capital+ condition 1* or *Capital+ condition 3*; or

(2) if it is part of a *consolidation group*, where it does not satisfy *Capital+ condition 2* or *Capital+ condition 4*.

…

20.22 Where a *firm* is required to submit a *data item* in accordance with this rule, that *data item* should be completed:

(1) if the *firm* is not part of a *consolidation group* and the *firm* satisfies *Capital+ condition 1* on the basis of 20.6(3) or *Capital+ condition 3* on the basis of 20.8(3), on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~;

…

20.22A If a *firm* meets a *Capital+ condition* on the basis of 20.6(4), 20.8(4) or 20.10A, it must submit the *data item* on a *sub-consolidated basis* in addition to meeting any requirement to submit a *data item* on an *individual basis* (excluding the effect of any *individual consolidation*

*permission*)~~individual basis~~ or on the basis of its, its holding company's or its *UK parent institution's consolidated situation*.

20.23 Where a *firm* is required to submit a *data item* in accordance with this rule, as set out in the *Capital+ reporting table*, that *data item* should be completed on an *individual basis* (excluding the effect of any *individual consolidation permission*)~~individual basis~~.

…

## 24 STEP-IN RISK REPORTING

24.1 This Chapter applies only to:

(1) a *firm* that is a *CRR firm* but not an *SDDT*; and

(2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*.

24.2 A *firm* that is required to comply with the Step-in Risk Part on an ~~individual basis~~*individual basis* or *sub-consolidated basis* must comply with this Chapter on the same basis.

24.3 A *CRR consolidation entity* must comply with this Chapter on a *consolidated basis*.~~the basis of its *consolidated situation* and, for this purpose, references to a *firm* in this Chapter (other than in 24.1(1) and 24.2) mean a *CRR consolidation entity*.~~

…

**Annex AK**

**Amendments to the Remuneration Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.2A In this Part, reference to a '*CRR consolidation entity*' shall include a *PRA approved intermediate holding company* and a *PRA designated intermediate holding company*.

1.3 (1) In this Part, the following definitions shall apply:

…

*consolidation group entity*

means an *institution* or *financial institution* which is:

(1) ~~an *undertaking responsible for consolidation*~~a *CRR consolidation entity*;
(2) a subsidiary of ~~the *undertaking responsible for consolidation*~~a *CRR consolidation entity*; or
(3) where the *consolidation group* contains a *PRA designated institution*, a *subsidiary* of the *UK parent financial holding company* or *UK parent mixed financial holding company* by which the *PRA designated institution* is *controlled*.

…

*small CRR firm*

means a *CRR firm* that satisfies Condition 1 and, where the *firm* is part of a *group* containing any other *firm* subject to this Part on an ~~individual basis~~*individual basis*, Condition 2, where:

(1) Condition 1 is that the *firm* either:
  (a) has *average total assets* not exceeding £4 billion; or
  (b) satisfies the conditions in 2A.1 and has *average total assets* exceeding £4 billion but not exceeding £20 billion;

and

(2) Condition 2 is that where the *firm* is a member of a *group*, the criteria in (a) or (b) are satisfied in respect of any other *firm* in the *group* which is subject to this Part on an ~~individual basis~~*individual basis*:

  (a)

    (i) the *average total assets* of each *CRR firm* in the *group* do not exceed £4 billion on an ~~individual basis~~*individual basis*;
    (ii) the *average total assets* relating to the activities of the *branch* operation in the *UK* of each *third country CRR firm* in the *group* do not exceed £4 billion on an ~~individual basis~~*individual basis*; and
    (iii) where any *CRR firm* or *third country CRR firm* in the *group* is a member of a *consolidation group*, the *consolidation group* has *average total assets* not exceeding £4 billion on a *consolidated basis*; or

(b)

(i) the *average total assets* of each *CRR firm* in the *group* do not exceed £20 billion on an ~~individual basis~~*individual basis*;
(ii) the *average total assets* relating to the activities of the branch operation in the *UK* of each *third country CRR firm* in the *group* do not exceed £20 billion on an ~~individual basis~~*individual basis*;
(iii) where any *CRR firm* or *third country CRR firm* in the *group* is a member of a *consolidation group*, the *consolidation group* has *average total assets* not exceeding £20 billion on a *consolidated basis*;
(iv) for each *CRR firm* in the *group* each of the conditions in 2A.1 are satisfied on an ~~individual basis~~*individual basis*;
(v) for each *third country CRR firm* in the *group* each of the conditions in 2B.1 are satisfied on an ~~individual basis~~*individual basis*; and
(vi) where any *CRR firm* or *third country CRR firm* in the *group* is a member of a *consolidation group*, each of the conditions (1), (2) and (3) in 2A.1 are satisfied in respect of the *consolidation group* on a *consolidated basis*,

provided that, if a *firm* has not yet been required to report its *total assets*, the calculations in respect of *average total assets* in Conditions 1 and 2 shall instead be done on the basis of the *firm's* reasonable forecast of its *total assets* as at the first occasion on which it will be required to report them.

*small third country CRR firm*

means a *third country CRR firm* that satisfies Condition 1 and, where the *firm* is part of a *group* containing any other *firm* subject to this Part on an ~~individual basis~~*individual basis*, Condition 2, where

(1) Condition 1 is that the *firm* either:
(a) has *average total assets* that relate to the activities of the branch operation of the *firm* in the *UK* not exceeding £4 billion; or~~;~~
(b) satisfies the conditions in 2B.1 and has *average total assets* that relate to the activities of the *branch* operation of the *firm* in the *UK* exceeding £4 billion but not exceeding £20 billion;

and

(2) Condition 2 is that where the *firm* is a member of a *group*, the criteria in (a) or (b) are satisfied in respect of any other *firm* in the *group* which is subject to this Part on an ~~individual basis~~*individual basis*:

(a)

(i) the *average total assets* of each *CRR firm* in the *group* do not exceed £4 billion on an ~~individual basis~~*individual basis*;
(ii) the *average total assets* relating to the activities of the branch operation in the *UK* of each *third country CRR firm* in the *group* do not exceed £4 billion on an ~~individual basis~~*individual basis*; and
(iii) where any *CRR firm* or *third country CRR firm* in the *group* is a member of a *consolidation group*, the *consolidation group* has *average total assets* not exceeding £4 billion on a *consolidated basis*; or

(b)

(i) the *average total assets* of each *CRR firm* in the *group* do not exceed £20 billion on an ~~individual basis~~*individual basis*;

(ii) the *average total assets* relating to the activities of the *branch* operation in the *UK* of each *third country CRR firm* in the *group* do not exceed £20 billion on an ~~individual basis~~*individual basis*;
(iii) where any *CRR firm* or *third country CRR firm* in the *group* is a member of a *consolidation group*, the *consolidation group* has *average total assets* not exceeding £20 billion on a *consolidated basis*;
(iv) for each *CRR firm* in the *group* each of the conditions in 2A.1 are satisfied on an ~~individual basis~~*individual basis*;
(v) for each *third country CRR firm* in the *group* each of the conditions in 2B.1 are satisfied on an ~~individual basis~~*individual basis*; and
(vi) where any *CRR firm* or *third country CRR firm* in the *group* is a member of a *consolidation group*, each of the conditions (1), (2) and (3) in 2A.1 are satisfied in respect of the consolidation group on a *consolidated basis*,

provided that, if a *firm* has not yet been required to report its *total assets*, the calculations in respect of *average total assets* in Conditions 1 and 2 shall instead be done on the basis of the *firm's* reasonable forecast of its *total assets* as at the first occasion on which it will be required to report them.

…

~~*undertaking responsible for consolidation*~~

~~means a *PRA approved parent holding company*, a *PRA designated parent holding company*, a *PRA approved intermediate holding company*, a *PRA designated intermediate holding company*, or a *PRA designated institution*.~~

…

## 4 GROUPS

4.1 [Deleted~~.~~]

4.2 A *firm* that is a member of a *group* must:

(1A) comply with this Part on an ~~individual basis~~*individual basis*;

…

…

4.5 A *CRR firm* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

…

## 17 REMUNERATION BENCHMARKING REPORTING REQUIREMENT

17.1 This Chapter applies to a *firm* to which this Part applies, which had *total assets* equal to or greater than £50 billion on an unconsolidated basis on the *accounting reference date* immediately prior to the *firm's* last complete financial year.

…

17.5 A *firm* that is not, and does not have in its *consolidation group*, a *CRR consolidation entity*~~an *undertaking responsible for consolidation*~~ must complete that report on an unconsolidated basis in respect of *remuneration* awarded to *employees* of the *firm* in the last completed financial year.

17.6 A *CRR consolidation entity*~~An *undertaking responsible for consolidation*~~ must complete that report on a ~~consolidated basis~~*consolidated basis* in respect of *remuneration* awarded to all *employees* of all *consolidation group entities* in its *consolidation group* in the last completed financial year.

…

## 18 HIGH EARNERS REPORTING REQUIREMENT

…

18.4 A *firm* that is not, and does not have in its *consolidation group*, a *CRR consolidation entity*~~an *undertaking responsible for consolidation*~~ must complete that report on an unconsolidated basis in respect of *remuneration* awarded in the last completed financial year to all *high earners* of the *firm* who mainly undertook their professional activities within the *UK*.

18.5 A *CRR consolidation entity*~~An *undertaking responsible for consolidation*~~ must complete that report on a *consolidated basis* in respect of *remuneration* awarded in the last completed financial year to all *high earners* of the *consolidation group entities* who mainly undertook their professional activities within the *UK* at:

(1) the *CRR consolidation entity*~~the *PRA approved parent holding company*, *PRA designated parent holding company*, *PRA approved intermediate holding company*, a *PRA designated intermediate holding company* or a *PRA designated institution*~~ of the *consolidation group*;

(2) each *consolidation group entity* that has its registered office (or if it has no registered office, its head office) in the *UK*; and

(3) each *branch* of any other *consolidation group entity* that is established or operating in the *UK*.

…

**Annex AL**

**Amendments to the Reporting (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 Subject to rules 2.2 and 2.2A, an institution ~~shall~~must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of the *CRR* that applies to this Part]~~

2.2 An institution ~~shall~~must comply with Article 430(1)(d) to the same extent and on the same basis that it is required to comply with the Liquidity (CRR) and Liquidity Coverage Ratio (CRR) Parts ~~of the *PRA* Rulebook~~.

~~[Note: Rule 2.2 sets out an equivalent provision to Article 6(4) of the *CRR* that applies to this Part]~~

…

2.3 ~~Where an institution has been given permission under Article 9(1) of the *CRR* it shall incorporate relevant subsidiaries in the calculation and reporting undertaken to comply with rule 2.1.~~[Deleted]

~~[Note: Rule 2.3 applies Article 9(1) of the *CRR* to this Part where a permission under that Article has been given]~~

**Application of requirements on a consolidated basis**

2.4 A *CRR consolidation entity* ~~shall~~must comply with this Part on a *consolidated basis*~~the basis of its consolidated situation~~ except that it ~~shall~~must comply with Article 430(1)(d) to the same extent and on the same basis that it is required to comply with the Liquidity (CRR) and Liquidity Coverage Ratio (CRR) Parts ~~of the *PRA* Rulebook~~.

~~[Note: Rule 2.4 sets out an equivalent provision to the first sentence of Article 11(1) and Article 11(4) of the *CRR* that apply to this Part]~~

2.5 ~~For the purposes of applying this Part on a consolidated basis, the terms "institution" and '*UK parent institution*' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.5 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of the *CRR* that applies to this Part]~~

2.6 ~~The expression "consolidated situation" applies for the purposes of this Part as it does for the purposes of Parts Two and Three of the *CRR*.~~[Deleted]

~~[Note: the term 'consolidation situation' is defined in Article 4(1)(47) of the *CRR*]~~

**Application of requirements on a sub-consolidated basis**

2.7 ~~An institution that is required to comply with Parts Two and Three of the *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.7 sets out an equivalent provision to Article 11(6) of the *CRR* that applies to this Part]~~

…

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate internal control mechanisms in order to ensure that the data required for consolidation are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of the *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and an institution shall ensure that subsidiaries not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation.~~[Deleted]

~~[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of the *CRR* that applies to this Part]~~

…

## 5 REPORTING REQUIREMENTS

…

### Article 5 INDIVIDUAL BASIS – QUARTERLY REPORTING

1. In order to report information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part on an ~~individual basis~~*individual basis*, institutions shall submit information as set out in the following paragraphs with a quarterly frequency. Institutions shall submit information in accordance with paragraphs 2 to 16 of this Article.

…

### Article 6 INDIVIDUAL BASIS – SEMI-ANNUAL REPORTING

1. In order to report information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part of the *PRA* Rulebook on an ~~individual basis~~*individual basis*, institutions shall submit information as set out in the following paragraphs with a semi-annual frequency.

   Institutions shall submit information in accordance with paragraphs 2 and 3, point (a) of paragraph 4, and paragraph 5.

   Large institutions shall also submit information in accordance with points (b) to (f) of paragraph 4.

2. Information on all securitisation exposures shall be reported as specified in templates C 14.00 and C 14.01 of Annex I, in accordance with the instructions in point 3.8 of Part II of Annex II;

   Institutions shall be exempted from submitting those securitisation details where they are part of a group and are subject to own funds requirements in the *United Kingdom* on a ~~consolidated basis~~*consolidated basis*.

…

**Article 6A INDIVIDUAL BASIS – ANNUAL REPORTING**

1. In order to report information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part on an ~~individual basis~~*individual basis*, institutions shall submit information as set out in the following paragraphs with an annual frequency. Institutions shall submit information in accordance with paragraph 2 of this Article.

...

**Article 7 REPORTING ON A CONSOLIDATED BASIS**

In order to report information on own funds and own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part on a ~~consolidated basis~~*consolidated basis*, institutions shall submit:

(a) the information specified in Articles 5, 6 and 6A on a ~~consolidated basis~~*consolidated basis* with the frequency specified therein;

…

…

**Article 11 REPORTING ON A CONSOLIDATED BASIS FOR INSTITUTIONS APPLYING REGULATION (EC) NO 1606/2002**

1. In order to report financial information on a ~~consolidated basis~~*consolidated basis* in accordance with Article 430(3) or (4) of the *CRR*, institutions shall submit the information specified in Annex III on a ~~consolidated basis~~*consolidated basis*, in accordance with the instructions in Annex V.

…

**Article 13 FORMAT AND FREQUENCY OF SPECIFIC REPORTING OBLIGATIONS ON LOSSES STEMMING FROM LENDING COLLATERALISED BY IMMOVABLE PROPERTY IN ACCORDANCE WITH ARTICLE 430A(1) OF THE CRR**

1. Institutions shall submit the information specified in Annex VI, in accordance with the instructions in Annex VII, on a ~~consolidated basis~~*consolidated basis* with an annual frequency.
2. Institutions shall submit the information specified in Annex VI, in accordance with the instructions in Annex VII, on an ~~individual basis~~*individual basis* with an annual frequency.

…

**Article 14 FORMAT AND FREQUENCY OF REPORTING ON LARGE EXPOSURES ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

1. In order to report information on large exposures to clients and groups of connected clients in accordance with Article 394 of the *CRR* on an ~~individual~~*individual basis* and a ~~consolidated basis~~*consolidated basis*, institutions shall submit the information specified in Annex VIII, in accordance with the instructions in Annex IX, with a quarterly frequency.
2. In order to report information on the 20 largest exposures to clients or groups of connected clients in accordance with Article 394(1) of the *CRR* on a ~~consolidated basis~~*consolidated basis*, institutions subject to Chapter 3 of Title II of Part Three of the *CRR* shall submit the information specified in Annex VIII, in accordance with the instructions in Annex IX, with a quarterly frequency.

3. In order to report information on exposures of a value greater than or equal to GBP 260 million but less than 10% of the institution's Tier 1 capital in accordance with Article 394(1) of the *CRR* on a ~~consolidated basis~~*consolidated basis*, institutions shall submit the information specified in Annex VIII, in accordance with the instructions in Annex IX, with a quarterly frequency.

4. In order to report information on the 10 largest exposures to institutions on a ~~consolidated basis~~*consolidated basis*, and on the 10 largest exposures to shadow banking entities that carry out banking activities outside the regulated framework on a ~~consolidated basis~~*consolidated basis*, in accordance with Article 394(2) of the *CRR*, institutions shall submit the information specified in Annex VIII, in accordance with the instructions in Annex IX, with a quarterly frequency.

…

**Article 16 REPORTING ON LIQUIDITY COVERAGE REQUIREMENT**

1. In order to report information on the liquidity coverage requirement in accordance with point (d) of Article 430(1) of the Reporting (CRR) Part of the *PRA* Rulebook on an ~~individual~~*individual basis* (excluding the effect of any *individual consolidation permission*) and a ~~consolidated basis~~*consolidated basis*, institutions shall submit the information specified in Annex XXIV, in accordance with the instructions in Annex XXV, with a monthly frequency.

…

**Article 17 REPORTING ON STABLE FUNDING**

In order to report information on stable funding in accordance with point (d) of Article 430(1) of the Reporting (CRR) Part of the *PRA* Rulebook on an ~~individual~~*individual basis* (excluding the effect of any *individual consolidation permission*) and a ~~consolidated basis~~*consolidated basis*, institutions shall submit the information specified in Annex XII, in accordance with the instructions in Annex XIII, with a quarterly frequency as follows:

…

**Article 18 FORMAT AND FREQUENCY OF REPORTING ON ADDITIONAL LIQUIDITY MONITORING METRICS ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

1. In order to report information on additional liquidity monitoring metrics in accordance with point (d) of Article 430(1) of the Reporting (CRR) Part of the *PRA* Rulebook on an ~~individual~~*individual basis* (excluding the effect of any *individual consolidation permission*) and a ~~consolidated basis~~*consolidated basis*, institutions shall submit all of the following information with a monthly frequency:

…

**Article 19 FORMAT AND FREQUENCY OF REPORTING ON ASSET ENCUMBRANCE ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

1. In order to report information on asset encumbrance in accordance with point (g) of Article 430(1) of the Reporting (CRR) Part of the *PRA* Rulebook on an ~~individual~~*individual basis* (excluding the effect of any *individual consolidation permission*) and a ~~consolidated basis~~*consolidated basis*, institutions shall submit the information specified in Annex XVI to this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook, in accordance with the instructions set out in Annex XVII to this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook.

…

**Article 20 FORMAT AND FREQUENCY OF SUPPLEMENTARY REPORTING FOR THE PURPOSES OF IDENTIFYING G-SIIS AND ASSIGNING G-SII BUFFER RATES**

1. In order to report supplementary information for the purposes of identifying G-SIIs and assigning *G-SII buffer* rates, *UK parent institutions*, *UK parent financial holding companies* and *UK parent mixed financial holding companies* shall submit the information specified in Annex XXVI, in accordance with the instructions in Annex XXVII, on a ~~consolidated basis~~*consolidated basis* with a quarterly frequency.

…

**Annex AM**

**Amendments to the Reporting Pillar 2 Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.2 ~~A *firm* that is neither a *subsidiary* of a *parent undertaking* incorporated in or formed under the law of any part of the *UK* nor a *parent undertaking* must comply with this Part on an individual basis.~~[Deleted]

1.3 A *firm* that is not a member of a *consolidation group* must comply with this Part on an ~~individual basis~~*individual basis*.

…

1.5A A *CRR consolidation entity* must comply with this Part on a *consolidated basis*~~, and for that purpose, references to a *firm* in this Part (other than in 1.1 and 1.5A) mean a *CRR consolidation entity*~~.

1.5B An *Article 109 undertaking* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

…

**Annex AN**

**Amendments to the Required Level of Own Funds (CRR) 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:

…

*stand-alone institution in the UK*

means an institution that is:

(1) not an *international subsidiary*; and

(2) not subject to prudential consolidation pursuant to ~~Chapter 2 of Title II of Part One of *CRR*~~Chapter 2 of Chapter 5 of the Groups Part and that has no *UK parent undertaking* subject to such prudential consolidation.

## 2 LEVEL OF APPLICATION

**Application of requirements on an individual basis**

2.1 An institution ~~shall~~must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1 sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.~~[Deleted]

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

**Application of requirements on a consolidated basis**

2.3 A *CRR consolidation entity* ~~shall~~must comply with this Part on ~~the basis of its consolidated situation~~a *consolidated basis*.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis shall comply with this Part on the same basis.~~[Deleted]

~~[Note: Rule 2.6 sets out an equivalent provision to Article 11(6) of *CRR* that applies to this Part]~~

## 3 ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

3.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

3.2 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 3.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

## 4 REQUIRED LEVEL OF OWN FUNDS

### Article 92 OWN FUNDS REQUIREMENTS

1. ~~Subject to Article 93 of *CRR*, a~~An institution shall at all times satisfy the following own funds requirements:

…

2A. Subject to paragraph 5, the total risk exposure amount shall be calculated as follows:

(a) for the purposes of complying with the obligations of this Part:

…

(iii) on a *consolidated basis*~~the basis of its consolidated situation~~, a *CRR consolidation entity* that is not an *international subsidiary*,

shall calculate the total risk exposure amount as follows:

…

**IRB Adjustments**

…

(b) for the purposes of complying with the obligations of this Part on a ~~sub-consolidated basis~~*sub-consolidated basis*, the total risk exposure amount of an institution other than a *ring-fenced body* shall be the un-floored total risk exposure amount calculated in accordance with paragraph 3;

(c) for the purposes of complying with the obligations of this Part on an ~~individual basis~~*individual basis*, the total risk exposure amount of a *ring-fenced body* that is a member of a *sub-consolidation group* and an institution which is not a *stand-alone institution in the UK* shall be the un-floored total risk exposure amount calculated in accordance with paragraph 3;

…

3. The un-floored total risk exposure amount shall be calculated as the sum of points (a) to (f) of this paragraph after having taken into account paragraph 4:

   (a) the risk-weighted exposure amounts for credit risk and dilution risk, calculated in accordance with Title II of Part Three of *CRR*, the *credit risk rules*, the Counterparty Credit Risk (CRR) Part and ~~Articles 379 and 380 of *CRR*~~Settlement Risk (CRR) Part Article 379 in respect of all the business activities of an institution, excluding risk-weighted exposure amounts arising from the trading book business of the institution;

   …

   (ca) the own funds requirements for settlement risk calculated in accordance with ~~Articles 378 and 380 of *CRR*;~~Settlement Risk (CRR) Part Articles 378 and 380;

   …

   (f) …

      (i) contracts listed in ~~Annex II of *CRR*~~ Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part and credit derivatives;

      …

3A. The standardised total risk exposure amount shall be calculated as the sum of points (a) to (f) of paragraph 3:

   ..

   (b) calculated without using any of the following approaches or as if permission to use the following approaches has not been granted:

      …

      (iii) the Securitisation Internal Ratings Based Approach set out in ~~Articles 258 to 260 of *CRR*~~Securitisation (CRR) Part Articles 258 to 260A and the Internal Assessment Approach set out in ~~Article 265 of *CRR*;~~Securitisation (CRR) Part Article 265;

      (iv) the Internal Model Method ~~approach~~ set out in Section 6 of ~~Chapter 6 of Title II of Part Three of *CRR*.~~ Chapter 3 of the Counterparty Credit Risk (CRR) Part.

…

**Annex AO**

**Amendments to the Resolution Assessment Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *firm* that is a *UK bank* or *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion on:

(1) an ~~individual basis~~*individual basis*;
(2) if the *firm* is a *UK parent institution*, a *consolidated basis*~~the basis of its consolidated situation~~; or
(3) if the *firm* is controlled by a *UK parent financial holding company* or by a *UK parent mixed financial holding company* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis*, on that basis~~the basis of the *consolidated situation* of that holding company~~.

…

**Annex AP**

**Amendments to the Ring-fenced Bodies Part**

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

…

## 2 APPLICATION OF RULES WITHIN A SUB-CONSOLIDATION GROUP

…

2.5 Without prejudice to 2.2, a *ring-fenced body* that is ~~required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis*~~subject to a *sub-consolidation requirement* must ensure that:

(1) responsibility for the matters in 2.6 is allocated to:

(a) a single *ring-fenced body* in its *sub-consolidation group*; or

(b) the *ring-fenced holding company* but only if a *person* employed by it or an *officer* of it performs a *PRA senior management function* in relation to a *ring-fenced body* in the *sub-consolidation group*; and

(2) the allocation is documented and notified to the *PRA*.

…

## 10 INTRAGROUP CREDIT VALUATION ADJUSTMENT RISK

…

10.2 A *ring-fenced body* that is ~~required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis*~~subject to a *sub-consolidation requirement* must comply with 10.1 on the same basis~~on that *sub-consolidated basis*~~.

…

## 11 DISTRIBUTIONS

…

11.3 The information in 11.2(3) and (4) must also be provided on a *sub-consolidated basis* in respect of any *ring-fenced body* that is ~~required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis*~~subject to a *sub-consolidation requirement*.

…

## 18 APPLICATION OF CERTAIN PRA RULES TO RING-FENCED BODIES ON A SUB-CONSOLIDATION BASIS

18.1 A *ring-fenced body* that is subject to a *sub-consolidation requirement*~~required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis*~~ must comply with the *sub-consolidation rules*~~following provisions of the *PRA* Rulebook~~ on the same basis as set out in the *sub-consolidation requirement*~~that *sub-consolidated basis*~~.~~:~~

(1) ~~the *ICAAP rules* in the Internal Capital Adequacy Assessment Part;~~[deleted]

(2) ~~the *risk control rules* in the Internal Capital Adequacy Assessment Part;~~[deleted]

(3) ~~the overall financial adequacy *rule* in Internal Capital Adequacy Assessment 2.1;~~[deleted]

(4) ~~Internal Capital Adequacy Assessment 15;~~[deleted]

(5) ~~the Capital Buffers Part;~~[deleted]

(6) ~~the Internal Liquidity Adequacy Assessment Part;~~[deleted]

(7) ~~2.1 (read with 2.2), 2.6, 2A.2, 5 and 6 of the General Organisational Requirements Part;~~[deleted]

(8) ~~3.2 of the Skills, Knowledge and Expertise Part;~~[deleted]

(9) ~~2.3, 2.7 and 3 of the Risk Control Part;~~[deleted]

(10) ~~2.1(2) (read with 2.2) and 2.4 of the Group Risk Systems Part;~~[deleted]

(11) ~~the Remuneration Part;~~[deleted]

(12) ~~2.1 of the Public Disclosure Part;~~[deleted]

(13) ~~the Benchmarking of Internal Approaches Part; and~~[deleted]

(14) ~~the Reporting Pillar 2 Part.~~[deleted]

18.2 A *ring-fenced body* that is subject to a *sub-consolidation requirement* ~~required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis*~~ must comply with the obligations under the Capital Requirements (Country-by-Country Reporting) Regulations 2013 (SI 2013/3118) on that *sub-consolidated basis*. For the avoidance of doubt, the treatment provided for in Regulations 4 and 5 of those regulations is available (with the necessary changes) to the *ring-fenced body* in its seeking to comply with this *rule* on a *sub-consolidated basis*.

[Note: Art. 71, 73-76, 78-96, 98, 123, 129, 130, 140-142 of the CRD~~.~~]

…

**Annex AQ**

**Amendments to the Risk Control Part**

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

…

## 4 GROUP ARRANGEMENTS

...

4.1A ~~Where this Part applies on a *consolidated basis* or on a *sub-consolidated basis*, an *Article 109 undertaking* must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Parts Two to Eight of the *CRR* on a *consolidated basis* or *sub-consolidated basis*.~~[Deleted]

4.2 Compliance with the obligations referred to in 4.1 must enable the *consolidation group* or *sub-consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the *CRD*]

**Annex AR**

**Amendments to the Skills, Knowledge and Expertise Part**

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

…

## 6 GROUP ARRANGEMENTS

...

6.1A ~~Where this Part applies on a *consolidated basis* or on a *sub-consolidated basis*, an *Article 109 undertaking* must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Parts Two to Eight of the *CRR* on a *consolidated basis* or sub-consolidated basis.~~[Deleted]

6.2 Compliance with the obligations referred to in 6.1 must enable the *consolidation group* or *sub-consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the *CRD*]

**Annex AS**

**Amendments to the Step-In Risk Part**

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

…

## 2 LEVEL OF APPLICATION

2.1 A *firm* must comply with this Part on an ~~individual basis~~*individual basis*.

2.2 2.1 does not apply where the *firm* is a member of a *consolidation group*.

2.3 A *CRR consolidation entity* must comply with this Part on ~~the basis of its *consolidated situation*~~a *consolidated basis*.

2.4 ~~For the purposes of 2.3 and 2.6, references to a *firm* in this Part (other than in 1.1, 2.1, 2.2 and 2.5) means a *CRR consolidation entity*.~~[Deleted]

2.5 ~~A *firm* that is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis* shall comply with this Part on the same basis.~~A *firm* or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

…

**Annex AT**

**Amendments to the Trading Book (CRR) Part**

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

…

## 2 LEVEL OF APPLICATION

~~**Application of requirements on an individual basis**~~

…

2.1A An institution ~~shall~~must comply with this Part on an ~~individual basis~~*individual basis*.

~~[Note: Rule 2.1A sets out an equivalent provision to Article 6(1) of *CRR* that applies to this Part]~~

2.2 ~~Where an institution has been given permission under Article 9(1) of *CRR* it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1A.~~A *CRR consolidation entity* must comply with this Part on a *consolidated basis*.

~~[Note: Rule 2.2 applies Article 9(1) of *CRR* to this Part where a permission under that Article has been given]~~

~~**Application of requirements on a consolidated basis**~~

2.3 ~~A *CRR consolidation entity* shall comply with this Part on the basis of its consolidated situation.~~An institution or *CRR consolidation entity* to which this Part is applied in a *sub-consolidation requirement* must comply with this Part on a *sub-consolidated basis*, as set out in that requirement.

~~[Note: Rule 2.3 sets out an equivalent provision to the first sentence of Article 11(1) of *CRR* that applies to this Part]~~

2.4 ~~For the purposes of applying this Part on a consolidated basis, the terms 'institution' and 'UK parent institution' shall include a *CRR consolidation entity* (if it would not otherwise have been included).~~[Deleted]

~~[Note: Rule 2.4 sets out an equivalent provision to the first sub-paragraph of Article 11(2) of *CRR* that applies to this Part]~~

2.5 ~~The expression 'consolidated situation' applies for the purposes of this Part as it does for the purposes of Parts Two and Three of *CRR*.~~[Deleted]

~~[Note: The term 'consolidated situation' is defined in Article 4(1)(47) of *CRR*]~~

~~**Application of requirements on a sub-consolidated basis**~~

2.6 ~~An institution that is required to comply with Parts Two and Three of *CRR* on a sub-consolidated basis, shall comply with this Part on the same basis.~~[Deleted]

~~[Note: This rule sets out Article 11(6) of *CRR* that applies to this Part]~~

## 2A ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS [DELETED]

2A.1 ~~A *CRR consolidation entity* and an institution shall set up a proper organisational structure and appropriate *internal control* mechanisms in order to ensure that the data required for consolidation for the purposes of this Part are duly processed and forwarded.~~[Deleted]

~~[Note: Rule 2A.1 sets out an equivalent provision to the second sentence of Article 11(1) of *CRR* that applies to this Part]~~

2A.2 ~~A *CRR consolidation entity* and an institution shall ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.~~[Deleted]

~~[Note: Rule 2A.2 sets out an equivalent provision to the third sentence of Article 11(1) of *CRR* that applies to this Part]~~

## 3 TRADING BOOK (PART THREE TITLE I CHAPTER 1, AND ARTICLE 94, CRR)

~~[Note: Articles 92 to 93 remain in the *CRR*]~~

…

## 4 RULES SUPPLEMENTING ARTICLE 105 ON STANDARDS FOR PRUDENTIAL VALUATION (PREVIOUSLY REGULATION (EU) NO 2016/101)

…

### CHAPTER II SIMPLIFIED APPROACH FOR THE DETERMINATION OF AVAS

### Article 4 CONDITIONS FOR USE OF THE SIMPLIFIED APPROACH

…

3. The threshold referred to in paragraph 1 shall apply on an ~~individual~~*individual basis* and ~~consolidated basis~~*consolidated basis*. Where the threshold is breached on a ~~consolidated basis~~*consolidated basis*, the core approach shall be applied to all entities included in the consolidation.

…

**EXTERNALLY DEFINED TERM**

| Term | Definition source |
| --- | --- |
| ~~consolidated situation~~ | ~~Article 4(1)(47) 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 firms and amending Regulation (EU) No 648/2012~~ |

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# PRA RULEBOOK: CRR FIRMS: SDDT REGIME INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers);
(3) section 144G (Disapplication or modification of CRR rules in individual cases);
(4) section 144H (Relationship with the capital requirements regulation);
(5) section 192XA (Rules applying to holding companies); and
(6) section 192XC (Disapplication or modification of rules in individual cases).

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

## PRA Rulebook: CRR Firms: SDDT Regime Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Internal Capital Adequacy Assessment | B |
| Internal Liquidity Adequacy Assessment | C |
| SDDT Regime – General Application | D |
| Glossary | E |
| Capital Buffers | F |
| Counterparty Credit Risk (CRR) | G |
| Credit Risk: General Provisions (CRR) | H |
| Credit Risk: Standardised Approach (CRR) | I |
| Credit Valuation Adjustment Risk | J |
| Disclosure (CRR) | K |
| Large Exposures (CRR) | L |
| Leverage Ratio (CRR) | M |
| Market Risk: General Provisions (CRR) | N |

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| | |
|---|---|
| Market Risk: Internal Model Approach (CRR) | O |
| Market Risk: Advanced Standardised Approach (CRR) | P |
| Market Risk: Simplified Standardised Approach (CRR) | Q |
| Own Funds (CRR) | R |
| Regulatory Reporting | S |
| Reporting (CRR) | T |
| Reporting Pillar 2 | U |
| Required Level of Own Funds (CRR) | V |
| SDDT Regime – General Application | W |
| Securitisation (CRR) | X |
| Settlement Risk (CRR) | Y |
| Trading Book (CRR) | Z |

**Notes**

D. In the Annexes to this instrument, the "notes" (indicated by "[Note: ]") are included for the convenience of readers but do not form part of the legislative text.

**Templates, Annexes and instruction documents**

E. The rules in this Instrument include any template, Annex or instruction document referred to in the rules. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

**Commencement**

F. Annexes A to D come into force on 20 January 2026.

G. Annexes E to Z come into force on 1 January 2027.

**Citation**

H. This instrument may be cited as the PRA Rulebook: CRR Firms: SDDT Regime Instrument 2026.

**By order of the Prudential Regulation Committee**
13 January 2026

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## Annex A

## Amendments to the Glossary Part

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

…

~~*ICR consolidation entity*~~

~~has the meaning given in SDDT Regime – General Application 4.2.~~

~~*ICR firm*~~

~~has the meaning given in SDDT Regime – General Application 4.1.~~

…

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**Annex B**

**Amendments to the Internal Capital Adequacy Assessment Part**

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

…

**15. REVERSE STRESS TESTING**

…

15.4 The design and results of a *firm's* reverse stress test must be documented and reviewed and approved by the *firm's senior management* or *governing body* at least every two years in the case of an *SDDT* and at least annually for any other *firm*~~at least annually by the *firm's senior management* or *governing body*~~. A *firm* (including an *SDDT*) must update its reverse stress test more frequently if it is appropriate to do so in the light of substantial changes in the market or in macroeconomic conditions.

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**Annex C**

**Amendments to the Internal Liquidity Adequacy Assessment Part**

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

…

**11 STRESS TESTING**

…

11.2 A *firm* must consider alternative scenarios on liquidity positions and on risk mitigants and must review the assumptions underlying decisions concerning the funding position at least once every two years in the case of an *SDDT* or *SDDT consolidation entity* and at least annually in the case of any other *firm*. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities* or other special purpose entities, as referred to in the *CRR* in relation to which the *firm* acts as *sponsor* or provides material liquidity support.

…

**13 INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS**

13.1 A *firm* must ensure that:

(1) it regularly, but at least once every two years in the case of an *SDDT* or *SDDT consolidation entity* and at least annually in the case of any other *firm*, reviews its *ILAAP*;

…

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**Annex D**

**Amendments to the SDDT Regime – General Application Part**

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

…

## 4 INTERIM CAPITAL REGIME[DELETED]

4.1 ~~An *ICR firm* means a *UK bank* or *building society* to which the *PRA* has given a *waiver* modifying the effect of this rule such that the *UK bank* or *building society* is an *ICR firm*.~~[Deleted]

4.2 ~~An *ICR consolidation entity* means a *CRR consolidation entity* to which the *PRA* has given a *waiver* modifying the effect of this rule such that it is an *ICR consolidation entity*.~~[Deleted]

4.3 ~~If a *firm* consents to a *waiver* modifying 4.1 such that the *firm* becomes an *ICR firm*, the *firm* must certify to the *PRA* that, as of the day of giving consent, the *firm* meets the *SDDT criteria*.~~ [Deleted]

4.4 ~~If an *ICR firm* ceases to meet the *SDDT criteria*, it must notify the *PRA* within the period of 14 days beginning with the day on which the *firm* ceases to meet the *SDDT criteria*.~~[Deleted]

4.5 ~~If a *CRR consolidation entity* consents to a *waiver* modifying 4.2 such that the *CRR consolidation entity* becomes an *ICR consolidation entity*, the *CRR consolidation entity* must certify to the *PRA* that, as of the day of giving consent, the *SDDT consolidation criteria* are satisfied.~~[Deleted]

4.6 ~~If the *SDDT consolidation criteria* cease to be satisfied, the *ICR consolidation entity* must notify the *PRA* within the period of 14 days beginning with the day on which the *SDDT consolidation criteria* cease to be satisfied.~~[Deleted]

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## Annex E

## Amendments to the Glossary Part

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

…

*SDDT consolidation criteria*

has the meaning given in SDDT Regime – General Application 2.2.

…

*SDDT criteria*

has the meaning given in SDDT Regime – General Application 2.1.

…

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## Annex F

## Amendments to the Capital Buffers Part

In this Annex, new text is underlined.

### 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to *Article 109 undertakings* that are not *SDDTs* or *SDDT consolidation entities* and references to a *firm* in Chapters 2-4 should, as appropriate, be read to include all *Article 109 undertakings* that are not *SDDTs* or *SDDT consolidation entities*.

…

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**Annex G**

**Amendments to the Counterparty Credit Risk (CRR) Part**

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

…

**3 COUNTERPARTY CREDIT RISK (PART THREE, TITLE TWO, CHAPTER SIX CRR)**

**SECTION 1 DEFINITIONS**

**Article 271 DETERMINATION OF THE EXPOSURE VALUE**

…

2. An institution that is not an *SDDT* or an *SDDT consolidation entity* may, subject to paragraph 3 of this Article, determine the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, *long settlement transactions* and *margin lending transactions* in accordance with this Chapter instead of the Credit Risk Mitigation (CRR) Part.

…

**SECTION 2 METHODS FOR CALCULATING THE EXPOSURE VALUE**

**Article 273 METHODS FOR CALCULATING THE EXPOSURE VALUE**

1. Institutions that are not *SDDTs* or *SDDT consolidation entities* shall calculate the exposure value for the contracts listed in ~~Annex II of the *CRR*~~Annex 1 of this Chapter on the basis of one of the methods set out in Sections 3 to 6 in accordance with this Article.

   Institutions that are *SDDTs* or *SDDT consolidation entities* shall calculate the exposure value for the contracts listed in Annex 1 of this Chapter on the basis of one of the methods set out in Sections 3 to 5 in accordance with this Article.

   An institution which does not meet the conditions set out in Article 273a(1) shall not use the method set out in Section 4. An institution which does not meet the conditions set out in Article 273a(2) shall not use the method set out in Section 5.

   Institutions that are not *SDDTs* or *SDDT consolidation entities* may use in combination the methods set out in Sections 3 to 6 on a permanent basis within a group. A single institution that is not an *SDDT* or an *SDDT consolidation entity* shall not use in combination the methods set out in Sections 3 to 6 on a permanent basis.

   Institutions that are *SDDTs* or *SDDT consolidation entities* may use in combination the methods set out in Sections 3 to 5 on a permanent basis within a group. A single institution that is an *SDDT* or an *SDDT consolidation entity* shall not use in combination the methods set out in Sections 3 to 5 on a permanent basis.

2. Where an institution is permitted by the *PRA* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and to apply the method set out in Section 6 of this Chapter in accordance with Article 283(1), an institution that is not an *SDDT* or an *SDDT consolidation entity* shall determine the exposure value for the following items using the IMM set out in Section 6 of this Chapter:

   (a) the contracts listed in Annex 1 of this Chapter;

   (b) repurchase transactions;

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(c) securities or commodities lending or borrowing transactions;

(d) *margin lending transactions*;

(e) *long settlement transactions*,

to the extent, and subject to any modifications set out in the *138BA permission*.

…

## SECTION 6 INTERNAL MODEL METHOD

### Article 283 PERMISSION TO USE THE INTERNAL MODEL METHOD

1. An institution, that is not an *SDDT* or *SDDT consolidation entity*, that has a *138BA permission* from the *PRA* to disapply the methods set out in Sections 3 to 5 of this Chapter (if otherwise applicable) and to apply the method set out in Section 6 of this Chapter shall use the Internal Model Method (IMM) to calculate the exposure value for any of the following transactions:

   (a) transactions in Article 273(2)(a);

   (b) transactions in Article 273(2)(b), (c) and (d);

   (c) transactions in Article 273(2)(a) to (d),

   to the extent, and subject to any modifications, set out in the *138BA permission*.

…

## SECTION 9 OWN FUNDS REQUIREMENTS FOR EXPOSURES TO A CENTRAL COUNTERPARTY

…

### Article 304 TREATMENT OF CLEARING MEMBERS' EXPOSURES TO CLIENTS

1. An institution that acts as a *clearing member* and, in that capacity, acts as a financial intermediary between a *client* and a CCP shall calculate the own funds requirements for its *CCP-related transactions* with that *client*:

   (a) in accordance with Sections 1 to 8 of this Chapter and the Credit Risk Mitigation (CRR) Part and the Credit Valuation Adjustment Risk Part, as applicable, if the institution is not an *SDDT* or an *SDDT consolidation entity*; or

   (b) in accordance with Sections 1 to 5 and Sections 7 to 8 of this Chapter and the Credit Risk Mitigation (CRR) Part and the Credit Valuation Adjustment Risk Part, as applicable, if the institution is an *SDDT* or an *SDDT consolidation entity*.

…

### Article 305 TREATMENT OF CLIENTS' EXPOSURES

1. An institution that is a *client* shall calculate the own funds requirements for its *CCP-related transactions* with its *clearing member*:

   (a) in accordance with Sections 1 to 8 of this Chapter, the Credit Risk Mitigation (CRR) Part and the Credit Valuation Adjustment Risk Part, as applicable, if the institution is not an *SDDT* or an *SDDT consolidation entity*; or

   (b) in accordance with Sections 1 to 5 and Sections 7 to 8 of this Chapter, the Credit Risk Mitigation (CRR) Part and the Credit Valuation Adjustment Risk Part, as applicable, if the institution is an *SDDT* or an *SDDT consolidation entity*.

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…

**Article 306 OWN FUNDS REQUIREMENTS FOR TRADE EXPOSURES**

…

3. An institution that is not an *SDDT* or an *SDDT consolidation entity* shall calculate exposure values of its trade exposures with a CCP in accordance with Sections 1 to 8 of this Chapter and with the Credit Risk Mitigation (CRR) Part, as applicable.

   An institution that is an *SDDT* or an *SDDT consolidation entity* shall calculate exposure values of its trade exposures with a CCP in accordance with Sections 1 to 5 and Sections 7 to 8 of this Chapter and with the Credit Risk Mitigation (CRR) Part, as applicable.

…

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**Annex H**

**Amendments to the Credit Risk: General Provisions (CRR) Part**

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

…

## 3 CREDIT RISK GENERAL PROVISIONS

### Article 107 APPROACHES TO CREDIT RISK

…

2. For trade exposures and for default fund contributions to a central counterparty, institutions shall apply the treatment set out in Section 9 of Chapter 3 of Counterparty Credit Risk (CRR) Part to calculate their risk-weighted exposure amounts for the purposes of points (a) and (f) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92, where applicable. For all other types of exposures to a central counterparty, institutions shall treat those exposures as follows:

   (a) as exposures to an institution for other types of exposures to a qualifying CCP;

   (b) as exposures to a corporate for other types of exposures to a non-qualifying CCP.

…

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**Annex I**

**Amendments to the Credit Risk: Standardised Approach (CRR) Part**

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

…

## 4 STANDARDISED APPROACH

### SECTION 1 GENERAL PRINCIPLES

#### Article 110A DUE DILIGENCE

1. This Article applies to an institution that is not an *SDDT* or *SDDT consolidation entity* and that is subject to the *Standardised Approach* to credit risk set out in this Part.

…

#### Article 111 EXPOSURE VALUE

…

2A. An institution that takes into account credit risk mitigation techniques in calculating the exposure value of securities financing transactions and long settlement transactions shall calculate such exposure values consistently with Credit Risk Mitigation (CRR) Part Article 191A in accordance with:

(a) either Chapter 3 of the Counterparty Credit Risk (CRR) Part or Chapter 3 of Credit Risk Mitigation (CRR) Part if the institution is not an *SDDT* or *SDDT consolidation entity*, or

(b) Chapter 3 of Credit Risk Mitigation (CRR) Part if the institution is an *SDDT* or *SDDT consolidation entity*;

provided that where the institution takes into account a master netting agreement in relation to a set of securities financing transactions, it shall calculate the exposure value for all transactions covered by that master netting agreement as a single exposure value at netting set level.

…

### SECTION 2 RISK WEIGHTS

…

#### Article 120 EXPOSURES TO RATED INSTITUTIONS

…

4. An institution that is not an *SDDT* or *SDDT consolidation entity* shall conduct due diligence to ensure that the external credit assessments appropriately and prudently reflect the risk of the exposure to which the institution is exposed. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the institution shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

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…

**Article 122 EXPOSURES TO CORPORATES**

…

4. Where a credit assessment by a nominated ECAI is available, an institution that is not an *SDDT* or *SDDT consolidation entity* shall conduct due diligence to ensure that the external credit assessment appropriately and prudently reflects the risk of the exposure. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the institution shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

…

**Article 129 EXPOSURES IN THE FORM OF ELIGIBLE COVERED BONDS**

…

4A. An institution that is not an *SDDT* or *SDDT consolidation entity* shall conduct due diligence to ensure that the external credit assessments appropriately and prudently reflect the creditworthiness of the *eligible covered bonds* to which the institution is exposed. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the institution shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

…

**Article 132 OWN FUNDS REQUIREMENTS FOR EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS**

…

8.

…

(e) For the purpose of the threshold set out in point (a)(ii) of this paragraph, an *SDDT* or *SDDT consolidation entity* shall not include exposures in respect of which Article 92(4A) of the Required Level of Own Funds (CRR) Part provides that it should not calculate a risk-weighted exposure amount for the purpose of points (a) and (f) of Article 92(3) of that Part.

…

**Article 132A APPROACHES FOR CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS OF CIUS**

1. Where the conditions set out in Article 132(3) are met, an institution that has sufficient information about the individual underlying exposures of a CIU shall look through to those exposures to calculate the risk-weighted exposure amount of the CIU, risk weighting all underlying exposures of the CIU as if they were directly held by the institution.

   When carrying out the calculations referred to in the first sub-paragraph, an *SDDT* or *SDDT consolidation entity* shall not risk weight an underlying exposure of the CIU if, because of Required Level of Own Funds (CRR) Part Article 92(4A), it would not be required to calculate a risk-weighted exposure amount for the purpose of Required Level of Own Funds (CRR) Part Article 92(3) if the exposure were directly held by the institution.

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2. Where the conditions set out in Article 132(3) are met, an institution that does not have sufficient information about the individual underlying exposures of a CIU to use the look-through approach may calculate the risk-weighted exposure amount of those exposures in accordance with the limits set in the CIU's mandate and relevant law.

   An institution shall carry out the calculations referred to in the first sub-paragraph under the assumption that the CIU first incurs exposures to the maximum extent allowed under its mandate or relevant law in the exposures attracting the highest own funds requirement and then continues incurring exposures in descending order until the maximum total exposure limit is reached, and that the CIU applies leverage to the maximum extent allowed under its mandate or relevant law, where applicable.

   An institution shall carry out the calculations referred to in the first sub-paragraph in accordance with the methods set out in the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*, the Securitisation (CRR) Part, and in Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part, as applicable.

   When carrying out the calculations referred to in the first sub-paragraph, an *SDDT* or *SDDT consolidation entity* shall not calculate the risk-weighted exposure amount of an underlying exposure of the CIU if, because of Required Level of Own Funds (CRR) Part Article 92(4A), it would not be required to calculate a risk-weighted exposure amount for the purpose of Required Level of Own Funds (CRR) Part Article 92(3) if the exposure were directly held by the institution.

…

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**Annex J**

**Amendments to the Credit Valuation Adjustment Risk Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

(1) a *firm* that is a *CRR firm* but not an *SDDT*; and

(2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*.

…

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**Annex K**

**Amendments to the Disclosure (CRR) Part**

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

…

**4. DISCLOSURE (PART EIGHT CRR)**

…

**Article 433b DISCLOSURES BY SMALL DOMESTIC DEPOSIT TAKERS, SDDT CONSOLIDATION ENTITIES AND SMALL AND NON-COMPLEX INSTITUTIONS**

1. *SDDTs* and *SDDT consolidation entities* shall disclose the information outlined below with the following frequency:

   …

   (b) on a semi-annual basis the key metrics referred to in Article 447, except Article 447(d).

…

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**Annex L**

**Amendments to the Large Exposures (CRR) Part**

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

…

## 4 LARGE EXPOSURES (PART FOUR CRR)

…

### Article 390 CALCULATION OF EXPOSURE VALUE

…

4. A *firm* must calculate the exposure values of the derivative contracts listed in ~~Annex II of the *CRR*~~Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part and of credit derivative contracts directly entered into with a client in accordance with one of the methods set out in Sections 3, 4 and 5 of the Counterparty Credit Risk (CRR) Part, as applicable. The exposure value for securities financing transactions must be calculated by a *firm* in accordance with the methods referred to in Section 4 of Chapter 4 of Title II of Part Three of *CRR*, as applicable. *Exposures* resulting from the transactions referred to in Articles 378, 379 and 380 of *CRR* must be calculated by a *firm* in the manner laid down in those Articles.

   When calculating the exposure value for the contracts referred to in the first subparagraph, where those contracts are allocated to the trading book, a *firm* must also comply with the principles set out in Article 299 of *CRR*.

   By way of derogation from the first subparagraph, a *firm* with permission to use the method referred to in Section 6 of Chapter 6 of Title II of Part Three of *CRR* may use that method for calculating the exposure value for securities financing transactions.

   By way of derogation from the first subparagraph, *SDDTs* and *SDDT consolidation entities* shall calculate the exposure values of the derivative contracts listed in Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part and of credit derivative contracts directly entered into with a client using the following formula to calculate an exposure value separately for each transaction:

   $$\text{Exposure value} = \alpha \cdot \max\{\text{CMV}, 0\}$$

   where:

   $\alpha$ = 1.4; and

   CMV = the current market value of the transaction gross of any collateral held or posted.

…

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**Annex M**

**Amendments to Leverage Ratio (CRR) Part**

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

…

**3 LEVERAGE RATIO (PART SEVEN CRR)**

…

**Article 429c CALCULATION OF THE EXPOSURE VALUE OF DERIVATIVES**

…

6. By way of derogation from paragraph 1 of this Article:~~,~~

(a) institutions other than *SDDTs* and *SDDT consolidation entities* may use the *simplified standardised approach for counterparty credit risk* or the *original exposure method* to determine the exposure value of derivative contracts listed in points 1 and 2 of ~~Annex II of the *CRR*~~Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, but only where they also use that method for determining the exposure value of those contracts for the purpose of meeting the own funds requirements set out in Article 92 of the *CRR*.

Where institutions apply one of the methods referred to in the first subparagraph, they shall not reduce the total exposure measure by the amount of margin they have received.

(b) *SDDTs* and *SDDT consolidation entities* shall use the following formula to calculate the exposure value of derivative contracts listed in Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part and of credit derivatives, including those that are off-balance sheet, in place of the calculation under paragraph 1, calculating an exposure value separately for each transaction:

$$\text{Exposure value} = \alpha \cdot \max\{\text{CMV}, 0\}$$

where:

$\alpha$ =1.4; and

CMV=the current market value of the transaction gross of any collateral held or posted.

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**Annex N**

**Amendments to the Market Risk: General Provisions (CRR) Part**

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

**1 APPLICATION AND DEFINITIONS**

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm* but not an *SDDT*; and

(2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*.

…

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**Annex O**

**Amendments to the Market Risk: Internal Model Approach (CRR) Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 Subject to 1.2 and 4.2, this Part applies to:

(1) a *firm* that is a *CRR firm* but not an *SDDT*; and

(2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*,

…

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**Annex P**

**Amendments to the Market Risk: Advanced Standardised Approach (CRR) Part**

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

**1 APPLICATION AND DEFINITIONS**

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm* but not an *SDDT*; and

(2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*.

…

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**Annex Q**

**Amendments to the Market Risk: Simplified Standardised Approach (CRR) Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm* but not an *SDDT*; and

(2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*.

…

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**Annex R**

**Amendments to the Own Funds (CRR) Part.**

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

…

**3 OWN FUNDS (PART TWO CRR)**

…

**Article 36 DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS**

1. Institutions shall deduct the following from Common Equity Tier 1 items:

…

(h) the applicable amount of direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments and, where an institution is an *SDDT* or an *SDDT consolidation entity*, Additional Tier 1 and Tier 2 instruments, of financial sector entities where the institution does not have a significant investment in those entities;

(i) the applicable amount of direct, indirect and synthetic holdings by the institution of the Common Equity Tier 1 instruments and, where an institution is an *SDDT* or an *SDDT consolidation entity*, Additional Tier 1 and Tier 2 instruments, of financial sector entities where the institution has a significant investment in those entities;

…

(k) the exposure amount of the following items which qualify for a risk weight of 1,250%, where the institution deducts that exposure amount from the amount of Common Equity Tier 1 items as an alternative to applying a risk weight of 1,250%:

…

and where an institution is an *SDDT* or an *SDDT consolidation entity*, it must make the deductions required by Articles 36(1)(c), (h), (i) or (k) (i) to (iii) as calculated in accordance with Article 45A and, in the case of deductions required by sub-paragraphs (k)(i) to (iii), in full, with no risk weight applied.

…

[Note: This rule, except for the deletion of Article 36.1(m), together with Article 45A of the Own Funds (CRR) Part in relation to an *SDDT* or *SDDT consolidation entity*, corresponds to Article 36 of ~~the CRR~~*CRR* as it applied immediately before revocation by the *Treasury*.]

**Article 38 DEDUCTION OF DEFERRED TAX ASSETS THAT RELY ON FUTURE PROFITABILITY**

…

5. The amount of associated deferred tax liabilities referred to in paragraph 4 shall be allocated between the following:

(a) deferred tax assets that rely on future profitability and arise from temporary differences that are not deducted in accordance with Article 48(1) or, where an institution is an *SDDT* or an *SDDT consolidation entity*, Article 45A;

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(b) all other deferred tax assets that rely on future profitability.

Institutions shall allocate the associated deferred tax liabilities according to the proportion of deferred tax assets that rely on future profitability that the items referred to in points (a) and (b) represent.

[Note: This rule, together with Article 45A of the Own Funds (CRR) Part in relation to an *SDDT* or *SDDT consolidation entity*, corresponds to Article 38 of *CRR* as it applied immediately before its revocation]

…

**Article 44 DEDUCTION OF HOLDINGS OF ~~COMMON EQUITY TIER 1~~OWN FUNDS INSTRUMENTS AND OTHER CAPITAL INSTRUMENTS OF FINANCIAL SECTOR ENTITIES AND WHERE AN INSTITUTION HAS A RECIPROCAL CROSS HOLDING DESIGNED ARTIFICALLY TO INFLATE OWN FUNDS**

Institutions shall make the deductions referred to in points (g), (h) and (i) of Article 36(1) in accordance with the following:

(a) holdings of Common Equity Tier 1 instruments and other capital instruments and, where an institution is an *SDDT* or an *SDDT consolidation entity*, Additional Tier 1 and Tier 2 instruments of financial sector entities shall be calculated on the basis of the gross long positions;

(b) Tier 1 own-fund insurance items shall be treated as holdings of Common Equity Tier 1 instruments for the purposes of deduction~~.~~; and

(c) An *SDDT* or *SDDT consolidation entity* shall treat Additional Tier 1 own-fund insurance items as holdings of Additional Tier 1 instruments and Tier 2 own-fund insurance items as Tier 2 instruments for the purposes of deduction.

…

**Article 45 DEDUCTION OF HOLDINGS OF COMMON EQUITY TIER 1 INSTRUMENTS AND OTHER OWN FUNDS INSTRUMENTS OF FINANCIAL SECTOR ENTITIES**

Institutions shall make the deductions required by points (h) and (i) of Article 36(1) in accordance with the following provisions:

(a) they may calculate direct, indirect and synthetic holdings of Common Equity Tier 1 instruments and, where applicable for *SDDTs* and *SDDT consolidation entities*, Additional Tier 1 and Tier 2 instruments, of the financial sector entities on the basis of the net long position in the same underlying exposure provided that both the following conditions are met:

(i) the maturity date of the short position is either the same as, or later than the maturity date of the long position or the residual maturity of the short position is at least one year;

(ii) either both the long position and the short position are held in the trading book or both are held in the non-trading book;

…

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**Article 45A DEDUCTIONS UNDER ARTICLE 36(1)(C), (H), (I) AND (K) FOR SDDTS AND SDDT CONSOLIDATION ENTITIES**

1. This Article applies to *SDDTs and SDDT consolidation entities* when calculating deductions from Common Equity Tier 1 items in accordance with Articles 36(1)(c), (h), (i) or (k) (i) to (iii).

2. For the purposes of points (h) and (i) of Article 36(1), *SDDTs* and *SDDT consolidation entities* shall exclude from the amounts to be deducted underwriting positions held for five *working days* or fewer.

3.

(a) For the purposes of deductions under Article 36(1)(k)(i), a qualifying holding outside the financial sector is a holding in an undertaking that is not one of the following:

(i) a financial sector entity;

(ii) an undertaking, that is not a financial sector entity, carrying on activities which the *PRA* considers to be any of the following:

A a direct extension of banking;

B ancillary to banking;

C leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity.

(b) *Shares* of undertakings not referred to in points (i) and (ii) of paragraph 3(a) above shall not be included in calculating deductions under Article 36(1)(k)(i) where any of the following conditions is met:

(i) those *shares* are held temporarily during a financial assistance operation as referred to in Article 79;

(ii) the holding of those *shares* is an underwriting position held for five *working days* or fewer;

(iii) those *shares* are held in the own name of the institution and on behalf of others.

(c) The following shall not be included in an undertaking's calculation of the deduction required by Article 36(1)(k)(i):

(i) *shares* which are not participating interests;

(ii) *shares* in an affiliated undertaking;

(iii) securities that are intended for use on a continuing basis in the normal course of the undertaking's activities.

4. Subject to any deduction required by Article 36(1)(k) (i) to (iii) being made in full, *SDDTs* and *SDDT consolidation entities* are not required to deduct from Common Equity Tier 1 the amounts of items listed in point (a) of this paragraph which in aggregate are equal to or less than the threshold amount in point (b),

(a) the amounts of the following items:

(i) deferred tax assets that rely on future profitability and arise from temporary differences;

(ii) the amount of direct, indirect and synthetic holdings by the *SDDT* or *SDDT consolidation entity* of Common Equity Tier 1, Additional Tier 1, and Tier 2 instruments of financial sector entities where the *SDDT* or *SDDT consolidation entity* does not have a significant investment in those entities;

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(iii) the amount of direct, indirect and synthetic holdings by the *SDDT* or *SDDT consolidation entity* of Common Equity Tier 1, Additional Tier 1, and Tier 2 instruments of financial sector entities where the *SDDT* or *SDDT consolidation entity* has a significant investment in those entities;

(b) the threshold amount is 25% of the Common Equity Tier 1 items of the *SDDT* or *SDDT consolidation entity* calculated after applying the adjustments and deductions in Articles 32 to 36 of Chapter 3 in full and without applying the threshold exemptions specified in this Article.

5. For the purposes of paragraph 4, an institution shall determine the amount of each item listed in paragraph 4(a) not to be deducted by multiplying the amount in (a) of this paragraph by the proportion in (b) of this paragraph;

(a) The amount of the item;

(b) The proportion is (i) the total amount of the items not to be deducted in accordance with paragraph 4; divided by (ii) the total amount of all items in paragraph 4(a).

6. The amounts that are not deducted from Common Equity Tier 1 items shall be subject to the following risk weights:

(a) deferred tax assets that rely on future profitability and arise from temporary differences shall be risk weighted at 250%;

(b) the amount of direct, indirect and synthetic holdings by the *SDDT* or *SDDT consolidation entity* of Common Equity Tier 1, Additional Tier 1, and Tier 2 instruments of financial sector entities where the *SDDT* or *SDDT consolidation entity* does not have a significant investment in those entities shall be risk weighted at 250%;

(c) the amount of direct, indirect and synthetic holdings by the *SDDT* or *SDDT consolidation entity* of Common Equity Tier 1, Additional Tier 1, and Tier 2 instruments of financial sector entities where the *SDDT* or *SDDT consolidation entity* does have a significant investment in those entities shall be risk weighted at 250%.

7. The amount of each item that must be deducted in accordance with Articles 36(1)(c), (h), and (i) is equal to the amount of the item minus the amount of the item not deducted, calculated in accordance with paragraph 5 of this Article.

[Note: This rule, in relation to *SDDTs* and *SDDT consolidation entities*, read together with Articles 36, 38, 50 and 56 of the Own Funds (CRR) Part, corresponds to Articles of the same Article number in *CRR* as those Articles applied immediately before their revocation.]

**Article 46 DEDUCTION OF HOLDINGS OF COMMON EQUITY TIER 1 INSTRUMENTS WHERE AN INSTITUTION DOES NOT HAVE A SIGNIFICANT INVESTMENT IN A FINANCIAL SECTOR ENTITY**

---

A1. This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

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**Article 47 DEDUCTION OF HOLDINGS OF COMMON EQUITY TIER 1 INSTRUMENTS WHERE AN INSTITUTION HAS A SIGNIFICANT INVESTMENT IN A FINANCIAL SECTOR ENTITY**

This article does not apply to an *SDDT* or an *SDDT consolidation entity*. For the purposes of point (i) of Article 36(1), the applicable amount to be deducted from Common Equity Tier 1 items shall exclude underwriting positions held for five *working days* or fewer and shall be determined in accordance with Articles 44, 45 and 48.

…

**Article 48 THRESHOLD EXEMPTIONS FROM DEDUCTION FROM COMMON EQUITY TIER 1 ITEMS**

A1. This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

**Article 50 COMMON EQUITY TIER 1 CAPITAL**

The Common Equity Tier 1 capital of an institution shall consist of Common Equity Tier 1 items after the application of the adjustments required by Articles 32 to 35, the deductions required pursuant to Article 36 and the exemptions and alternatives laid down in Articles 45A, 48 and 79 (as applicable).

[Note: This rule, together with Article 45A of the Own Funds (CRR) Part in relation to a SDDT or an SDDT consolidation entity, corresponds to Article 50 of *CRR* as it applied immediately before its revocation]

…

**Article 56 DEDUCTIONS FROM ADDITIONAL TIER 1 ITEMS**

Institutions shall deduct the following from Additional Tier 1 items:

…

(c) for institutions which are not *SDDTs* or *SDDT consolidation entities*, the applicable amount determined in accordance with Article 60 of direct, indirect and synthetic holdings of the Additional Tier 1 instruments of financial sector entities, where an institution does not have a significant investment in those entities;

(d) for institutions which are not *SDDTs* or *SDDT consolidation entities*, direct, indirect and synthetic holdings by the institution of the Additional Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities, excluding underwriting positions held for five *working days* or fewer;

…

[Note: This rule, together with Article 45A in relation to an *SDDT* or *SDDT consolidation entity*, corresponds to Article 56 of *CRR* as it applied immediately before its revocation]

…

**Article 59 DEDUCTION OF HOLDINGS OF ADDITIONAL TIER 1 INSTRUMENTS OF FINANCIAL SECTOR ENTITIES**

This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

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…

**Article 60 DEDUCTION OF HOLDINGS OF ADDITIONAL TIER 1 INSTRUMENTS WHERE AN INSTITUTION DOES NOT HAVE A SIGNIFICANT INVESTMENT IN A FINANCIAL SECTOR ENTITY**

A1. This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

**Article 66 DEDUCTIONS FROM TIER 2 ITEMS**

The following shall be deducted from Tier 2 items:

…

(c) for institutions which are not *SDDTs* or *SDDT consolidation entities*, the applicable amount determined in accordance with Article 70 of direct, indirect and synthetic holdings of the Tier 2 instruments of financial sector entities, where an institution does not have a significant investment in those entities;

(d) for institutions which are not *SDDTs* or *SDDT consolidation entities*, direct, indirect and synthetic holdings by the institution of the Tier 2 instruments of financial sector entities where the institution has a significant investment in those entities, excluding underwriting positions held for fewer than five *working days*;

…

**Article 69 DEDUCTION OF HOLDINGS OF TIER 2 INSTRUMENTS OF FINANCIAL SECTOR ENTITIES**

This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

**Article 70 DEDUCTION OF TIER 2 INSTRUMENTS WHERE AN INSTITUTION DOES NOT HAVE A SIGNIFICANT INVESTMENT IN A RELEVANT ENTITY**

A1. This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

**Article 84 MINORITY INTERESTS INCLUDED IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL**

1. Institutions shall determine the amount of minority interests of a subsidiary that is included in consolidated Common Equity Tier 1 capital by subtracting from the minority interests of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

(a) the Common Equity Tier 1 capital of the subsidiary minus the lower of the following:

(i) the amount of Common Equity Tier 1 capital of that subsidiary required to meet the following:

A the sum of the requirement laid down in point (a) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds

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requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by Common Equity Tier 1 capital; or

…

(ii) the amount of consolidated Common Equity Tier 1 capital that relates to that subsidiary that is required on a *consolidated basis* to meet the sum of the requirement laid down in point (a) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by Common Equity Tier 1 capital;

…

**Article 85 QUALIFYING TIER 1 INSTRUMENTS INCLUDED IN CONSOLIDATED TIER 1 CAPITAL**

1. Institutions shall determine the amount of qualifying *Tier 1 capital* of a subsidiary that is included in consolidated own funds by subtracting from the qualifying *Tier 1 capital* of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

(a) the *Tier 1 capital* of the subsidiary minus the lower of the following:

(i) the amount of *Tier 1 capital* of the subsidiary required to meet the following:

A the sum of the requirement laid down in point (b) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by *Tier 1 capital*; or

…

(ii) the amount of consolidated *Tier 1 capital* that relates to the subsidiary that is required on a *consolidated basis* to meet the sum of the requirement laid down in point (b) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by *Tier 1 capital*;

…

**Article 87 QUALIFYING OWN FUNDS INCLUDED IN CONSOLIDATED OWN FUNDS**

1. Institutions shall determine the amount of qualifying own funds of a subsidiary that is included in consolidated own funds by subtracting from the qualifying own funds of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

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(a) the own funds of the subsidiary minus the lower of the following:

(i) the amount of own funds of the subsidiary required to meet the following:

A the sum of the requirement laid down in point (c) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and any additional local supervisory regulations in *third countries*; or

…

(ii) the amount of own funds that relates to the subsidiary that is required on a *consolidated basis* to meet the sum of the requirement laid down in point (c) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and any additional local supervisory own funds requirement in *third countries*;

…

**Article 89 RISK WEIGHTING OF QUALIFYING HOLDINGS OUTSIDE THE FINANCIAL SECTOR**

A1. This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

**Article 90 ALTERNATIVE TO 1250% RISK WEIGHT**

This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

**Article 91 EXCEPTIONS**

A1. This article does not apply to an *SDDT* or an *SDDT consolidation entity*.

…

## 4. RULES SUPPLEMENTING THE CRR WITH REGARDS TO OWN FUNDS REQUIREMENTS (PREVIOUSLY REGULATION (EU) NO 241/2014)

…

**Article 10 LIMITATIONS ON REDEMPTION OF CAPITAL INSTRUMENTS ISSUED BY MUTUALS, SAVINGS INSTITUTIONS, CO-OPERATIVES SOCIETIES AND SIMILAR INSTITUTIONS FOR THE PURPOSE OF ARTICLE 29(2)(B) OF CHAPTER 3**

…

3. …

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(b) the amount of Common Equity Tier 1 capital, Tier 1 and total capital compared to the total risk exposure amount calculated in accordance with the requirements laid down in point (a) of Article 92(1) of the *CRR*, the specific own funds requirements referred to in regulation 34 of the *Capital Requirements Regulations* and the combined buffer as defined in the Capital Buffers Part (where applicable to the *firm* concerned).

…

**Article 15h HOLDINGS OF ADDITIONAL TIER 1 AND TIER 2**

The methodology referred to in Articles 15a to 15f of this Chapter 4 of this Part shall apply mutatis mutandis to Additional Tier 1 holdings for the purposes of points (a), (c) and (d) of Article 56 of Chapter 3 of this Part, and to Tier 2 holdings for the purposes of points (a), (c) and (d) of Article 66 of Chapter 3 of this Part, where references to Common Equity Tier 1 shall be read as references to Additional Tier 1 or Tier 2, as applicable.

The methodology referred to in Articles 15a to 15f of this Chapter 4 of this Part shall apply mutatis mutandis to Additional Tier 1 holdings and Tier 2 holdings for the purposes of deductions by *SDDTs* and *SDDT consolidation entities* pursuant to points (h) and (i) of Article 36(1) of Chapter 3 of this Part, where references to holdings of Common Equity Tier 1 shall be read as references to holdings of Additional Tier 1 or Tier 2, as applicable.

…

**Article 30 CONTENT OF THE APPLICATION TO BE SUBMITTED BY THE INSTITUTION FOR THE PURPOSES OF ARTICLE 77(1) OF THE CRR**

1. The application referred to in Article 29 shall be accompanied by the following information:

…

(d) Present and forward-looking information, that shall cover at least a three year period, on the amounts and percentages corresponding to the following requirements for own funds and eligible liabilities, including the level and composition of own funds before and after the performing of the action and the impact on regulatory requirements:

…

(iii) combined buffer as defined in the Capital Buffers Part (where applicable to the *firm* concerned);

…

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**Annex S**

**Amendments to the Regulatory Reporting Part**

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

…

## 16 DATA ITEMS AND OTHER FORMS

…

16.27A PRA117 can be found here.

…

16.28A PRA118 can be found here.

…

## 20 CAPITAL+ REPORTS

…

20.19 The first frequency period for the purposes of 20.18(3) is:

(1) where the *data item* required to be submitted under 20.18(3) is PRA114 or PRA118, one year starting from:

…

(2) where the *data item* required to be submitted under 20.18(3) is PRA112, ~~or~~ PRA113~~,~~ or PRA117, the frequency period specified in column (3) of the *Capital+ reporting table*, starting with the next *Capital+ reference date* after the *Capital+ changeover date* which caused 20.18 to apply.

…

20.21 The *Capital+ reporting table* below sets out, in respect of the requirements to submit *data items* in this Chapter:

…

*Capital+ reporting table*

| **Column 1** | **Column 2** | **Column 3** | **Column 4** | **Column 5** |
|---|---|---|---|---|
| **(*Capital+ condition*)** | **(*data item*)** | **(frequency)** | **(due date)** | **(rules which set out basis or bases on which *data item* should be completed)** |
| ***Capital+ condition 1*** | PRA112 | Monthly | 15 *business days* | 20.22, 20.22A |
| ***Capital+ condition 2*** | PRA112 | Monthly | 15 *business days* | 20.23 |
| ***Capital+ condition 3*** | PRA112 | Quarterly | 15 *business days* | 20.22, 20.22A |

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| | | | | |
|---|---|---|---|---|
| ***Capital+ condition 4*** | PRA112 | Quarterly | 15 *business days* | 20.23 |
| ***Capital+ condition 5*** | PRA113<br><br>Unless the firm is an *SDDT* or *SDDT consolidation entity*, in which case PRA117 shall apply | Half yearly | 30 *business days* | 20.24, 20.22A |
| ***Capital+ condition 6*** | PRA113<br><br>Unless the firm is an *SDDT* or *SDDT consolidation entity*, in which case PRA117 shall apply | Half yearly | 30 *business days* | 20.23 |
| ***Capital+ condition 7*** | PRA114<br>Unless the firm is an *SDDT* or *SDDT consolidation entity*, in which case PRA118 shall apply | Annually | 30 *business days* | 20.24 |
| ***Capital+ condition 8*** | PRA114<br>Unless the firm is an *SDDT* or *SDDT consolidation entity*, in which case PRA118 shall apply | Annually | 30 *business days* | 20.23 |

…

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**Annex T**

**Amendments to the Reporting (CRR) Part**

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

…

**4. REPORTING (PART SEVEN A CRR)**

**Article 430 REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION**

1. Institutions shall report to the *PRA* on:

….

(g) the level of asset encumbrance, including a breakdown by the type of asset encumbrance, such as repurchase agreements, securities lending, securities exposures or loans~~.~~;

(h) where the institution is an *SDDT* or *SDDT consolidation entity*, the application of the *SDDT criteria* and the *SDDT consolidation criteria*;

(i) where the institution is an *SDDT* or *SDDT consolidation entity*, their derivatives, securities financing and long settlement transactions.

…

**5. REPORTING REQUIREMENTS**

…

**CHAPTER 3 FORMAT AND FREQUENCY OF REPORTING ON OWN FUNDS, OWN FUND REQUIREMENTS**

5.1 Articles 5 to 8 of this Chapter do not apply to an *SDDT* or an *SDDT consolidation entity*.

…

**CHAPTER 3A FORMAT AND FREQUENCY OF REPORTING ON OWN FUNDS, OWN FUND REQUIREMENTS FOR SDDTS AND SDDT CONSOLIDATION ENTITIES**

5.2 Articles 9, 9A, 9B and 10 of this Chapter apply only to *SDDTs* and *SDDT consolidation entities*.

**Article 9 INDIVIDUAL BASIS – QUARTERLY REPORTING (SDDTS)**

1. In order to report:

(a) information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of this Part on an *individual basis*;

(b) information relating to the application of the *SDDT criteria* and the *SDDT consolidation criteria* in accordance with point (h) of Article 430(1) of this Part; and

(c) information on derivatives, securities financing and long settlement transactions on an *individual basis* in accordance with point (i) of Article 430(1) of this Part,

institutions shall submit information as set out in the following paragraphs with a quarterly frequency. Institutions shall submit information in accordance with paragraphs 2 to 8 of this Article.

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2. Information relating to own funds and own funds requirements shall be submitted as specified in templates SC 01.00, SC 0.200, SC 03.00 and SC 04.00 of Annex IA, in accordance with the instructions in point 1 of Part II of Annex IIA.

3. Information on credit risk and counterparty credit risk exposures treated under the *Standardised Approach* shall be submitted as specified in template SC 07.00 of Annex IA, in accordance with the instructions in point 3.2 of Part II of Annex IIA.

4. Information on the geographical distribution of exposures by country, as well as aggregated at a total level, shall be submitted as specified in templates SC 09.01 and SC 09.04 of Annex IA, in accordance with the instructions in point 3.4 of Part II of Annex IIA. Information specified in template SC 09.01, and in particular information on the geographical distribution of exposures by country, shall be submitted where non-domestic original exposures in all non-domestic countries in all exposure classes, as reported in row 0850 of template SC 04.00 of Annex IA, are equal to or higher than 10% of total domestic and non-domestic original exposures as reported in row 0860 of template SC 04.00 of Annex IA. Exposures shall be deemed to be domestic where they are exposures to counterparties located in the *United Kingdom*. The entry and exit criteria of Article 4 shall apply.

5. Information on derivatives, securities financing and long settlement transactions shall be submitted as specified in template SC 34.00 of Annex IA, in accordance with the instructions in point 3.9 of Part II of Annex IIA.

6. Information on securitisation exposures shall be submitted as specified in template SC 13.01 of Annex IA, in accordance with the instructions in point 3.7 of Part II of Annex IIA.

7. Information on own funds requirements, the *Business Indicator Component*, the *Business Indicator* and its components, relating to operational risk shall be submitted as specified in template SC 16.00 of Annex IA, in accordance with the instructions in point 4.1 of Annex IIA.

8. Information on the institution's foreign-exchange positions and on the size of its trading book business shall be submitted as specified in templates SC 22.00 and SC 90.00 of Annex IA, in accordance with the instructions in points 5.5 and 5.7 of Part II of Annex IIA.

**Article 9A INDIVIDUAL BASIS – SEMI-ANNUAL REPORTING (SDDTS)**

1. In order to report information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part on an *individual basis*, institutions shall submit information as set out in the following paragraph with a semi-annual frequency. Institutions shall submit information in accordance with paragraph 2 of this Article.

2. Information on all securitisation exposures shall be reported as specified in templates SC 14.00 and SC 14.01 of Annex IA, in accordance with the instructions in point 3.8 of Part II of Annex IIA.

   Institutions shall be exempted from submitting those securitisation details where they are part of a group and are subject to own funds requirements in the *United Kingdom* on a *consolidated basis*.

**Article 9B INDIVIDUAL BASIS – ANNUAL REPORTING (SDDTS)**

1. In order to report information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of this Part on an *individual basis*, institutions shall submit information as set out in the following paragraph with an annual frequency.

2. Institutions which have a *Business Indicator* greater than £880 million shall submit information on annual loss data for historical losses and the Internal Loss Multiplier for each year over the

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preceding 10 year period, as specified in template SC 16.00 of Annex IA, in accordance with the instructions in point 4.1 of Annex IIA.

**Article 10 REPORTING ON A CONSOLIDATED BASIS (SDDTS)**

In order to report:

(a) information on own funds and on own funds requirements in accordance with point (a) of Article 430(1) of this Part on a *consolidated basis*;

(b) information relating to the application of the *SDDT consolidation criteria* in accordance with point (h) of Article 430(1) of this Part; and

(c) information on derivatives, securities financing and long settlement transactions on a *consolidated basis* in accordance with point (i) of Article 430(1) of this Part,

institutions shall submit:

(i) the information specified in Articles 9, 9A and 9B on a *consolidated basis* with the frequency specified therein;

(ii) the information specified in templates SC 06.01 and SC 06.02 of Annex IA, in accordance with the instructions provided in point 2 of Part II of Annex IIA regarding entities included in the scope of consolidation, with a semi-annual frequency.

**...**

**CHAPTER 7 FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND CONSOLIDATED BASIS**

**Article 15 FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

…

1A. *SDDTs* and *SDDT consolidation entities* shall not report templates LV 40.00, LV 41.00, LV43.00 or LV44.00.

…

**6 TEMPLATES AND INSTRUCTIONS**

**Annex I**

…

2.56 [Deleted.]

**Annex IA**

6.56A Annex IA Template SC 01.00 can be found here.

6.56B Annex IA Template SC 02.00 can be found here.

6.56C Annex IA Template SC 03.00 can be found here.

6.56D Annex IA Template SC 04.00 can be found here.

6.56E Annex IA Template SC 06.01 can be found here.

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6.56F Annex IA Template SC 06.02 can be found here.

6.56G Annex IA Template SC 07.00 can be found here.

6.56H Annex IA Template SC 09.01 can be found here.

6.56I Annex IA Template SC 09.04 can be found here.

6.56J Annex IA Template SC 13.01 can be found here.

6.56K Annex IA Template SC 14.00 can be found here.

6.56L Annex IA Template SC 14.01 can be found here.

6.56M Annex IA Template SC 34.00 can be found here.

6.56N Annex IA Template SC 16.00 can be found here.

6.56O Annex IA Template SC 22.00 can be found here.

6.56P Annex IA Template SC 90.00 can be found here.

**Annex II**

…

2.57 [Deleted.]

**Annex IIA**

6.57A Annex IIA can be found here.

…

**Annex IX**

6.249 Annex IX can be found ~~here~~here.

…

**Annex X**

6.250 Annex X Template LV 40.00 can be found ~~here~~here.

6.251 Annex X Template LV 41.00 can be found ~~here~~here.

6.252 Annex X Template LV 43.00 can be found ~~here~~here.

6.253 Annex X Template LV 44.00 can be found ~~here~~here.

6.254 Annex X Template LV 47.00 can be found ~~here~~here.

…

**Annex XI**

6.255 Annex XI can be found ~~here~~here.

…

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**Annex U**

**Amendments to the Reporting Pillar 2 Part**

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

…

## 2 PILLAR 2 REPORTING REQUIREMENTS

2.1 A *firm* must complete the *data item* FSA071 for the risk assessments required in the ICAA Part. If the *firm* is an *SDDT* or an *SDDT consolidation entity* it must complete *data item* PRA119 instead of FSA071.

2.2 A *firm* other than an *SDDT* or an *SDDT consolidation entity* must complete the *data items* FSA078 and FSA079 for concentration risk.

…

2.4 A *firm* other than an *SDDT* or an *SDDT consolidation entity* with significant illiquid risk in its trading book must complete the *data item* FSA080 for market risk, unless the data required in that *data item* has already been reported to the *PRA* by other means.

…

2.7 A *firm* other than an *SDDT* or an *SDDT consolidation entity* must complete the *data item* FSA076 for any wholesale portfolio of exposures for which capital requirements are calculated using the *Standardised Approach to credit risk*.

2.8 A *firm* other than an *SDDT* or an *SDDT consolidation entity* must complete the *data item* FSA077 for any retail portfolio of exposures for which capital requirements are calculated using the *Standardised Approach to credit risk*.

…

## 4 DATA ITEMS

…

4.1A PRA119 can be found here.

…

4.13 PRA111 can be found ~~here~~here.

…

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## Annex V

## Amendments to the Required Level of Own Funds (CRR) 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:

*clearing member*

means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.

…

### 4 REQUIRED LEVEL OF OWN FUNDS

### Article 92 OWN FUNDS REQUIREMENTS

…

3. The un-floored total risk exposure amount shall be calculated as the sum of points (a) to (f) of this paragraph after having taken into account paragraphs 4 and 4A:

…

3A. The standardised total risk exposure amount shall be calculated as the sum of points (a) to (f) of paragraph 3:

(a) after having taken into account paragraphs 4 and 4A; and

…

4A. Where an institution is an *SDDT* or *SDDT consolidation entity*, paragraph 3 applies subject to the following modifications:

(a) for the purpose of points (a) and (f) of paragraph 3:

(i) subject to points (iii) to (v), *SDDTs* and *SDDT consolidation entities* shall not calculate risk-weighted exposure amounts in respect of contracts listed in Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part;

(ii) subject to points (iii) to (v), *SDDTs* and *SDDT consolidation entities* shall not calculate risk-weighted exposure amounts in respect of credit derivatives where doing so would require the exposure value to be calculated in accordance with one of the methods set out in Sections 3, 4 and 5 of the Counterparty Credit Risk (CRR) Part;

(iii) where an *SDDT* is a *clearing member* of a central counterparty, the *SDDT* shall calculate risk-weighted exposure amounts in respect of its trade exposures with the central counterparty and its exposures arising from its contributions to the default fund of the central counterparty;

(iv) where a member of its *consolidation group* is a *clearing member* of the central counterparty, an *SDDT consolidation entity* shall, when complying with this Part on the basis of its *consolidated situation*, calculate risk-weighted exposure amounts in respect of trade exposures of the *clearing member* with the central counterparty and exposures arising from contributions of the *clearing member* to the default fund of the central counterparty;

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(v) this point (a) does not affect any requirement to calculate risk-weighted exposure amounts in respect of *securitisation positions* that result from derivative instruments listed in Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part;

(b) by way of derogation from point (b) of paragraph 3, institutions that are *SDDTs* or *SDDT consolidation entities* must calculate the own funds requirement for their trading book business in accordance with paragraph 2A of Article 94 of the Trading Book (CRR) Part; and

(c) points (c) and (d) of paragraph 3 do not apply to an *SDDT* or an *SDDT consolidation entity*.

…

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**Annex W**

**Amendments to the SDDT Regime – General Application 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:

…

*relevant credit exposures*

means the exposures referred to in template C 09.04 of Annex 1 to the Reporting (CRR) Part and in the instructions for completion of that template in point 3.4.3 of Part II of Annex II to the Reporting (CRR) Part, or in template SC 09.04 of Annex IA to the Reporting (CRR) Part and the instructions for completion of that template in point 3.4.3 of Part II of Annex IIA to the Reporting (CRR) Part, as applicable.

~~*SDDT consolidation criteria*~~

~~has the meaning given in 2.2.~~

~~*SDDT criteria*~~

~~has the meaning given in 2.1.~~

…

## 2 SMALL DOMESTIC DEPOSIT TAKERS CRITERIA

…

2.4 The recent average of the ratio referred to in 2.1(2)(a) is to be calculated as follows.

(1) Identify the occasions (remittance dates) in the preceding 36 *months* by which the *firm* was required to report the geographical location of its *relevant credit exposures* using template C 09.04 of Annex I of Reporting (CRR) Part or template SC 09.04 of Annex IA of that Part, as applicable.

(2) For each of those occasions, using the information that the *firm* was required to report subject to any adjustment in accordance with 2.6, calculate the ratio of the amount of *relevant credit exposures* located in the *UK* to the total amount of *relevant credit exposures* across all jurisdictions.

(3) Calculate the arithmetic mean of those ratios (expressed as a percentage).

2.5 For the purpose of 2.1(2) and 2.4(2), whether a *relevant credit exposure* is located in the *UK* is to be determined in accordance with the instructions in point 3.4.3 of Part II of Annex II of Reporting (CRR) Part for completing template C 09.04 of Annex I of that Part or the instructions in point 3.4.3 of Part II of Annex IIA to the Reporting (CRR) Part for completing template SC 09.04 of Annex IA of that Part, as applicable, subject to any adjustment in accordance with 2.6.

…

2.9 The following provisions apply in relation to the calculation of a *firm's* overall net foreign-exchange position for the purpose of 2.1(4):

(1) subject to permission from the *PRA* under section 138BA of *FSMA*, an *SDDT* or *SDDT consolidation entity* may use the method set out in Article 352 of *CRR*:

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(a) as if it held a permission referred to in Article 352(1) of the Market Risk: Simplified Standardised Approach (CRR) Part to calculate delta itself, and

(b) as if that permission set out any provisions that are specified in a permission granted in relation to this rule about the extent to which the institution may calculate delta itself and any modifications to which the institution's entitlement to calculate delta itself is subject;

(2) subject to permission from the *PRA* under section 138BA of *FSMA*, an *SDDT* or *SDDT consolidation entity* may, when using the method set out in Article 352 of *CRR*, exclude any risk positions which an institution uses to hedge against the adverse effect of foreign exchange rates on any of its capital ratios in accordance with Article 92 of the Required Level of Own Funds (CRR) Part, to the extent and subject to any modifications set out in the permission.

2.10 An *SDDT* or *SDDT consolidation entity* that has been granted the permission referred to in 2.9(1) must comply with the requirements set out in the second sub-paragraph of Article 352(1) of the Market Risk: Simplified Standardised Approach (CRR) Part.

2.11 An *SDDT* or *SDDT consolidation entity* that has been granted the permission referred to in 2.9(2) must comply with the requirements set out in the first sub-paragraph of Article 325(9) of the Market Risk: General Provisions (CRR) Part.

…

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**Annex X**

**Amendments to the Securitisation (CRR) Part**

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

…

**3 SECURITISATION (CRR) PART**

…

**SECTION 2 RECOGNITION OF SIGNIFICANT RISK TRANSFER**

**Article 244 TRADITIONAL SECURITISATION**

1. The *originator* institution of a *traditional securitisation* may exclude underlying exposures from its calculation of risk-weighted exposure amounts and, where relevant, expected loss amounts if either of the following conditions is fulfilled:

   (a) significant credit risk associated with the underlying exposures has been transferred to third parties;

   (b) the *originator* institution, if it is not an *SDDT or an SDDT consolidation entity*, applies a 1250% risk weight to all *securitisation positions* or deducts these *securitisation positions* from Common Equity Tier 1 items in accordance with Article 36(1)(k) of the Own Funds (CRR) Part or, if it is an *SDDT or an SDDT consolidation entity*, applies the deduction from Common Equity Tier 1 as determined in accordance with Article 36(1)(k) and Article 45A of the Own Funds (CRR) Part.

…

**Article 245 SYNTHETIC SECURITISATION**

1. The *originator* institution of a *synthetic securitisation* may calculate risk-weighted exposure amounts, and, where relevant, expected loss amounts with respect to the underlying exposures in accordance with Articles 251 and 252, where one of the following conditions is met:

   (a) significant credit risk has been transferred to third parties either through funded or unfunded credit protection;

   (b) the *originator* institution, if it is not an *SDDT or an SDDT consolidation entity*, applies a 1250% risk weight to all *securitisation positions* that it retains in the *securitisation* or deducts these *securitisation* positions from Common Equity Tier 1 items in accordance with Article 36(1)(k) of the Own Funds (CRR) Part or, if it is an *SDDT or an SDDT consolidation entity*, applies the deduction from Common Equity Tier 1 items as determined in accordance with Article 36(1)(k) and Article 45A of the Own Funds (CRR) Part;

…

**Article 253 REDUCTION IN RISK-WEIGHTED EXPOSURE AMOUNTS**

1. For an institution that is not an *SDDT or an SDDT consolidation entity*, ~~W~~where a *securitisation position* is assigned a 1250% risk weight under Articles 247 to 270A, an institution may deduct the exposure value of such position from Common Equity Tier 1 capital in accordance with Article 36(1)(k) of the Own Funds (CRR) Part as an alternative to including the position in their

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calculation of risk-weighted exposure amounts. For that purpose, the calculation of the exposure value may reflect eligible funded credit protection in accordance with Article 249.

2. Where an institution that is not an *SDDT or an SDDT consolidation entity* makes use of the alternative set out in paragraph 1, it may subtract the amount deducted in accordance with Article 36(1)(k) of the Own Funds (CRR) Part from the amount specified in Article 268 as maximum capital requirement that would be calculated in respect of the underlying exposures as if they had not been securitised.

3. Where an institution is an *SDDT* or an *SDDT consolidation entity*, and a *securitisation position* is assigned a 1250% risk weight under Articles 247 to 270A, the institution must apply the deduction from Common Equity Tier 1 items as determined in accordance with Article 36(1)(k) and Article 45A of the Own Funds (CRR) Part. For that purpose, the calculation of the exposure value may reflect eligible funded credit protection in accordance with Article 249.

4. Where an institution is an *SDDT* or an *SDDT consolidation entity*, and a deduction is made pursuant to paragraph 3, the institution may subtract from the amount deducted the amount specified in Article 268 as maximum capital requirement that would be calculated in respect of the underlying exposures as if they had not been securitised.

…

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## Annex Y

## Amendments to the Settlement Risk (CRR) Part

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

…

### 3 OWN FUNDS REQUIREMENTS FOR SETTLEMENT RISK (PART THREE, TITLE V, CRR)

…

### Article 379 FREE DELIVERIES

…

**Table 2 Capital treatment for free deliveries**

| Column 1 | Column 2 | Column 3 | Column 4 |
|---|---|---|---|
| Transaction Type | Up to first contractual payment or delivery leg | From first contractual payment or delivery leg up to four days after second contractual payment or delivery leg | From five *business days* post second contractual payment or delivery leg until extinction of the transaction |
| Free delivery | No capital charge | Treat as an exposure | For an institution that is not an *SDDT or SDDT consolidation entity*, ~~T~~treat as an exposure risk weighted at 1250%.<br>For an institution that is an *SDDT or SDDT consolidation entity*, deduct from Common Equity Tier 1 items pursuant to Article 36(1)(k) and Article 45A of the Own Funds (CRR) Part. |

…

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## Annex Z

## Amendments to the Trading Book (CRR) Part

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

…

### 3 TRADING BOOK (PART THREE TITLE I CHAPTER 1, AND ARTICLE 94, CRR)

### Article 94 DEROGATION FOR SMALL TRADING BOOK

1. By way of derogation from point (b) of Article 92(3), institutions that are not *SDDTs* or *SDDT consolidation entities* may calculate the own funds requirement for their trading book business in accordance with paragraph 2 of this Article, provided that the size of the institutions' on- and off-balance-sheet trading book business is equal to or less than both of the following thresholds on the basis of an assessment carried out on a monthly basis using the data as of the last day of the month:

   (a) 5% of the institution's total assets;

   (b) GBP 44 million.

2. Where both conditions set out in points (a) and (b) of paragraph 1 are met, institutions that are not *SDDTs* or *SDDT consolidation entities* may calculate the own funds requirement for their trading book business as follows:

   (a) for the contracts listed in point 1 of ~~Annex II of the *CRR*~~Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, contracts relating to equities which are referred to in point 3 of that Annex and credit derivatives, institutions may exempt those positions from the own funds requirement referred to in point (b) of Article 92(3);

   (b) for trading book positions other than those referred to in point (a) of this paragraph, institutions may replace the own funds requirement referred to in point (b) of Article 92(3) with the requirement calculated in accordance with point (a) of Article 92(3).

2A. Institutions that are *SDDTs* or *SDDT consolidation entities* must calculate the own funds requirement for their trading book business as follows:

   (a) for the contracts listed in point 1 of Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, contracts relating to equities which are referred to in point 3 of that Annex and credit derivatives, institutions must exempt those positions from the own funds requirement referred to in point (b) of Article 92(3) of the Required Level of Own Funds (CRR) Part;

   (b) for trading book positions other than those referred to in point (a) of this paragraph, institutions must replace the own funds requirement referred to in point (b) of Article 92(3) of the Required Level of Own Funds (CRR) Part with the requirement calculated in accordance with point (a) of Article 92(3) of that Part.

…

4. Where both conditions set out in points (a) and (b) of paragraph 1 of this Article are met, or where an institution is an *SDDT* or an *SDDT consolidation entity*, irrespective of the obligations set out in provisions implementing Articles 74 and 83 of Directive 2013/36/EU, Article 102(3) and Articles 103 of this Chapter 3 of the Trading Book (CRR) Part of the *PRA* Rulebook shall not apply to an institution.

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5. Institutions that are not *SDDTs* or *SDDT consolidation entities* shall notify the competent authorities when they calculate, or cease to calculate, the own funds requirements of their trading-book business in accordance with paragraph 2.

6. An institution that is not an *SDDT* or an *SDDT consolidation entity* that no longer meets one or more of the conditions set out in paragraph 1 shall immediately notify the competent authority thereof.

7. An institution that is not an *SDDT* or an *SDDT consolidation entity* shall cease to calculate the own funds requirements of its trading book business in accordance with paragraph 2 within three months of one of the following occurring:

   (a) the institution does not meet the conditions set out in point (a) or (b) of paragraph 1 for three consecutive months;

   (b) the institution does not meet the conditions set out in point (a) or (b) of paragraph 1 during more than 6 out of the last 12 months.

8. Where an institution that is not an *SDDT* or an *SDDT consolidation entity* has ceased to calculate the own funds requirements of its trading book business in accordance with this Article, it shall only be permitted to calculate the own funds requirements of its trading book business in accordance with this Article where it demonstrates to the competent authority that all the conditions set out in paragraph 1 have been met for an uninterrupted full-year period.

[Note: This is a *permission* under section 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

9. Institutions shall not enter into, buy or sell a trading book position for the sole purpose of complying with any of the conditions set out in paragraph 1 during the monthly assessment.

10. Institutions that are *SDDTs* or *SDDT consolidation entities* shall not enter into, buy or sell a trading book position for the sole purpose of satisfying the criteria in SDDT Regime – General Application 2.1(3).

[Note: Paragraphs 1 to 9 of t~~T~~his rule corresponds to Article 94 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

…

# PRA RULEBOOK: NON-CRR FIRMS: CREDIT UNIONS INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers); and
(3) any other relevant rulemaking powers or related provisions.

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

## PRA Rulebook: Non-CRR Firms: Credit Unions Instrument 2026

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

## Commencement

D. This instrument comes into force on 20 February 2026.

## Citation

E. This instrument may be cited as the PRA Rulebook: Non-CRR Firms: Credit Unions Instrument 2026.

**By order of the Prudential Regulation Committee**
3 February 2026

**Annex**

**Amendments to the Credit Unions Part**

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

...

**6 INVESTMENT**

...

6.3 A *credit union* must not hold *investments*, save that it may hold an *investment* that is:

...

(4) a fixed-interest sterling-denominated security guaranteed by the government of the *UK*, with a *maturity* of up to ~~twelve~~12 months from the date on which that *investment* is made, provided that such guarantee is unconditional in respect of the payment of both principal and interest on the security; ~~or~~

(5) described in 6.4, where the *credit union* meets the conditions set out therein.; or

(6) in an entity in order for it to provide ancillary services, including trade association services, exclusively to *credit unions* and their *members* and other *mutual societies* with a *Part 4A permission* and their members, where:

(a) the *investment* is for the benefit of the *credit union* and its *members*; and

(b) the ancillary services do not form part of the *regulated activities* of the *credit union*.

...

EXTERNALLY DEFINED GLOSSARY TERM

| Term | Definition source |
|---|---|
| mutual society | Section 138K(5) of the Financial Services and Markets Act 2000 |

# PRA RULEBOOK: CRR FIRMS: RECOGNISED EXCHANGES INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers);
(3) section 144H(1) (Relationship with CRR);
(4) section 192XA (Rules applying to holding companies); and
(5) any other relevant rulemaking powers or related provisions.

B. The PRA makes the instrument in the exercise of Article 4(1)(72)(c) of the assimilated Capital Requirements Regulation No 575/2013 in respect of matters falling within that paragraph.

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

## PRA Rulebook: CRR Firms: Recognised Exchanges Instrument 2026

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

## Notes

E. In the Annex to this instrument, the notes (indicated by "[Note:]") are included for the convenience of readers but do not form part of the legislative text.

## Commencement

F. This instrument comes into force on 1 July 2026.

## Citation

G. This instrument may be cited as the PRA Rulebook: CRR Firms: Recognised Exchanges Instrument 2026.

## By order of the Prudential Regulation Committee

24 February 2026

**Annex**

**Recognised Exchanges (CRR) Part**

In this Annex the text is all new and is not underlined.

**Part**

# RECOGNISED EXCHANGES (CRR)

**Chapter Content**

1. **APPLICATION**
2. **CONDITIONS FOR IDENTIFYING RECOGNISED EXCHANGES OR ASSETS TRADED ON SUCH EXCHANGES**

## 1 APPLICATION

1.1 This Part applies to:

(1) a *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

## 2 CONDITIONS FOR IDENTIFYING RECOGNISED EXCHANGES OR ASSETS TRADED ON SUCH EXCHANGES

2.1 A recognised exchange includes an investment exchange (other than a UK regulated market or a recognised overseas investment exchange) where:

(1) the market structure condition; and

(2) in respect of the relevant asset that is traded or listed on that exchange, the asset liquidity condition;

are both satisfied.

(a) the market structure condition is that the investment exchange:

(i) brings together or facilitates the bringing together of parties for the purpose of buying and selling interests in financial instruments;

(ii) is authorised (or otherwise recognised) and subject to ongoing supervision by a regulator or other public authority;

(iii) functions regularly on every *business day* in the relevant jurisdiction;

(iv) functions based on non-discretionary rules defining:

(1) the conditions for the operation of the investment exchange;

(2) access to or membership of the investment exchange;

(3) admission of financial instruments to trading; and

(4) suspension or removal of financial instruments from trading;

(v) has a robust clearing and settlement mechanism, including operational robustness, consistent with international standards; and

(vi) applies margining practices consistent with international standards to contracts listed in Annex II of *CRR*;

(b) the asset liquidity condition is:

(i) the value of the relevant asset that is traded or listed on the investment exchange must be capable of being determined on the basis of widely disseminated and easily available market prices, and in the absence of market-based prices, the value of the relevant asset must be capable of being determined on the basis of an easy-to-calculate formula that uses publicly available inputs and is not significantly dependent upon strong assumptions; and

(ii) the investment exchange provides for an active and sizable market for outright sales of the relevant asset, taking into account:

(1) historical evidence of market breadth and depth as proven by low bid-ask spreads, high trading volume and a large and diverse number of market participants; and

(2) the presence of a robust market infrastructure.

[Note: This rule specifies conditions for the purpose of paragraph (c) of Article 4(1)(72) of *CRR*]

# PRA RULEBOOK: CRR FIRMS: (CRR) AMENDMENT INSTRUMENT 2026

**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);
(2) section 137T (General supplementary powers);
(3) section 144H(1) (Relationship with CRR);
(4) section 192XA (Rules applying to holding companies); and
(5) any other relevant rulemaking powers or related provisions.

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

**PRA Rulebook: CRR Firms: (CRR) Amendment Instrument 2026**

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Counterparty Credit Risk (CRR) | B |
| Credit Risk Mitigation (CRR) | C |

**Commencement**

D. This instrument comes into force on 1 January 2027.

**Citation**

E. This instrument may be cited as the PRA Rulebook: CRR Firms: (CRR) Amendment Instrument 2026.

**By order of the Prudential Regulation Committee**

24 February 2026

**Annex A**

**Amendments to the Glossary Part**

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

…

*higher risk equity exposure*

means an *equity exposure* that is:

(1) not listed on a recognised exchange or on an investment exchange that satisfies the market structure condition as set out in 2.1(1) and 2.1(a) of the Recognised Exchanges (CRR) Part; and

(2) to an *undertaking* ('A') whose business has existed for a period of less than five years, beginning with:

(a) where the business was first established within A, the date A was first established;

(b) where the business was first established within a different *undertaking* ('B') and either:

(i) the risk profile and nature of the business did not substantially change as a result of the transfer of the business to A, the date B was first established; or

(ii) the risk profile or nature of the business substantially changed as a result of the transfer of the business to A, the date the business was transferred to A.

…

*main index*

means an equity index listed in Table 1 or a convertible bond index listed in Table 2:

**Table 1 Equity indices**

| **Index** | **Country/Area** |
|---|---|
| STOXX Asia/Pacific 600 | Asia/Pacific |
| S&P/ASX 100 | Australia |
| ATX Prime (includes the ATX) | Austria |
| BEL 20 | Belgium |
| IBOVESPA | Brazil |
| S&P/TSX 60 | Canada |
| CETOP20 | Central Europe |
| Hang Seng China (Hong Kong-listed) 100 Index | China |
| NYSE ARCA China Index | China |

| | |
|---|---|
| CSI 300 Index | China |
| PX Index | Czech Republic |
| OMX Copenhagen 20 | Denmark |
| FTSE RAFI Emerging Index | Emerging Markets |
| MSCI EM 50 | Emerging Markets |
| FTSE All-World Europe | Europe |
| STOXX Europe 600 | Europe |
| MSCI AC Europe and Middle East | Europe and Middle East |
| OMX Helsinki 25 | Finland |
| SBF 120 (includes the CAC 40, CAC Next 20 and CAC Mid 60) | France |
| S&P France BMI | France |
| HDAX (includes the DAX and MDAX) | Germany |
| FTSE All-World Index | Global |
| MSCI ACWI Index | Global |
| FTSE/Athex Large Cap | Greece |
| Hang Seng | Hong Kong |
| Hang Seng Composite Index | Hong Kong |
| Nifty 100 | India |
| BSE 100 | India |
| ISEQ 20 | Ireland |
| FTSE MIB | Italy |
| Nikkei Stock Index 300 | Japan |
| Topix Mid400 | Japan |
| S&P Latin America 40 | Latin America |
| FTSE Bursa Malaysia KLCI | Malaysia |
| S&P/BMV IPC | Mexico |
| AEX-Index | Netherlands |
| S&P/NZX 10 Index | New Zealand |

| | |
|---|---|
| OBX | Norway |
| WIG20 | Poland |
| PSI | Portugal |
| Straits Times Index | Singapore |
| FTSE JSE Top 40 | South Africa |
| FTSE/JSE Industrial 25 Index | South Africa |
| KOSPI 100 | South Korea |
| IBEX 35 | Spain |
| OMX Stockholm 60 Index | Sweden |
| OMX Stockholm Benchmark Index | Sweden |
| SMI Expanded | Switzerland |
| FTSE TWSE Taiwan 50 Index | Taiwan |
| FTSE Nasdaq Dubai UAE 20 Index | UAE |
| FTSE 350 (includes the FTSE 100) | *UK* |
| Nasdaq-100 | USA |
| Russell 3000 Index | USA |
| S&P 500 | USA |

**Table 2 Convertible bond indices**

| | |
|---|---|
| Exane ECI-Europe | Europe |
| Jefferies JACI Global | Global |
| Thomson Reuters Global Convertible | Global |

[Note: This rule corresponds to Annex 1 Part 2 (PRA) of Commission Implementing Regulation 2016/1646 as it applied immediately before its revocation by the *Treasury*]

...

**Annex B**

**Amendments to the Counterparty Credit Risk (CRR) Part**

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

…

**3 COUNTERPARTY CREDIT RISK (PART THREE, TITLE TWO, CHAPTER SIX CRR)**

…

**SECTION 8 ITEMS IN THE TRADING BOOK**

**Article 299 ITEMS IN THE TRADING BOOK**

…

2. When calculating risk-weighted exposure amounts for counterparty risk of items in the trading book, institutions shall comply with the following principles:

…

(e) for the purposes of calculating volatility adjustments where financial instruments or commodities which are not eligible under the Credit Risk Mitigation (CRR) Part are lent, sold or provided, or borrowed, purchased or received by way of collateral or otherwise under such a transaction, and an institution is using the *Financial Collateral Comprehensive Method* in accordance with the Credit Risk Mitigation (CRR) Part, institutions shall treat such instruments and commodities in the same way as ~~non-main index~~ non-*main index* equities listed on a recognised exchange;

…

**Annex C**

**Amendments to the Credit Risk Mitigation (CRR) 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:

…

~~*main index*~~

~~means an index listed in Annex I to Commission Implementing Regulation (EU) 2016/1646 of 13 September 2016 laying down Implementing technical standards with regard to main indices and recognised exchanges in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.~~

…

This document is effective from 18 March 2027 and was published as part of PS7/26.
Please see: http://www.bankofengland.co.uk/prudential-regulation/publication/2026/march/operational-incident-and-third-party-reporting-policy-statement



# PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS & NON-SOLVENCY II FIRMS: NOTIFICATION OF THIRD-PARTY ARRANGEMENTS AND OPERATIONAL INCIDENT REPORTING INSTRUMENT 2026

## 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 instruments) of the Act.

## PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms & Non-Solvency II Firms: Notification of Third-Party Arrangements and Operational Incident Reporting Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Insurance – Operational Resilience | B |
| Notifications | C |
| Regulatory Reporting | D |

Effective from 18 March 2027

## Templates, Annexes and Instruction documents

D. The rules in this Instrument include any template, Annex or instruction document referred to in the rules. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

## Commencement

E. This instrument comes into force on 18 March 2027.

## Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms & Non-Solvency II Firms: Notification of Third-Party Arrangements and Operational Incident Reporting Instrument 2026.

**By order of the Prudential Regulation Committee**
24 February 2026

This document is effective from 18 March 2027 and was published as part of PS7/26.
Please see: http://www.bankofengland.co.uk/prudential-regulation/publication/2026/march/operational-incident-and-third-party-reporting-policy-statement



**Annex A**

**Amendments to the Glossary Part**

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

…

*material third-party arrangement*

means a *third-party arrangement* which is of such importance that a disruption or failure in the performance of the product or service provided to the *firm* could:

(1) pose a risk to:

(a) the *firm's* safety and soundness;

(b) in the case of an *insurer*, an appropriate degree of protection for those who are or may become the *firm's policyholders*; or

(c) where the *firm* is, or is controlled by, an *O-SII*, or is a *relevant Solvency II firm*, the stability of the *UK* financial system; or

(2) cast serious doubt upon the *firm's* ability to satisfy the *threshold conditions*, the *Fundamental Rules*, the Operational Resilience Part, Insurance – Operational Resilience Part or the Operational Continuity Part.

…

*relevant Solvency II firm*

means, in the Insurance - Operational Resilience Part, Notifications Part and the Regulatory Reporting Part, a *firm* which fulfils any of the following conditions:

(1) the *firm's* annual gross written premium income exceeds £15 billion; or

(2) the total of the *firm's technical provisions*, gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs*, as referred to in Technical Provisions 2.1 to 2.3 exceeds £75 billion,

determined on the basis of the average annual amount assessed across a rolling period of three years, calculated by reference to the *firm's accounting reference date*; and where the *firm* has been in existence for less than three years, the assessment will be made on the basis of the annual average amount for the period during which the *firm* has existed (calculated by reference to the *firm's accounting reference date*).

…

*third-party arrangement*

an arrangement of any form between a *firm* and a *person* who provides a product or service to the *firm*, whether or not the product or service is:

(1) one which would otherwise be provided by the *firm* itself;

(2) provided directly or by a sub-contractor; or

(3) provided by a *person* within the same *group* as the *firm*.

…

Effective from 18 March 2027

This document is effective from 18 March 2027 and was published as part of PS7/26.
Please see: http://www.bankofengland.co.uk/prudential-regulation/publication/2026/march/operational-incident-and-third-party-reporting-policy-statement



**Annex B**

**Amendments to the Insurance – Operational Resilience Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.2 …

~~*relevant Solvency II firm*~~

~~means a *firm* which fulfils any of the following conditions:~~

~~(1) the *firm's* annual gross written premium income exceeds £15 billion; or~~

~~(2) the total of the *firm's technical provisions*, gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs*, as referred to in Technical Provisions 2.1 to 2.3 exceeds £75 billion,~~

~~determined on the basis of the average annual amount assessed across a rolling period of three years, calculated by reference to the *firm's accounting reference date*; and where the *firm* has been in existence for less than three years, the assessment will be made on the basis of the annual average amount for the period during which the *firm* has existed (calculated by reference to the *firm's accounting reference date*).~~

…

Effective from 18 March 2027

This document is effective from 18 March 2027 and was published as part of PS7/26.
Please see: http://www.bankofengland.co.uk/prudential-regulation/publication/2026/march/operational-incident-and-third-party-reporting-policy-statement



**Annex C**

**Amendments to the Notifications 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:

…

*permitted supplier*

has the meaning given in Ring-fenced Bodies 1.2.

…

## 2 GENERAL NOTIFICATION REQUIREMENTS

…

2.3 A *firm* must give the *PRA* notice of:

(1) any proposed restructuring, reorganisation or business expansion which could have a significant impact on the *firm's* risk profile or resources, including, but not limited to:

…

(e) ~~entering into, or significantly changing, a *material outsourcing* arrangement~~[deleted];

…

…

2.3B

(1) A *firm* (except in the case of a *credit union* that has *total assets* of less than £50 million or a *non-directive firm*) must give the *PRA* notice when entering into, or significantly changing, a *material third-party arrangement*.

(2) A *firm* is not required to give the *PRA* notice when entering into, or significantly changing, a *material third-party arrangement* if the following conditions are met:

(a) the product or service will be provided by a *person* within the same *group* as the *firm*; and

(b) the *person* providing the product or service has not entered into an arrangement with a *person* outside the *group* for the provision of that product or service to the *firm*.

(3) Where the *firm* is a *ring-fenced body*, (2) applies only if the *person* providing the product or service is a *permitted supplier*.

2.3C A *firm* must give the notice required in 2.3B by submitting Form M by electronic means.

2.3D Form M may be found here.

…

Effective from 18 March 2027

This document is effective from 18 March 2027 and was published as part of PS7/26.
Please see: http://www.bankofengland.co.uk/prudential-regulation/publication/2026/march/operational-incident-and-third-party-reporting-policy-statement



**Annex D**

**Amendments to the Regulatory Reporting 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:

…

*operational incident*

means either a single event or a series of linked events which disrupts the *firm's* operations such that it:

(1) disrupts the delivery of a service to an end user external to the *firm*; or

(2) impacts the availability, authenticity, integrity or confidentiality of information or data relating or belonging to such an end user.

*permitted supplier*

has the meaning given in Ring-fenced Bodies 1.2.

…

## 25 OPERATIONAL INCIDENT REPORTING

~~[Provision left blank]~~

25.1 This Chapter applies to:

(1) a *CRR firm*;

(2) a *UK Solvency II firm*;

(3) in accordance with Insurance General Application 3, the *Society*, as modified by Chapter 27; and

(4) in accordance with Insurance General Application 3, *managing agents*, as modified by Chapter 27.

25.2

(1) A *firm* must submit a report to the *PRA* in accordance with the Reporting Fields Document as soon as is practicable after the occurrence of an *operational incident* which could pose a risk to:

(a) where the *firm* is, or is controlled by, an *O-SII* or is a *relevant Solvency II firm*, the stability of the *UK* financial system;

(b) the *firm's* safety and soundness; or

(c) in the case of an *insurer*, an appropriate degree of protection for those who are or may become the *firm's policyholders*.

(2) For this initial phase of the report, a *firm* must submit to the *PRA*, so far as it is aware, the information specified in the Reporting Fields Document.

Effective from 18 March 2027

This document is effective from 18 March 2027 and was published as part of PS7/26.
Please see: http://www.bankofengland.co.uk/prudential-regulation/publication/2026/march/operational-incident-and-third-party-reporting-policy-statement



25.3 For the intermediate phase of the report, a *firm* must, so far as it is aware, submit to the *PRA* the additional information specified in the Reporting Fields Document, as soon as is practicable after any significant change in circumstances from that described in a report submitted under 25.2 or this rule (including the *operational incident* reported under 25.2 being resolved).

25.4 For the final phase of the report, a *firm* must submit to the *PRA* the additional information specified in the Reporting Fields Document:

(1) within 30 *working days*, or

(2) where this is impracticable, as soon as is practicable but in any event within 60 *working days*

of the *operational incident* reported under 25.2 being resolved.

25.5 A *firm* must submit the information required under this Chapter to the *PRA* by electronic means.

25.6 The Reporting Fields Document may be found here.

## 26 MATERIAL THIRD-PARTY ARRANGEMENTS REGISTER

~~[Provision left blank]~~

26.1

(1) A *firm* (except in the case of a *credit union* that has *total assets* of less than £50 million, a *third country firm* or a *non-directive firm*) must:

(a) maintain a register of information relating to its *material third-party arrangements*; and

(b) submit such information as specified in the Material Third-Party Arrangements Register annually to the *PRA* by electronic means.

(2) A *firm* is not required to submit the information in (1)(b) if the following conditions are met:

(a) the product or service will be provided by a *person* within the same *group* as the *firm*; and

(b) the *person* providing the product or service has not entered into an arrangement with a *person* outside the *group* for the provision of that product or service to the *firm*.

(3) Where the *firm* is a *ring-fenced body*, (2) applies only if the *person* providing the product or service is a *permitted supplier*.

26.2 The Material Third-Party Arrangements Register may be found here.

## 27 LLOYD'S

~~[Provision left blank]~~

27.1 Chapters 25 and 26 apply to the *Society* and *managing agents* separately.

…

Effective from 18 March 2027

# PRA RULEBOOK: CRR FIRMS: NON-AUTHORISED PERSONS: RECOVERY PLANS (AMENDMENT) INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers);
(3) section 192J (Rules requiring the provision of information by parent undertakings); and
(4) section 192JB (Rules requiring parent undertakings to facilitate resolution).

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

## PRA Rulebook: CRR Firms: Non-authorised Persons: Recovery Plans (Amendment) Instrument 2026

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

## Commencement

D. This instrument comes into force on 1 April 2026.

## Citation

E. This instrument may be cited as the PRA Rulebook: CRR Firms: Non-authorised Persons: Recovery Plans (Amendment) Instrument 2026.

## By order of the Prudential Regulation Committee

17 March 2026

**Annex**

**Amendments to the Recovery Plans Part**

In this Annex, new text is underlined.

…

**4 REVIEW OF RECOVERY PLAN AND GROUP RECOVERY PLAN**

4.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or *group recovery plan* under 2 or 3.

4.2 A *BRRD undertaking* that is a *firm* must:

(1) review its *recovery plan* or *group recovery plan* at least once every two years in the case of an *SDDT* and at least once a year in the case of every other *firm*; and

…

[Note: Art. 5(2) of the *BRRD*]

4.3 A *BRRD undertaking* that is a *qualifying parent undertaking* must make arrangements to ensure that:

(1) its *group recovery plan* is reviewed at least once every two years if it is an *SDDT consolidation entity* and otherwise at least once a year; and

…

[Note: Art. 5(2) of the *BRRD*]

…

# PRA RULEBOOK: CRR FIRMS: RESOLUTION ASSESSMENT (AMENDMENT) INSTRUMENT 2026

## 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.

## PRA Rulebook: CRR Firms: Resolution Assessment (Amendment) Instrument 2026

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

## Commencement

D. This instrument comes into force on 1 April 2026.

## Citation

E. This instrument may be cited as the PRA Rulebook: CRR Firms: Resolution Assessment (Amendment) Instrument 2026.

## By order of the Prudential Regulation Committee

17 March 2026

**Annex**

**Amendments to the Resolution Assessment Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *firm* that is a *UK bank* or *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £~~50~~100 billion on:

(1) an individual basis;

(2) if the *firm* is a *UK parent institution*, the basis of its *consolidated situation*; or

(3) if the *firm* is controlled by a *UK parent financial holding company* or by a *UK parent mixed financial holding company* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis*, the basis of the *consolidated situation* of that holding company.

1.2 In this Part, the following definitions shall apply:

*deposit*

has the meaning given in the Table of Part 2 of Annex II to Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector as it had effect in *EU* law immediately before *IP completion day*~~30, Part 1, Annex V (Reporting on financial information) of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council~~.

*retail deposit*

means *deposits* from "~~"~~households"~~"~~ as defined in paragraph 42(f) of Part 1 of Annex V to the Reporting (CRR) Part~~35(f), Part 1, Annex V (Reporting on financial information) of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council~~.

…

This document is effective from 1 January 2027 to accompany PS11/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/march/disclosure-policy-statement



# PRA RULEBOOK: CRR FIRMS: DISCLOSURE (CRR) INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers); and
(3) section 192XA (Rules applying to holding companies).

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

## PRA Rulebook: CRR Firms: Disclosure (CRR) Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Disclosure (CRR) | A |
| Reporting (CRR) | B |

## Templates, Annexes and instruction documents

D. The rules in this instrument include any template, Annex or instruction document referred to in the rules. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

## Notes

E. In the Annexes to this instrument, the "notes" (indicated by "Note: ]") are included for the convenience of readers but do not form part of the legislative text.

## Commencement

F. This instrument comes into force on 1 January 2027.

## Citation

G. This instrument may be cited as the PRA Rulebook: CRR Firms: Disclosure (CRR) Instrument 2026.

**By order of the Prudential Regulation Committee**
17 March 2026

Effective from 1 January 2027

This document is effective from 1 January 2027 to accompany PS11/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/march/disclosure-policy-statement



**Annex A**

**Amendments to the Disclosure (CRR) Part**

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

## 1 APPLICATIONS AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

*eligible liabilities*

has the meaning given in section 3A(4A) of the Banking Act 2009.

*material subsidiary*

has the same meaning as in paragraph 7.3 of the *Bank of England's* Statement of Policy entitled 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)' published by the *Bank of England* on 15 July 2025.

*MREL firm*

means an institution that is required pursuant to a direction by the *Bank of England* to maintain or issue own funds and *eligible liabilities* in excess of its own funds requirements (as defined in section 3(1) of the Banking Act 2009).

…

*other institution*

means an institution that is not subject to Articles 433a or 433b.

…

*total risk exposure amount*

means the total risk exposure amount of a *firm* calculated in accordance with Article 92 of Chapter 4 of the Required Level of Own Funds (CRR) Part.

Effective from 1 January 2027

This document is effective from 1 January 2027 to accompany PS11/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/march/disclosure-policy-statement



## 2 LEVEL OF APPLICATION

### Application of requirements on an individual basis

2.1 An institution that is not a parent undertaking or a subsidiary or included in the consolidation pursuant to Article 18 of the Groups Part must comply with this Part on an *individual basis* or as otherwise set out in this Part (including in any applicable template or instructions).

~~[Note: rule 2.1 sets out an equivalent provision to Article 6(1) and the first subparagraph of Article 6(3) of the *CRR* that apply to this Part]~~

2.2 ~~The institutions referred to in Article 6(1a) of the *CRR* and institutions that are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution~~An institution that is an *MREL firm* and that is:

(a) identified as a resolution entity, is a *G-SII* or part of a *G-SII* and does not have subsidiaries; or

(b) a large institution that is identified as a resolution entity, is an *O-SII* and does not have subsidiaries,

shall comply with points (a) and (b) of Article 437(3), Article 437a and point (h) of Article 447 on an *individual basis* or as otherwise set out in this Part (including in any applicable template or instructions).

An institution that is an *MREL firm* and that is a *material subsidiary* of a *non-UK G-SII* and is not a resolution entity or subsidiary of a *UK parent institution* shall comply with points (aa), (b) and (d) of Article 437a on an *individual basis* or as otherwise set out in this Part (including in any applicable template or instructions).

Any other large institution or *other institution*, in each case, that is an *MREL firm* and is identified as a resolution entity and does not have subsidiaries shall comply with points (a) and (b) of Article 437(3) and point (h) of Article 447 on an *individual basis*.

~~[Note: rule 2.2 sets out an equivalent provision to the second subparagraph of Article 6(3) of the *CRR* that applies to this Part]~~

2.3 Large subsidiaries of ~~UK parent institutions~~*UK parent institutions*, UK parent financial holding companies or UK parent mixed financial holding companies and large subsidiaries of parent undertakings established in a third country shall disclose the information specified in points (a) to (f) of Article 437(1) and Articles ~~437,~~ 438, 440, 442, 450, 451, 451a and 453 on an *individual basis* or on a *sub-consolidated basis*.

[Note: rule 2.3 corresponds to the second subparagraph of Article 13(1) of the *CRR* as it applied immediately before revocation by the *Treasury* ~~and sets out an equivalent provision to the second subparagraph of Article 13(3) of the *CRR* that applies to this Part~~]

### Application of requirements on a consolidated basis

2.4 A ~~UK parent institution~~*UK parent institution* must comply with this Part on a *consolidated basis* or as otherwise set out in this Part (including in any applicable template or instructions).

This document is effective from 1 January 2027 to accompany PS11/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/march/disclosure-policy-statement



[Note: rule 2.4 corresponds to the first subparagraph of Article 13(1) of the *CRR* as it applied immediately before revocation by the *Treasury*]

…

2.6 An institution that is an *MREL firm* and that is:

(a) identified as a resolution entity that is a ~~G-SII~~*G-SII* or ~~that is~~ part of a ~~G-SII~~*G-SII*; or

(b) a large institution that is identified as a resolution entity and is an *O-SII*,

shall comply with points (a) and (b) of Article 437(3), Article 437a and point (h) of Article 447 on the basis of the *consolidated situation* of its resolution group or as otherwise set out in this Part (including in any applicable template or instructions).

Any other large institution or *other institution*, in each case, that is an *MREL firm* and is identified as a resolution entity shall comply with points (a) and (b) of Article 437(3) and point (h) of Article 447 on the basis of the *consolidated situation* of its resolution group.

[Note: rule 2.6 corresponds to Article 13(2) of the *CRR* as it applied immediately before revocation by the *Treasury*]

…

## 4 DISCLOSURE (PART EIGHT CRR)

### TITLE I GENERAL PRINCIPLES

…

### Article 432 NON-MATERIAL, PROPRIETARY OR CONFIDENTIAL INFORMATION

1. With the exception of the disclosures laid down in point (c) of Article 435(2), points (a) to (f) of Article 437(1) and in Article~~s 437 and~~ 450, institutions may omit one or more of the disclosures listed in Titles II and III where the information provided by those disclosures is not regarded as material.

   Information in disclosures shall be regarded as material where its omission or misstatement could change or influence the assessment or decision of a user of that information relying on it for the purpose of making economic decisions.

2. Institutions may also omit one or more items of information referred to in Titles II and III where those items include information that is regarded as proprietary or confidential in accordance with this paragraph, except for the disclosures laid down in points (a) to (f) of Article 437(1) and Article~~s 437 and~~ 450.

   Information shall be regarded as proprietary to institutions where disclosing it publicly would undermine their competitive position. Proprietary information may include information on products or systems that would render the investments of institutions therein less valuable, if shared with competitors.

   Information shall be regarded as confidential where the institutions are obliged by customers or other counterparty relationships to keep that information confidential.

   …

Effective from 1 January 2027

This document is effective from 1 January 2027 to accompany PS11/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/march/disclosure-policy-statement



**Article 433a DISCLOSURES BY LARGE INSTITUTIONS**

1. Subject to paragraphs 2, 3 and 3A, ~~L~~large institutions shall disclose the information outlined below with the following frequency:

…

(b) on a semi-annual basis the information referred to in:

(i) point (a) of Article 437(1);

…

(c) on a quarterly basis the information referred to in:

(i) points (d) and (h) of Article 438;

(ii) the key metrics referred to in points (a) to (g) of Article 447;

(iii) Article 451a(2);

…

2. ~~By way of derogation from paragraph 1, l~~Large institutions other than ~~G-SIIs~~*G-SIIs* that are *non-listed institutions* shall disclose the information outlined below with the following frequency:

(a) all the information required under this Part on an annual basis;

…

3. Large institutions that are *MREL firms* and that are:

(a) ~~subject to Article 92a,~~ identified as resolution entities and are *G-SIIs* or part of a *G-SII*; or

(b) identified as resolution entities and are *O-SIIs*,

~~are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution,~~ shall disclose the information required under points (a) and (b) of Article 437(3) and Article 437a on a semi-annual basis~~, except for~~ and the key metrics referred to in point (h) of Article 447~~, which are to be disclosed~~ on a quarterly basis.

[Note: Paragraph 3 of this rule corresponds to Article 433a(3) of the *CRR* as it applied immediately before revocation by the *Treasury*.~~.~~]

3A. Large institutions that are *MREL firms* and that are *material subsidiaries* of *non-UK G-SIIs* and are not resolution entities or subsidiaries of a *UK parent institution* shall disclose the information in points (aa), (b) and (d) of Article 437a on a semi-annual basis.

…

**Article 433c DISCLOSURES BY OTHER INSTITUTIONS**

1. ~~Institutions that are not subject to Article 433a or 433b~~*Other institutions* shall disclose the information outlined below with the following frequency:

(a) all the information required under this Part on an annual basis;

(b) on a semi-annual basis, the information referred to in:

…

(iii) the key metrics referred to in points (a) to (g) of Article 447;

…

2. By way of derogation from paragraph 1 of this Article, ~~other institutions~~*other institutions* that are *non-listed institutions* shall disclose the following information on an annual basis:

…

(c) point (a) of Article 437(1);

…

(e) the key metrics referred to in points (a) to (g) of Article 447;

…

**Article 434b TIMING AND MEANS OF DISCLOSURES UNDER ARTICLE 441**

1. By way of derogation from the second paragraph of Article 433, ~~G-SIIs~~*G-SIIs* shall disclose the information required under Article 441 within four ~~months~~*months* after the end of the period to which the information relates.

2. By way of derogation from Article 434(1), where a ~~G-SII~~*G-SII* relies on the derogation in paragraph 1, it may disclose the information required under Article 441 in a separate medium or location from the standalone document mentioned in Article 434(1).

3. If, in accordance with paragraphs 1 and 2, a ~~G-SII~~*G-SII* does not disclose the information required under Article 441 at the same time as, and in the same medium or location as, the other information required to be disclosed under Titles II and III, it shall include in the standalone document mentioned in Article 434(1) a statement specifying when and in what medium or location the information required under Article 441 will be disclosed.

…

**Article 437 DISCLOSURE OF OWN FUNDS**

~~Institutions shall disclose the following information regarding their own funds:~~

1. Institutions shall disclose the following information regarding their own funds:

…

(f) a comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in the *CRR*.

2. Paragraph 3 applies to institutions that are *MREL firms* and that are:

(a) identified as resolution entities and are *G-SIIs* or part of a *G-SII*;

(b) identified as resolution entities and are *O-SIIs*;

(c) large institutions; or

(d) *other institutions*.

Effective from 1 January 2027

3. Institutions referred to in paragraph 2 shall disclose the following information regarding their *eligible liabilities*:

(a) the main features of *eligible liabilities instruments*; and

(b) the total amount of each issuance of *eligible liabilities instruments* and the amount of those issuances that is included in *eligible liabilities items*.

[Note: This rule corresponds to Article 437 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

**Article 437a DISCLOSURE OF OWN FUNDS AND ELIGIBLE LIABILITIES**

Institutions that are *MREL firms* and that are:

(1) ~~subject to Article 92a~~identified as resolution entities and are *G-SIIs* or part of a *G-SII*;~~,~~ or

~~are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution,~~

(2) identified as resolution entities and are *O-SIIs,*

shall disclose the following information regarding their own funds and ~~eligible liabilities~~*eligible liabilities*:

(a) the composition of their own funds and ~~eligible liabilities~~*eligible liabilities*~~, their maturity and their main features~~;

(aa) the maturity of their own funds and *eligible liabilities*;

(b) the ranking of ~~eligible liabilities~~*eligible liabilities* in the creditor hierarchy;

(c) ~~the total amount of each issuance of eligible liabilities instruments referred to in Article 72b and the amount of those issuances that is included in eligible liabilities items within the limits specified in Article 72b(3) and (4);~~[deleted]

(d) the total amount of excluded liabilities as defined in section 48B(7A) of the Banking Act 2009~~referred to in Article 72a(2)~~.

Institutions that are *MREL firms* and that are *material subsidiaries* of *non-UK G-SIIs* and are not resolution entities or subsidiaries of *UK parent institutions* shall disclose the information in points (aa), (b) and (d) of this Article regarding their own funds and *eligible liabilities*.

[Note: This rule corresponds to Article 437a of the *CRR* as it applied immediately before revocation by the *Treasury*.]

…

**Article 441 DISCLOSURE OF INDICATORS OF GLOBAL SYSTEMIC IMPORTANCE**

~~G-SIIs~~*G-SIIs* shall disclose, on an annual basis, the information specified in Annex XXVI of the Reporting (CRR) Part, in accordance with the instructions in Annex XXVII of the Reporting (CRR) Part.

[Note: This rule corresponds to Article 441 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

Effective from 1 January 2027

…

**Article 447 DISCLOSURE OF KEY METRICS**

Institutions shall disclose the following key metrics in a tabular format:

…

(h) if they are institutions that are *MREL firms* and are:

(i) identified as resolution entities and are *G-SIIs* or part of a *G-SII*; or

(ii) identified as resolution entities and are large institutions or *other institutions*,

(1) their own funds and ~~eligible liabilities~~*eligible liabilities* ratios and their components, numerator and denominator, as calculated in accordance with ~~Article 92a or, in the case of institutions that are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution, in accordance with a~~ direction from the *Bank of England* under sections 3A(4) or 3A(4B) of the Banking Act 2009, and broken down at the level of each resolution group, where applicable;

(2) the requirement on the institution to maintain or issue a minimum amount of own funds expressed as a percentage of the *total risk exposure amount* or the *total exposure measure* (as applicable) excluding claims on *central banks*;

(3) the requirement on the institution pursuant to a direction by the *Bank of England* to maintain or issue a minimum amount of own funds and *eligible liabilities* expressed as a percentage of the *total risk exposure amount* or the *total exposure measure* (as applicable) excluding claims on *central banks*; and

(4) the requirement on the institution pursuant to a direction by the *Bank of England* to maintain or issue a minimum amount of own funds and *eligible liabilities*, together with the combined buffer as defined in the Capital Buffers Part, expressed as a percentage of the *total risk exposure amount* or the *total exposure measure* (as applicable) excluding claims on *central banks*.

[Note: With effect from 1 July 2024, paragraph (g) is disapplied for *SDDTs* and *SDDT consolidation entities* by Chapter 5 of the Liquidity (CRR) Part where certain conditions are met]

[Note: Paragraph (h) of this rule corresponds to Article 447(h) of the *CRR* as it applied immediately before revocation by the *Treasury*.]

…

**5 DISCLOSURE FORMATS AND INSTRUCTIONS**

…

**Article 2 DISCLOSURE OF KEY METRICS AND OVERVIEW OF RISK-WEIGHTED EXPOSURE AMOUNTS**

…

5. Institutions that are subject to point (h) of Article 447 shall make the disclosures required in point (h) of Article 447 of Annex XXXXI in accordance with Template UK KM2 and the relevant instructions set out in Annex XXXXII.

…

Effective from 1 January 2027

**Article 5 DISCLOSURE OF OWN FUNDS**

Institutions shall make the disclosures on own funds, required in Article 437 of the *CRR* as follows:

(a) For the disclosures required in points (a), (d), (e), and (f) of Article 437(1) of the *CRR*, in accordance with the Templates UK CC1 and UK CC2 of Annex VII and the relevant instructions set out in Annex VIII.

(b) For the disclosures required in points (b) and (c) of Article 437(1) and points (a) and (b) of Article 437(3) in accordance with the Template UK CCA of Annex VII and the relevant instructions set out in Annex VIII.

**Article 5a DISCLOSURE OF OWN FUNDS AND ELIGIBLE LIABILITIES**

1. Paragraph 2 applies to institutions that are *MREL firms* and that are:

(a) identified as resolution entities and are *G-SIIs* or part of a *G-SII*; or

(b) identified as resolution entities and are *O-SIIs*.

2. Institutions referred to in paragraph 1 shall make the disclosures on own funds and *eligible liabilities* required in Article 437a as follows:

(a) For the disclosures required in point (a) of Article 437a, in accordance with the Template UK MREL1 of Annex XXXXI and the relevant instructions set out in Annex XXXXII.

(b) For the disclosures required in points (aa), (b) and (d) of Article 437a in respect of *material subsidiaries*, in accordance with the Template UK MREL2 of Annex XXXXI and the relevant instructions set out in Annex XXXXII.

(c) For the disclosures required in points (aa), (b) and (d) of Article 437a in respect of resolution entities, in accordance with the Template UK MREL3 of Annex XXXXI and the relevant instructions set out in Annex XXXXII.

3. Institutions that are *MREL firms* and that are *material subsidiaries* of *non-UK G-SIIs* and are not resolution entities or subsidiaries of *UK parent institutions* shall make the disclosures on own funds and *eligible liabilities* required in points (aa), (b) and (d) of Article 437a in accordance with the Template UK MREL 2 of Annex XXXXI and the relevant instructions set out in Annex XXXXII.

…

**Article 20 GENERAL PROVISIONS**

…

5. Institutions that are required to disclose information under this Part shall, in addition to the information disclosed in accordance with this Chapter 5 of the Disclosure (CRR) Part ~~of the *PRA* Rulebook~~, also provide the following information:

(a) disclosure reference date and reference period;

(b) reporting currency;

(c) name and where relevant, identifier of the disclosing institution (LEI);

(d) where relevant, accounting standard; ~~and~~

(e) where relevant, scope of consolidation; and

Effective from 1 January 2027

This document is effective from 1 January 2027 to accompany PS11/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/march/disclosure-policy-statement



(f) whether they are a *G-SII* or part of a *G-SII*, a *material subsidiary* of a *non-UK G-SII*, an *O-SII*, a resolution entity, a large institution, an *other institution*, an *MREL firm*, a large subsidiary, an *SDDT*, an *SDDT consolidation entity* or a *non-listed institution*.

## 6 PILLAR 3 TEMPLATES AND INSTRUCTIONS

…

6.17 Annex VII Template UK CC1 can be found ~~here~~here.

…

6.20 Annex VIII can be found ~~here~~here.

…

6.112 Annex XXXXI Template UK MREL1 can be found here.

6.113 Annex XXXXI Template UK MREL2 can be found here.

6.114 Annex XXXXI Template UK MREL3 can be found here.

6.115 Annex XXXXI Template UK KM2 can be found here.

6.116 Annex XXXXII can be found here.

…

Effective from 1 January 2027

This document is effective from 1 January 2027 to accompany PS11/26.
Please see: www.bankofengland.co.uk/prudential-regulation/publication/2026/march/disclosure-policy-statement



**Annex B**

**Amendments to the Reporting (CRR) Part**

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

…

## 4 REPORTING (PART SEVEN A CRR)

### Article 430 REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION

1. Institutions shall report to the *PRA* on:

   (a) own funds requirements, as set out in Article 92, and the *leverage ratio*, any *countercyclical leverage ratio buffer* and any *additional leverage ratio buffer*;

   (b) ~~the requirements laid down in Article 92a, for institutions that are subject to those requirements, or~~ the requirements specified in a direction from the *Bank of England* under section<u>s 3A(4) or</u> 3A(4B) of the Banking Act 2009~~, for institutions that are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution~~;

   …

Effective from 1 January 2027

# PRA RULEBOOK: NON-AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2026

## 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 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

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

## PRA Rulebook: Non-Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2026

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

## Commencement

D. This instrument comes into force on 1 April 2026.

## Citation

E. This instrument may be cited as the PRA Rulebook: Non-Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2026.

## By order of the Prudential Regulation Committee

17 March 2026

**Annex**

**Amendments to the FSCS Management Expenses Levy Limit and Base Costs Part**

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

...

## 2 LIMIT ON MANAGEMENT EXPENSES LEVIES

…

2.1A The amount which the *FSCS* may recover from the sums levied under the *compensation scheme* as *management expenses* attributable to the period 1 April ~~2025~~2026 to 31 March ~~2026~~2027 may not exceed ~~£108,579,230~~£112,972,954.

…

**PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS AND NON-SOLVENCY II FIRMS: SENIOR MANAGERS REGIME (AMENDMENT) INSTRUMENT 2026**

**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 59 (Approval for particular arrangements);
(2) section 60 (Applications for approval);
(3) section 63E (Certification of employees by authorised persons);
(4) section 64A (Rules of conduct);
(5) section 137G (The PRA's general rules); and
(6) 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.

**PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms and Non-Solvency II Firms: Senior Managers Regime (Amendment) Instrument 2026**

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Allocation of Responsibilities | B |
| Certification | C |
| Change in Control | D |
| Conduct Rules | E |
| Fitness and Propriety | F |
| Insurance – Conduct Standards | G |
| Insurance – Fitness and Propriety | H |
| Insurance – Senior Management Functions | I |
| Large Non-Solvency II Firms – Conduct Standards | J |
| Large Non-Solvency II Firms – Fitness and Propriety | K |
| Large Non-Solvency II Firms – Senior Management Functions | L |
| Non-Solvency II Firms – Conduct Standards | M |

| | |
|---|---|
| Non-Solvency II Firms – Fitness and Propriety | N |
| Non-Solvency II Firms – Senior Management Functions | O |
| Notifications | P |
| Senior Management Functions | Q |

**Templates, Annexes and instruction documents**

D. The rules in this instrument include any template, Annex or instruction document referred to in the rule. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

**Commencement**

E. This instrument comes into force on 24 April 2026.

**Citation**

F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms and Non-Solvency II Firms: Senior Managers Regime (Amendment) Instrument 2026.

**By order of the Prudential Regulation Committee**
8 April 2026

**Annex A**

**Amendments to the Glossary Part**

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

…

*banking group company*

in the following Parts:

(1) Allocation of Responsibilities;

(2) Certification; and

(3) Senior Management Functions,

has the meaning given in section 81D of the Banking Act 2009.

…

*controller*

has the meaning given in section 422 of *FSMA*, read in conjunction with the *Exemption Order*.

…

*Exemption Order*

means the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774).

…

*nominated representative*

means a *person* acting on behalf of the *controller* or appointed by the *controller* to ensure the *controller's* interests, in one or more aspects of the affairs of the *firm* in relation to its *regulated activities*, are represented.

…

~~*senior insurance management function holder*~~

~~means any *person* who is responsible for discharging a *senior insurance management function*.~~

...

*senior manager*

in the following Parts:

(1) Allocation of Responsibilities;

(2) Certification;

(3) Conduct Rules; and

(4) Senior Management Functions,

means a *person* who exercises executive functions and is responsible, and directly accountable to the *directors*, for the day-to-day management of a *bank*, *building society*, *stabilisation vehicle* or a *banking group company*.

…

*stabilisation option*

means any of the stabilisation options listed in section 1(3) of the Banking Act 2009.

*stabilisation power*

means any of the stabilisation powers listed in section 1(4) of the Banking Act 2009.

*stabilisation vehicle*

means a bridge bank as defined in section 12(1) of the Banking Act 2009 or an asset management vehicle as defined in section 12ZA(2) of the Banking Act 2009.

…

*temporary public ownership stabilisation option*

means the transfer to temporary public ownership in accordance with section 13 of the Banking Act 2009.

*temporary replacement*

means:

(1) in Senior Management Functions, the individual referred to in 2.3(1);

(2) in Insurance – Senior Management Functions, the individual referred to in 2.4(1);

(3) in Large Non-Solvency II Firms – Senior Management Functions, the individual referred to in 2.4(1); and

(4) in Non-Solvency II Firms – Senior Management Functions, the individual referred to in 2.3(1).

…

**Annex B**

**Amendments to the Allocation of Responsibilities Part**

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

**1 APPLICATION AND DEFINITIONS**

…

1.3 This Part does not apply to a function performed by:

(1) a *person* acting as an insolvency practitioner within the meaning of section 388 of the Insolvency Act 1986; ~~or~~

(2) a *person* acting as a nominee in relation to a voluntary arrangement under Parts I (Company Voluntary Arrangements) and VIII (Individual Voluntary Arrangements) of the Insolvency Act 1986; ~~or~~

(3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989; ~~or~~

(4) a *person* acting as a nominee in relation to a voluntary arrangement under Parts II (Company Voluntary Arrangements) and VIII (Individual Voluntary arrangements) of the Insolvency (Northern Ireland) Order 1989~~.~~;

(5) a *person* acting as a resolution administrator appointed by the *Bank of England* in accordance with section 62B of the Banking Act 2009;

(6) a *person* appointed by the *Bank of England* as a *director* or a *senior manager* to a *bank*, *building society*, *stabilisation vehicle* or *banking group company* for any purpose in connection with the exercise of a *stabilisation option*, or a *stabilisation power*; or

(7) a *person* appointed by the *Treasury* as a *director* or a *senior manager* to a *bank*, *building society* or *banking group company* for any purpose in connection with the exercise of the *temporary public ownership stabilisation option*, throughout the period of two years beginning with the date of that appointment.

…

**Annex C**

**Amendments to the Certification Part**

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

**1 APPLICATION AND DEFINITIONS**

…

1.3 This Part does not apply to a function performed by:

…

(6) a *person* who performs an *FCA controlled function*; ~~or~~

(7) a *non-executive director* in relation to their *non-executive director* function~~.~~;

(8) a *person* acting as a resolution administrator appointed by the *Bank of England* in accordance with section 62B of the Banking Act 2009;

(9) a *person* appointed by the *Bank of England* as a *director* or a *senior manager* to a *bank*, *building society*, *stabilisation vehicle* or a *banking group company* for any purpose in connection with the exercise of a *stabilisation option*, or a *stabilisation power*; or

(10) a *person* appointed by the *Treasury* as a *director* or a *senior manager* to a *bank*, *building society* or to a *banking group company* for any purpose in connection with the exercise of the *temporary public ownership stabilisation option*, throughout the period of two years beginning with the date of that appointment.

…

**Annex D**

**Amendments to the Change in Control 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:

…

~~*controller*~~

~~has the meaning given in section 422 of *FSMA*, read in conjunction with the *Exemption Order*.~~

…

~~*Exemption Order*~~

~~means the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774).~~

…

…

**Annex E**

**Amendments to the Conduct Rules Part**

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

**1 APPLICATION AND DEFINITIONS**

1.1 …

(2) This Part only applies if P:

…

(e) is a *Conduct Rules non-executive director* of A; ~~or~~

(f) is a *person* in relation to whom a notice under *section 59ZZA* has been or could be given by the *PRA* to an *authorised person*~~.~~; or

(g) is a *person* who would have required approval to perform a *senior management function* in relation to A under section 59 of *FSMA* but for the application of Senior Management Functions 1.3(5) to (7).

(3) 3.1 to 3.3 only apply to a *person* in (2)(a), (b), (c) or (f).

(4) 3.4 only applies to a *person* in (2)(a), (b), (c), (e) or (f).

…

**Annex F**

**Amendments to the Fitness and Propriety Part**

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

…

**2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS**

…

2.7 (1) …

(2) A *firm* (A) is not required to request references from an employer of P or any organisation referred to in (1) (such employer or organisation, B) where:

(a) A and B are members of the same ~~*group*~~ *group*; and

…

…

2.11 If a *firm* (A) previously obtained the information in 2.9 when it determined that a *person* (P) was fit and proper for the purposes of this Part, another *firm* (B) is not required to comply with 2.9 in respect of any subsequent appointment of P where:

(1) A and B are members of the same *group*;

(2) B engages P, such that P's appointment at B begins within 1 *month* of P's appointment at A ending; and

(3) there are adequate arrangements in place under which B has access to all information sources to which A has access to the extent necessary were B having to obtain the information in accordance with this Part.

…

**PART EXTERNALLY DEFINED TERM**

| Term | Definition source |
|---|---|
| group | Section 421 Financial Services and Markets Act 2000 |

**Annex G**

**Amendments to the Insurance – Conduct Standards Part**

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

…

## 2 SCOPE OF CONDUCT STANDARDS

2.1 If you are a natural person who is:

(1) an *employee* of a *firm* who is a *key function holder*;

(2) approved under section 59 of *FSMA* by either:

(a) the *PRA*; or

(b) the *FCA*, in relation to a *relevant senior management function*; ~~or~~

(3) a *person* in relation to whom a notice under *section 59ZZA* has been given by the *PRA* to an *authorised person*~~,~~; or

(4) an *employee* of the type specified in 1.1(6)(f),

you must comply at all times with all of the *conduct standards*.

…

2.1B If you are an *employee* of a type specified in 1.1(6)(c), (e)~~, (f)~~ or (g) you must comply at all times with the *conduct standards* specified in 3.1 to 3.3.

2.2 A *firm* must require:

…

(3) any *notified non-executive director* to observe the *conduct standards* specified in 3.7 and 3.8, in addition to complying with (1); ~~and~~

(4) an *employee* of a type specified in 1.1(6)(c)~~,~~ or (e) ~~or (f)~~ to observe the *conduct standards* specified in 3.1 to 3.3~~.~~; and

(5) an *employee* of a type specified in 1.1(6)(f) to observe the *conduct standards* specified in 3.4 to 3.8, in addition to complying with (1).

…

**Annex H**

**Amendments to the Insurance – Fitness and Propriety Part**

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

…

**2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS**

…

2.8 If a *firm* (A) previously obtained the information in 2.4 when it determined that a *person* (P) was fit and proper for the purposes of this Part, another *firm* (B) is not required to comply with 2.4 in respect of any subsequent appointment of P where:

(1) A and B are members of the same *group*;

(2) B engages P, such that P's appointment at B begins within 1 *month* of P's appointment at A ending; and

(3) there are adequate arrangements in place under which B has access to all information sources to which A has access to the extent necessary were B having to obtain the information in accordance with this Part.

…

**Annex I**

**Amendments to the Insurance – Senior Management Functions Part**

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

…

**2 GENERAL**

…

2.4 To the extent that:

(1) a *firm* appoints an individual ~~*person*~~ who is an *employee* of the *firm* to perform a *key function* which, but for this rule, would be a *PRA senior management function*;

(2) the appointment is solely to provide cover for a *PRA senior management function holder* who is an individual and whose absence is:

(a) temporary; or

(b) reasonably unforeseen; and

(3) the appointment is for less than 12 weeks in a consecutive 12-~~month~~*month* period,

the description of the applicable *PRA senior management function* does not relate to those activities of that *person*.

2.4A In this Chapter, a *PRA senior management function holder* being absent includes the *PRA senior management function holder* ceasing to perform their *PRA senior management function*.

2.4B (1) This rule deals with an appointment by a *firm* under 2.4 where:

(a) the absence is reasonably unforeseen; or

(b) an absence of over 12 weeks is reasonably unforeseen.

(2) If, before the period under 2.4(3) would have expired but for this rule, the *firm* makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was performed by the absent *PRA senior management function holder*:

(a) the period for which the function performed by the *temporary replacement* is not a *PRA senior management function* is extended until that application is finally determined; and

(b) the period for which the *temporary replacement* may perform the function without approval is extended accordingly.

(3) An application is finally determined for the purposes of (2) when:

(a) the application is withdrawn;

(b) the *PRA* grants the application;

(c) where the *PRA* has refused or not granted the application and the matter is not referred to *the Tribunal*, when the time for referring the matter to *the Tribunal* has expired; or

(d) where the *PRA* has refused or not granted the application and the matter is referred to *the Tribunal*, when the reference, and any appeal against *the Tribunal's* determination has been fully disposed of.

(4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the *PRA* has granted an application subject to conditions or for a limited period (or both).

…

2.8 (1) A *firm* ~~(other than a *UK ISPV*)~~ must take all reasonable steps to ensure that before a *person* begins to perform:

(a) a *PRA senior management function*; or

(b) new or revised responsibilities in performance of a *PRA senior management function*,

that *person* is provided with all of the information and materials that the *person* may reasonably expect in order to perform that *PRA senior management function* or those new or revised responsibilities effectively and in accordance with the *regulatory system*.

…

## 5 GROUP ENTITIES

5.1 The *Group Entity Senior Manager function* (SMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *PRA senior management function*) and which is performed by ~~a *person* employed by, or an officer of~~:

(1) ~~a *parent undertaking* or holding company of a *firm*; or~~[deleted]

(2) ~~another *undertaking* which is a member of the *firm's group*.~~[deleted]

(1A) an *employee*, or an officer of:

(a) a *parent undertaking* or holding company of a *firm*; or

(b) another *undertaking* which is a member of the *firm's group*; or

(2A) a *controller* or a *nominated representative*.

…

**Annex J**

**Amendments to the Large Non-Solvency II Firms – Conduct Standards Part**

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

…

## 2 SCOPE OF CONDUCT STANDARDS

2.1 If you are a natural person who is:

(1) an *employee* of a *firm* who is a *key function holder*; ~~or~~

(2) approved under section 59 of *FSMA* by either:

(a) the *PRA*; or

(b) the *FCA*, in relation to a *relevant senior management function*~~,~~; or

(3) an *employee* of the type specified in 1.1(3)(f),

you must comply at all times with all of the *conduct standards*.

…

2.1B If you are an *employee* of a type specified in 1.1(3)(c)~~,~~ or (e) ~~or (f)~~ you must comply at all times with the *conduct standards* specified in 3.1 to 3.3.

2.2 A *firm* must require:

(1) any *person* performing a *key function* to observe the *conduct standards* specified in 3.1 to 3.3;

(2) any *key function holder* (other than a *notified non-executive director*) to observe the *conduct standards* specified in 3.4 to 3.8, in addition to complying with (1);

(3) any *notified non-executive director* to observe the *conduct standards* specified in 3.7 and 3.8, in addition to complying with (1); ~~and~~

(4) an *employee* of a type specified in 1.1(3)(c)~~,~~ or (e) ~~or (f)~~ to observe the *conduct standards* specified in 3.1 to 3.3~~.~~; and

(5) an *employee* of a type specified in 1.1(3)(f) to observe the *conduct standards* specified in 3.4 to 3.8 in addition to complying with (1).

…

**Annex K**

**Amendments to the Large Non-Solvency II Firms – Fitness and Propriety Part**

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

…

**2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS**

…

2.8 If a *firm* (A) previously obtained the information in 2.4 when it determined that a *person* (P) was fit and proper for the purposes of this Part, another *firm* (B) is not required to comply with 2.4 in respect of any subsequent appointment of P where:

(1) A and B are members of the same *group*;

(2) B engages P, such that P's appointment at B begins within 1 *month* of P's appointment at A ending; and

(3) there are adequate arrangements in place under which B has access to all information sources to which A has access to the extent necessary were B having to obtain the information in accordance with this Part.

…

**Annex L**

**Amendments to the Large Non-Solvency II Firms – Senior Management Functions Part**

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

…

**2 GENERAL**

…

2.4 To the extent that:

(1) a *firm* appoints an individual ~~*person*~~ who is an *employee* of the *firm* to perform a *key function* which, but for this rule, would be a *PRA senior management function*;

(2) the appointment is solely to provide cover for a *PRA senior management function holder* who is an individual and whose absence is:

(a) temporary; or

(b) reasonably unforeseen; and

(3) the appointment is for less than 12 weeks in a consecutive 12-*month* period,

the description of the applicable *PRA senior management function* does not relate to those activities of that *person*.

2.4A In this Chapter, a *PRA senior management function holder* being absent includes the *PRA senior management function holder* ceasing to perform their *PRA senior management function*.

2.4B (1) This rule deals with an appointment by a *firm* under 2.4 where:

(a) the absence is reasonably unforeseen; or

(b) an absence of over 12 weeks is reasonably unforeseen.

(2) If, before the period under 2.4(3) would have expired but for this rule, the *firm* makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was performed by the absent *PRA senior management function holder*:

(a) the period for which the function performed by the *temporary replacement* is not a *PRA senior management function* is extended until that application is finally determined; and

(b) the period for which the *temporary replacement* may perform the function without approval is extended accordingly.

(3) An application is finally determined for the purposes of (2) when:

(a) the application is withdrawn;

(b) the *PRA* grants the application;

(c) where the *PRA* has refused or not granted the application and the matter is not referred to *the Tribunal*, when the time for referring the matter to *the Tribunal* has expired; or

(d) where the *PRA* has refused or not granted the application and the matter is referred to *the Tribunal*, when the reference, and any appeal against *the Tribunal's* determination has been fully disposed of.

(4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the *PRA* has granted an application subject to conditions or for a limited period (or both).

…

## 5 GROUP ENTITIES

5.1 The *Group Entity Senior Manager function* (SMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *PRA senior management function*) and which is performed by ~~a *person* employed by, or an officer of~~:

(1) ~~a *parent under*taking or holding company of a *firm*; or~~[deleted]

(2) ~~another *undertaking* which is a member of the *firm's group*.~~[deleted]

(1A) an *employee*, or an officer of:

(a) a *parent undertaking* or holding company of a *firm*; or

(b) another *undertaking* which is a member of the *firm's group*; or

(2A) a *controller* or a *nominated representative*.

…

**Annex M**

**Amendments to the Non-Solvency II Firms – Conduct Standards Part**

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

…

## 1A SCOPE OF CONDUCT STANDARDS

…

1A.3 If you are an *employee* of a type specified in 1.1(2)(c)~~,~~ or 1.1(2)(d) ~~or 1.1(2)(e)~~ you must comply at all times with the *conduct standards* specified in 2.1 to 2.3.

1A.3A If you are an *employee* of a type specified in 1.1(2)(e) you must comply at all times with all of the *conduct standards*.

1A.4 A *firm* must require:

(1) a natural *person* of a type specified in 1.1(2)(b) to observe all of the *conduct standards*~~; and~~

(2) an *employee* of a type specified in 1.1(2)(c)~~,~~ or 1.1(2)(d) ~~or 1.1(2)(e)~~ to observe the *conduct standards* specified in 2.1 to 2.3~~.~~; and

(3) an *employee* of a type specified in 1.1(2)(e) to observe all of the *conduct standards*.

…

**Annex N**

**Amendments to the Non-Solvency II Firms – Fitness and Propriety Part**

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

…

**2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS**

…

2.6 If a *firm* (A) previously obtained the information in 2.4 when it determined that a *person* (P) was fit and proper for the purposes of this Part, another *firm* (B) is not required to comply with 2.4 in respect of any subsequent appointment of P where:

(1) A and B are members of the same *group*;

(2) B engages P, such that P's appointment at B begins within 1 *month* of P's appointment at A ending; and

(3) there are adequate arrangements in place under which B has access to all information sources to which A has access to the extent necessary were B having to obtain the information in accordance with this Part.

…

**Annex O**

**Amendments to the Non-Solvency II Firms – Senior Management Functions Part**

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

…

**2 GENERAL**

…

2.3 To the extent that:

(1) a *firm* appoints an individual ~~*person*~~ who is an *employee* of the *firm* to perform a function which, but for this rule, would be a ~~*senior insurance management function*~~*PRA senior management function*;

(2) the appointment is solely to provide cover for a *PRA senior management function holder* who is an individual and whose absence is:

(a) temporary; or

(b) reasonably unforeseen; and

(3) the appointment is for less than 12 weeks in a consecutive 12-*month* period,

the description of the applicable *PRA senior management function* does not relate to those activities of that *person*.

2.3A In this Chapter, a *PRA senior management function holder* being absent includes the *PRA senior management function holder* ceasing to perform their *PRA senior management function*.

2.3B (1) This rule deals with an appointment by a *firm* under 2.3 where:

(a) the absence is reasonably unforeseen; or

(b) an absence of over 12 weeks is reasonably unforeseen.

(2) If, before the period under 2.3(3) would have expired but for this rule, the *firm* makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was performed by the absent *PRA senior management function holder*:

(a) the period for which the function performed by the *temporary replacement* is not a *PRA senior management function* is extended until that application is finally determined; and

(b) the period for which the *temporary replacement* may perform the function without approval is extended accordingly.

(3) An application is finally determined for the purposes of (2) when:

(a) the application is withdrawn;

(b) the *PRA* grants the application;

(c) where the *PRA* has refused or not granted the application and the matter is not referred to *the Tribunal*, when the time for referring the matter to *the Tribunal* has expired; or

(d) where the *PRA* has refused or not granted the application and the matter is referred to *the Tribunal*, when the reference, and any appeal against *the Tribunal's* determination has been fully disposed of.

(4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the *PRA* has granted an application subject to conditions or for a limited period (or both).

…

**Annex P**

**Amendments to the Notifications Part**

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

…

## 11 CONDUCT RULES: NOTIFICATIONS

…

11.3 If a *firm* is required to notify the *PRA* under 11.2 in respect of ~~either~~:

(1) *persons* performing *certification functions*; ~~or~~

(2) *Conduct Rules non-executive directors*~~,~~; or

(3) a *temporary replacement*,

it must do so within seven business days of the point at which it determined the relevant requirement applied, by submitting Form L. A *firm* must not unreasonably delay its determination of whether or not the requirement applies.

…

11.9 (1) Form C may be found here.

(2) Form D may be found here.

(3) Form L may be found ~~here~~here.

…

**Annex Q**

**Amendments to the Senior Management Functions Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 This Part does not apply to a function performed by:

(1) a *person* acting as an insolvency practitioner within the meaning of section 388 of the Insolvency Act 1986; ~~or~~

(2) a *person* acting as a nominee in relation to a voluntary arrangement under Parts I (Company Voluntary Arrangements) and VIII (Individual Voluntary Arrangements) of the Insolvency Act 1986; ~~or~~

(3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989; ~~or~~

(4) a *person* acting as a nominee in relation to a voluntary arrangement under Parts II (Company Voluntary Arrangements) and VIII (Individual Voluntary arrangements) of the Insolvency (Northern Ireland) Order 1989; ~~.~~

(5) a *person* acting as a resolution administrator appointed by the *Bank of England* in accordance with section 62B of the Banking Act 2009;

(6) a *person* appointed by the *Bank of England* as a *director* or a *senior manager* to a *bank*, *building society*, *stabilisation vehicle* or a *banking group company* for any purpose in connection with the exercise of a *stabilisation option*, or a *stabilisation power*; or

(7) a *person* appointed by the *Treasury* as a *director* or a *senior manager* to a *bank*, *building society* or to a *banking group company* for any purpose in connection with the exercise of the *temporary public ownership stabilisation option*, throughout the period of two years beginning on the date of that appointment.

## 2 GENERAL

…

2.3 To the extent that,

(1) a *firm* appoints an individual ~~*person*~~ who is an *employee* of the *firm* to perform a function which, but for this rule, would be a *PRA senior management function*;

(2) the appointment is solely to provide cover for a *PRA approved person* who is an individual and whose absence is:

(a) temporary; or

(b) reasonably unforeseen; and

(3) the appointment is for less than 12 weeks in a consecutive 12-~~month~~*month* period,

the description of that *PRA senior management function* does not relate to those activities of that *person*.

2.3A In this Chapter, a *PRA approved person* being absent includes the *PRA approved person* ceasing to perform their *PRA senior management function*.

2.3B (1) This rule deals with an appointment by a *firm* under 2.3 where:

(a) the absence is reasonably unforeseen; or

(b) an absence of over 12 weeks is reasonably unforeseen.

(2) If, before the period under 2.3(3) would have expired but for this rule, the *firm* makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was performed by the absent *PRA approved person*:

(a) the period for which the function performed by the *temporary replacement* is not a *PRA senior management function* is extended until that application is finally determined; and

(b) the period for which the *temporary replacement* may perform the function without approval is extended accordingly.

(3) An application is finally determined for the purposes of (2) when:

(a) the application is withdrawn;

(b) the *PRA* grants the application;

(c) where the *PRA* has refused or not granted the application and the matter is not referred to *the Tribunal*, when the time for referring the matter to *the Tribunal* has expired; or

(d) where the *PRA* has refused or not granted the application and the matter is referred to *the Tribunal*, when the reference, and any appeal against *the Tribunal's* determination has been fully disposed of.

(4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the *PRA* has granted an application subject to conditions or for a limited period (or both).

...

**5 GROUP ENTITITES**

5.1 This Chapter does not apply to a *credit union*.

5.2 The *Group Entity Senior Manager function* (SMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *PRA senior management function*) and which is performed by ~~a *person* employed by, or an officer of~~:

(1) ~~a *parent undertaking* or *holding company* of a *firm*; or~~[deleted]

(2) ~~another *undertaking* which is a member of the *firm's group*.~~[deleted]

(1A) an *employee*, or an officer of:

(a) a *parent undertaking* or holding company of a *firm*; or

(b) another *undertaking* which is a member of the *firm's group*; or

(2A) a *controller* or a *nominated representative*.

…

**GLOSSARY EXTERNALLY DEFINED TERM**

| Term | Definition source |
|---|---|
| the Tribunal | Section 417 Financial Services and Markets Act 2000 |

# PRA RULEBOOK: FEES (AMENDMENT) INSTRUMENT 2026

## Powers exercised

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

(1) section 137G (The PRA's general rules);
(2) section 137T (General supplementary powers);
(3) section192XA (Rules applying to holding companies);
(4) section 192XB (Procedural provision); and
(5) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.

B. The PRA makes this instrument also in the exercise of powers in regulation 3 of the Financial Regulators' Powers (Technical Standards) (Amendment etc.) (EU Exit) Regulations 2018 and regulation 209(1) of The Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 in respect of the matters falling within those provisions.

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

## PRA Rulebook: Fees (Amendment) Instrument 2026

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

## Commencement

E. This instrument comes into force on 30 April 2026.

## Citation

F. This instrument may be cited as the PRA Rulebook: Fees (Amendment) Instrument 2026

**By order of the Prudential Regulation Committee**
8 April 2026

# Annex

## Amendments to the Fees Part

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

…

### 3 PERIODIC FEES

…

**Time of payment**

3.15 The *due date for payment* of *periodic fees* is as follows:

…

(2) Any *firm* whose combined total liability for *periodic fees* payable to the *FCA* and the *PRA* in the previous *fee year* was £50,000.00 or above must pay its *periodic fees* for the current year in two tranches as follows:

(a) an amount equal to 50% of the *PRA periodic fee* payable in the previous *fee year* on or before ~~1 April~~the last *working day* in March in the current *fee year*; and

(b) the balance of the *periodic fee* for the current *fee year* by ~~1 September~~the last *working day* in August.

…

…

# PRA RULEBOOK: CRR FIRMS: SKILLS, KNOWLEDGE AND EXPERTISE INSTRUMENT 2026

## 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.

## PRA Rulebook: CRR Firms: Skills, Knowledge and Expertise Instrument 2026

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

## Commencement

D. This instrument comes into force on 30 April 2026.

## Citation

E. This instrument may be cited as the PRA Rulebook: CRR Firms: Skills, Knowledge and Expertise Instrument 2026.

**By order of the Prudential Regulation Committee**
8 April 2026

**Annex**

**Amendments to the Skills, Knowledge and Expertise 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:

[Note: There are currently no Part specific definitions]

~~*Article 21 Skills Requirements*~~

~~means requirements and obligations as set out in Article 21(1)(b),(d),(g) (General Organisational Requirements) of the *MODR*.~~

~~*other matters*~~

~~means, in relation to a requirement under the *MODR*, matters within the scope of 1.1 that are not within the scope of that requirement.~~

## 2 SKILLS, KNOWLEDGE AND EXPERTISE [DELETED]

…

2.1A ~~A *MiFID investment firm* must extend the arrangements required by the *Article 21 Skills Requirements* so they also apply with respect to *other matters* on the basis that references to "relevant persons" are references to *relevant persons*.~~[Deleted]

2.1B ~~A *firm* that is not a *MiFID investment firm* must comply with the *Article 21 Skills Requirements* on the basis set out in 2.1A and as if references to "investment firm" refer to a *firm*.~~[Deleted]

…

# PRA RULEBOOK: SOLVENCY II FIRMS: THIRD COUNTRY BRANCHES INSTRUMENT 2026

## 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.

## PRA Rulebook: Solvency II Firms: Third Country Branches Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Reporting | B |
| Third Country Branches | C |

## Commencement

D. This instrument comes into force on 31 December 2026.

## Citation

E. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Third Country Branches Instrument 2026.

## By order of the Prudential Regulation Committee

28 April 2026

**Annex A**

**Amendments to the Glossary Part**

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

…

*branch scheme of operations*

means a scheme containing the information required in Third Country Branches 5.1.

…

**Annex B**

**Amendments to the Reporting Part**

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

…

## 1 APPLICATION AND DEFINITIONS

…

1.3

(1) Unless otherwise stated, in this Part, 2.1 to 2.5B, 2.13 and Articles 1 to 4A and ~~37~~38 to 50 of Chapter 2A apply to *third country branch undertakings* (other than *Swiss general insurers*).

…

## 2 REPORTING TO THE PRA

…

2.5B

…

(2) A *firm* must submit the quarterly quantitative reporting templates referred to in Articles 6(1)~~,~~ and 21A(6) ~~and 37~~ of Chapter 2A no later than 30 *business days* after the end of each quarter of the *firm's* financial year.

…

## 2A REPORTING TO THE PRA: REPORTS AND TEMPLATES

### I: GENERAL PROVISIONS AND SUPERVISORY REPORTING REQUIREMENTS

### ARTICLE 1: APPLICATION

…

3. Articles ~~37~~38 to 50 of this Chapter apply to *third country branch undertakings* (other than *Swiss general insurers*).

…

### IV. REPORTING TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS

### ARTICLE 37: QUARTERLY QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS [DELETED]

1. ~~*Third country branch undertakings* must submit information to the *PRA* quarterly using the following templates (as applicable) in respect of the operations of the *third country branch* (other than a *third country pure reinsurance branch*):~~

~~(a) template IR.01.01.08 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;~~

~~(b) template IR.01.02.07 of Chapter 9, specifying basic information on the *third country branch* and the content of the reporting in general, following the instructions set out in section IR.01.02 of Chapter 10;~~

~~(c) template IR.02.01.08 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part, following the instructions set out in section IR.02.01 of Chapter 10;~~

~~(d) template IR.05.03.02 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10;~~

~~(e) template IR.05.04.02 of Chapter 9, specifying information on non-life income and expenditure, following the instructions set out in section IR.05.04 of Chapter 10;~~

~~(f) template IR.12.01.02 of Chapter 9, specifying information on the provisions referred to in Third Country Branches 6.1 (life), following the instructions set out in section IR.12.01 of Chapter 10; and~~

~~(g) template IR.17.01.02 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (non-life), for each *line of business*, following the instructions set out in section IR.17.01 of Chapter 10.~~[Deleted]

2. ~~With regard to the information referred to in point (c) of Article 37(1), quarterly measurements may rely on estimates and estimation methods to a greater extent than measurements of annual financial data. The measurement procedures for the quarterly reporting must be designed to ensure that the resulting information is reliable and complies with the standards laid down in the laws of the *United Kingdom* and that all material information that is relevant for the understanding of the data is reported.~~[Deleted]

3. ~~When submitting the information referred to in points (f) and (g) of Article 37(1), *third country branch undertakings* may apply simplified methods in accordance with the Technical Provisions and Technical Provisions – Further Requirements Parts of the *PRA* Rulebook in the calculation of the provisions referred to in Third Country Branches 6.1.~~[Deleted]

**ARTICLE 38: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - BASIC INFORMATION AND CONTENT OF SUBMISSION**

1. *Third country branch undertakings* must submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of ~~the *third country branch* (other than a *third country pure reinsurance branch*)~~a *third country insurance branch*:

…

**ARTICLE 39: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - BALANCE SHEET AND OTHER GENERAL INFORMATION**

1. *Third country branch undertakings* must, subject to Article 42B, submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of ~~the *third country branch* (other than a *third country pure reinsurance branch*)~~a *third country insurance branch*:

…

**ARTICLE 40: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - BRANCH PROVISIONS INFORMATION**

1. *Third country branch undertakings* must, subject to Article 42B, submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of ~~the *third country branch* (other than a *third country pure reinsurance branch*)~~a *third country insurance branch*:

…

**ARTICLE 41: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - REINSURANCE AND SPECIAL PURPOSE VEHICLES INFORMATION**

1. *Third country branch undertakings* must, subject to Article 42B, submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of ~~the *third country branch* (other than a *third country pure reinsurance branch*)~~a *third country insurance branch*:

…

**ARTICLE 42: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION**

1. *Third country branch undertakings* must, subject to Article 42B, submit information in relation to each ring-fenced fund, each *matching adjustment portfolio* and the remaining part to the *PRA* annually using the following templates (as applicable) in respect of the operations of ~~the *third country branch* (other than a *third country pure reinsurance branch*)~~a *third country insurance branch*:

…

**ARTICLE 42A: ANNUAL TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION**

*Third country branch undertakings* with a *matching adjustment permission* must submit to the *PRA* annually templates MALIR 1 - MALIR 7 of Chapter 9, setting out, in respect of the operations of each ~~*third country branch* (other than a *third country pure reinsurance branch*)~~*third country insurance branch*, portfolio metrics and detailed information on the assets and liabilities held in their *matching adjustment portfolios* in accordance with the instructions set out in section MALIR of Chapter 10.

**ARTICLE 42B: QUARTERLY AND ANNUAL TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - REPORTING EXEMPTIONS**

1. *Third country branch undertakings* are not required to submit information to the *PRA* using the templates described in paragraph 4 of this Article in respect of the operations of a *third country insurance branch* in relation to a financial year if:

   (a) the *third country insurance branch* has been established for at least two full financial years; and

(b) information submitted to the *PRA* under this Part in relation to the previous financial year demonstrates that:

(i) the *third country branch undertaking* established an amount of less than £2 billion for the provisions referred to in Third Country Branches 6.1 as at the end of that previous financial year; and

(ii) the *third country branch undertaking's gross written premiums* in respect of the operations of the *third country insurance branch* were less than £1 billion in that previous financial year.

2. *Third country branch undertakings* are not required to submit information to the *PRA* using the templates described in paragraph 4 of this Article in relation to:

(a) the first financial year of operations of a *third country insurance branch*; or

(b) where the *third country insurance branch* was not established until after the start of that first financial year, the second financial year of operations of the *third country insurance branch*,

provided that (in either case) the requirements of paragraph 3 of this Article are met.

3. The requirements of this paragraph are that the *branch scheme of operations* sets out in relation to the first full financial year of operations of the *third country insurance branch*:

(a) an estimate of less than £2 billion for the provisions referred to in Third Country Branches 6.1 detailed in the forecast balance sheet; and

(b) an estimate of less than £1 billion for:

(i) *premiums* or contributions under any *contract of insurance* for *general insurance business*; and

(ii) income in respect of direct business and *reinsurance* acceptances for *long-term insurance business*.

4. The templates described in this paragraph are those referred to in:

(a) point (c) of paragraph 1 of Article 39;

(b) points (b), (e), (g), (h) and (k) of paragraph 1 of Article 40;

(c) points (a) and (b) of paragraph 1 of Article 41; and

(d) point (b) of paragraph 1 of Article 42.

5. A *third country branch undertaking* that has a *third country insurance branch* whose operations do not fall within the scope of paragraphs 1 to 3, is not required to submit the templates described in paragraph 4 until the end of the first full financial year of operations of its *third country insurance branch* ending on or after 31 December 2027, provided that the requirements of paragraph 6 of this Article are met.

6. The requirements of this paragraph are as follows:

(a) the *PRA* gave a direction to a *third country branch undertaking* under section 138A of *FSMA* in respect of the operations of its *third country insurance branch*;

(b) the direction was given on or before 30 December 2026 and was still in effect on that date; and

(c) the direction had the effect of waiving or modifying those rules within the Reporting Part that would otherwise have required the *third country branch undertaking* to submit the templates described in paragraph 4.

…

**Annex C**

**Amendments to the Third Country Branches 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:

*branch assets*

means, in respect of a *third country branch*, the assets that the *third country branch undertaking* has allocated to the operations of that *third country branch*.

~~*branch scheme of operations*~~

~~means a scheme containing the information required in 5.1.~~

…

*location of the claim*

means, in respect of *third country insurance branch obligations*, the location of:

(1) the *policyholder*;

(2) the insured risk; or

(3) the place where the contract was signed with the *third country branch undertaking* (including whether the business was transacted through the *third country branch* or the head office of the *third country branch undertaking*).

*preferred claims*

means the following categories of claim:

(1) claims by employees arising from employment contracts and employment relationships (including in respect of contributions to occupational pension schemes);

(2) claims by public bodies on taxes;

(3) claims by social security systems; and

(4) claims on assets subject to rights in rem.

*third country branch insurance obligations*

means the insurance (but not *reinsurance*) obligations assumed by a *third country branch*.

**2 ACCOUNTING AND OTHER RECORDS IN THE UK**

…

2.2 A *third country branch undertaking* must maintain records including the following information:

(1) the location of all *branch assets*; and

(2) sufficient information to enable any *person* charged with the winding up of the *third country branch undertaking* or *third country branch* to take control of those *branch assets*.

2.3 A *third country branch undertaking* must produce and keep management accounts relating to the whole balance sheet of the *third country branch*, including:

(1) all *branch assets* that are available for the purposes of 6.1H;

(2) any other *branch assets*; and

(3) all liabilities in respect of the *third country branch's* operations.

## 3 LOCALISATION AND DEPOSIT OF ASSETS

…

3.1A The requirements in 3.3 and 3.4 do not apply to a *third country branch undertaking* that has a *third country pure reinsurance branch*.

…

3.3 A *third country branch undertaking* ~~(except a *third country branch undertaking* that has a *third country pure reinsurance branch*)~~ must hold on deposit as security in the *UK* with a *CRD credit institution* assets of an amount equal to at least:

…

3.4 A *third country branch undertaking* must ensure that the assets held on deposit as security in accordance with 3.3 are of low volatility and are not subject to significant fluctuations in price or value as a result of changing market conditions.

…

## 6 PROVISIONS FOR INSURANCE AND REINSURANCE OBLIGATIONS

…

6.1D The *branch best estimate* must be calculated in accordance with:

(1) Technical Provisions 3;

(2) Technical Provisions 5~~ and 8~~;

(3) the Matching Adjustment Part;

(4) Technical Provisions – Further Requirements 6 to 9 (other than 7.2);

(5) Technical Provisions – Further Requirements 13 to 21; and

(6) Technical Provisions – Further Requirements 25,

where a reference to '*best estimate*' is to be interpreted as *branch best estimate* and a reference to '*technical provisions*' is to be interpreted as the provisions referred to in 6.1.

…

6.1G A *third country branch undertaking* must hold *branch assets* in respect of the provisions referred to in 6.1.

6.1H In addition to complying with 6.1G, a *third country branch undertaking* must, in respect of any *third country branch insurance obligations*, hold *branch assets* that are available, as set out in 6.1I.

6.1I Subject to 6.1J, a *branch asset* is only available for the purposes of 6.1H if, in the event of a winding up of *the third country branch undertaking* or *third country branch*, as the case may be:

(1) either:

(a) all of the *third country branch undertaking's* assets are available to meet its insurance obligations (including its *third country branch insurance obligations*) in priority to other creditors (other than creditors with *preferred claims*); or

(b) it is an asset representing 'technical provisions' (or the equivalent concept) and is available to meet the insurance obligations of the *third country branch undertaking* (including its *third country branch insurance obligations*) in priority to any other creditors

and, in either case, distribution of the asset would be made on a basis that does not differentiate according to the *location of the claim*; or

(2) it is an asset that the *third country branch undertaking* has made exclusively available to meet its *third country branch insurance obligations*.

6.1J An asset is not prevented from being available for the purposes of 6.1I(1) if the whole or part of the expenses arising from the applicable winding up procedure would take priority over insurance obligations.

…

## 8 INVESTMENTS

8.1 A *third country branch undertaking* that has a *third country insurance branch* must fulfil the requirements laid down in the Investments Part ~~of the *PRA* Rulebook~~, as modified by 8.2 and 8.3.

…

8.3 A *third country branch undertaking* must ~~fulfil the requirements in the Investments Part of the *PRA* Rulebook~~comply with 8.1 taking account only of the operations effected by the ~~*third country branch*~~*third country insurance branch*.

…

# PRA RULEBOOK: DEFINITIONS AND INTERPRETATION (CRR) INSTRUMENT 2026

**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);
(2) section 137T (General supplementary powers);
(3) section 144H(1) (Relationship with the CRR);
(4) section 192J (Rules requiring provision of information by parent undertakings);
(5) section 192JA (Rules applying to parent undertakings of ring-fenced bodies);
(6) section 192JB (Rules requiring parent undertakings to facilitate resolution);
(7) section 192XA (Rules applying to holding companies);
(8) section 213 (The compensation scheme); and
(9) section 214 (General).

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

**PRA Rulebook: Definitions and Interpretation (CRR) Instrument 2026**

C. The PRA makes the rules in Annexes to this instrument.

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**Notes**

D. In the Annexes to this instrument, the "notes" (indicated by "[Note: ]") are included for the convenience of readers but do not form part of the legislative text.

**Templates, Annexes and instruction documents**

E. The rules in this Instrument include any template, Annex or instruction document referred to in the rules. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

**Commencement**

F. This instrument comes into force on 1 January 2027.

**Citation**

G. This instrument may be cited as the PRA Rulebook: Definitions and Interpretation (CRR) Instrument 2026.

**By order of the Prudential Regulation Committee**
19 May 2026

**Annex A**

**CRR Terms List**

In this Annex, the text is all new and is not underlined.

**Part**

**CRR TERMS LIST**

*accumulated other comprehensive income*

*Additional Tier 1 capital* or *additional tier 1 capital*

*Additional Tier 1 instruments* or *additional tier 1 instruments*

*Additional Tier 1 items* or *additional tier 1 items*

*Additional Tier 1 own-fund insurance items*

*ancillary services undertaking*

*Annex 1 activities*

*applicable accounting framework*

*asset management company*

*basic own funds*

*branch*

*cash assimilated instrument*

*central banks*

*central counterparty* or *CCP*

*close links*

*collective investment undertaking* or *CIU*

*commodity risk*

*Common Equity Tier 1 capital* or *common equity tier 1 capital*

*Common Equity Tier 1 instruments* or *common equity tier 1 instruments*

*Common Equity Tier 1 items* or *common equity tier 1 items*

*common management relationship*

*competent authority*

*consolidated basis*

*consolidated situation*

*consolidating supervisor*

*control*

*credit enhancement*

*credit institution*

*credit risk adjustment*

*credit risk mitigation*

*CRR covered bonds*

*CRR firm*

*CRR rules*

*default fund*

*deferred tax assets*

*deferred tax assets that rely on future profitability*

*deferred tax liabilities*

*designated investment firm*

*dilution risk*

*discretionary pension benefits*

*distributable items*

*distributions*

*eligible capital*

*expected loss* or *EL*

*exposure*

*external credit assessment institution* or *ECAI*

*FCA investment firm*

*financial holding company*

*financial institution*

*financial instruments*

*financial sector entity*

*foreign exchange risk*

*funded credit protection*

*global systemically important institution* or *G-SII*

*goodwill*

*group*

*group of connected clients*

*independent price verification*

*indirect holding*

*initial margin* or *IM*

*institution*

*insurance undertaking*

*intangible assets*

*internal hedge*

*investment firm*

*investment holding company*

*large institution*

*large subsidiary*

*leverage*

*loss*

*management body*

*market risk*

*market value*

*marking to market*

*marking to model*

*material subsidiary*

*minority interest*

*mixed financial holding company*

*mixed-activity holding company* or *mixed activity holding company*

*model risk*

*nominated ECAI*

*non-UK global systemically important institution* or *non-UK G-SII*

*one-year default rate*

*operational risk*

*original lender*

*originator*

*other capital instruments*

*other reserves*

*own funds*

*own funds instruments*

*parent undertaking*

*Part 4A permission*

*Part 9C rules*

*participation*

*positions held with trading intent*

*pre-funded contribution to the default fund of a CCP*

*profit*

*public sector entity*

*pure reinsurer*

*qualifying central counterparty* or *QCCP*

*qualifying holding*

*reciprocal cross holding*

*recognised exchange*

*reference obligation*

*Regulated Activities Order*

*reinsurance undertaking*

*repurchase agreement* or *reverse repurchase agreement*

*repurchase transaction*

*resecuritisation*

*resecuritisation position*

*residential property*

*resolution*

*resolution authority*

*resolution entity*

*resolution group*

*retained earnings*

*risk of excessive leverage*

*securities financing transaction*

*securitisation*

*securitisation position*

*securitisation special purpose entity* or *SSPE*

*senior management*

*servicer*

*share premium account*

*simple repurchase agreement*

*small and non-complex institution*

*sponsor*

*sub-consolidated basis*

*subsidiary*

*synthetic holding*

*temporary differences*

*third country*

*third country insurance undertaking* or *third-country insurance undertaking*

*third country reinsurance undertaking* or *third-country reinsurance undertaking*

*Tier 1 capital* or *tier 1 capital*

*Tier 1 own-fund insurance items*

*Tier 2 capital* or *tier 2 capital*

*Tier 2 instruments* or *tier 2 instruments*

*Tier 2 items* or *tier 2 items*

*Tier 2 own-fund insurance items*

*Tier 3 own-fund insurance items*

*trade exposure*

*trade finance*

*trading book*

*trading desk*

*tranche*

*UK deposit guarantee scheme*

*UK parent financial holding company*

*UK parent institution*

*UK parent mixed financial holding company*

*UK regulated market*

*UK-adopted international accounting standards*

*unfunded credit protection*

**Annex B**

**Amendments to the Glossary Part**

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

…

*accumulated other comprehensive income*

has the same meaning as under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(100) of *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*ACTP CSR*

means *CSR* for ~~securitisation~~*securitisation* included in the *ACTP*.

...

*ADC exposure*

means an ~~exposure~~*exposure* to a corporate or special purpose entity financing any land acquisition for development and construction purposes, or financing development and construction of any *residential real estate* or *commercial real estate*.

*additional leverage ratio buffer*

means the amount of ~~common equity tier 1 capital as defined in Article 50 of the *CRR*~~*Common Equity Tier 1 capital* a *firm* or *CRR consolidation entity* must calculate in accordance with 4A.1 and 4A.2 of the Leverage Ratio – Capital Requirements and Buffers Part.

*Additional Tier 1 capital* or *additional tier 1 capital*

has the meaning given in Article 61 (Chapter 3 (Own Funds (Part Two CRR))) of the Own Funds (CRR) Part.

*Additional Tier 1 instruments* or *additional tier 1 instruments*

means capital instruments that meet the applicable conditions set out in Chapter 3 and Chapter 6 of Title 1 of Chapter 3 (Own Funds (Part Two CRR)) of the Own Funds (CRR) Part.

*Additional Tier 1 items* or *additional tier 1 items*

has the meaning given in Article 51 (Chapter 3 (Own Funds (Part Two CRR))) of the Own Funds (CRR) Part.

*Additional Tier 1 own-fund insurance items*

means *Tier 1 own funds* items the inclusion of which is restricted by Own Funds 4A.3.

[Note: This rule corresponds to Article 4(1)(103) of *CRR* as it applied immediately before its revocation by the *Treasury*]

…

*Advanced IRB Approach*

means:

...

(3) in relation to maturity for ~~exposures to corporates and *institutions*~~the exposure classes referred to in points (b) and (c) of paragraph 2 of Credit Risk: Internal Ratings Based (CRR) Part Article 147, the approach referred to in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162.

...

~~*AIF*~~

~~means an *alternative investment fund*.~~

…

*alternative investment fund* or *AIF*

has the meaning given in regulation 3 of the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773).~~means a collective investment undertaking, including investment compartments thereof which:~~

~~(1) raises capital from a number of investors, with the intention of investing it in accordance with a defined investment policy for the benefit of those investors; and~~

~~(2) does not require authorisation pursuant to article 5 of the *UCITS Directive*.~~

...

*ancillary services undertaking*

~~means:~~

~~(1) an *undertaking*, the principal activity of which consists of owning or managing property, managing data-processing services, or a similar activity which is ancillary to the principal activity of one or more *credit institutions*, *investment firms* or *insurers*; or~~

~~(2) in the Solvency II Firms Sector, except in the Financial Conglomerates Part, a *non-regulated undertaking*, the principal activity of which consists of owning or managing property, managing data-processing services, health and care services or any other similar activity which is ancillary to the principal activity of one or more *insurers*.~~

(1) ((A) when used in italics in the definitions of *financial sector entity* and *unconsolidated entity* in the *PRA* Rulebook Glossary and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) has the meaning given in regulation 1(2) of the *Financial Conglomerates Regulations*;

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(18) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector, except in the Financial Conglomerates Part) means a *non-regulated undertaking*, the principal activity of which consists of owning or managing property, managing data-processing services, health and care services or any other similar activity which is ancillary to the principal activity of one or more *insurers*; or

(3) (elsewhere in the *PRA* Rulebook) means an *undertaking*, the principal activity of which consists of owning or managing property, managing data-processing services, or a similar activity which is ancillary to the principal activity of one or more *credit institutions*, *investment firms* or *insurers*.

*Annex 1 activities*

means the following activities:

(1) taking deposits and other repayable funds;

(2) lending, including:

(a) providing consumer credit;

(b) entering into credit agreements relating to immovable property;

(c) factoring (with or without recourse);

(d) financing commercial transactions (including forfeiting);

(3) financial leasing;

(4) payment services as defined in regulation 2 of the *Payment Services Regulations*;

(5) issuing and administering means of payment (including travellers' cheques and bankers' drafts) where such activities are not covered by paragraph (4);

(6) providing guarantees or entering into commitments;

(7) trading for own account or for the account of customers in any of the following:

(a) money-market instruments (including cheques, bills and certificates of deposit)

(b) foreign exchange;

(c) financial futures and options;

(d) exchange and interest rate instruments;

(e) transferable securities;

(8) participation in securities issues and the provision of services relating to such issues;

(9) providing:

(a) advice to *undertakings* in relation to capital structure, industrial strategy and related matters;

(b) advice and services relating to mergers and acquisitions of *undertakings*;

(10) money broking;

(11) providing portfolio management and advice;

(12) safekeeping and administration of securities;

(13) credit reference services;

(14) safe custody service;

(15) issuing electronic money; and

(16) providing a service or carrying on an activity specified in Parts 3 or 3A of Schedule 2 to the *Regulated Activities Order* relating to any of the financial instruments specified in Part 1 of that Schedule.

[Note 1: This rule corresponds to Article 4(1)(26A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

[Note 2: Article 4(1)(26A) of *CRR* referred to and amends the list of activities in Annex 1 to the *CRD* as it had effect immediately before *IP completion day*]

...

*applicable accounting framework*

has the same meaning as the term '*accounting principles*' in the *PRA* Rulebook Glossary.

[Note: This rule corresponds to Article 4(1)(77) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*approved credit institution*

means a *credit institution* recognised or permitted under the law of the *UK* to carry on any of the ~~activities set out in Annex 1 to the *CRD*~~*Annex 1 activities*.

...

*Article 18(6) relationship*

means a relationship of one of the following kinds:

(1) where an ~~*institution*~~*institution* exercises a significant influence over one or more ~~*institutions*~~*institutions* or ~~*financial institutions*~~*financial institutions*, but without holding a ~~*participation*~~*participation* or other capital ties in these ~~*institutions*~~*institutions*; or

(2) where two or more ~~*institutions*~~*institutions* or ~~*financial institutions*~~*financial institutions* are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.

~~*Article 18(8) relationship*~~

~~means:~~

~~a subsidiary (as defined in Article 4(1)(16) of the *CRR*) of the *firm* or an *undertaking* in which the *firm* holds a participation (as defined in Article 4(1)(35) of the *CRR*), other than an *institution, financial institution* or ancillary services undertaking (as defined in Article 4(1)(18) of the *CRR*), where all the following conditions are met:~~

~~(1) the *undertaking* is not a *UK Solvency II firm*, a *third country branch undertaking*, an *insurance holding company* or an *undertaking* within Article 4(1)(27)(k) of *CRR*; and~~

~~(2) there is a substantial risk that the *firm* provides financial support to that subsidiary or *undertaking* in stressed conditions, in the absence of, or in excess of any contractual obligations to provide such support.~~

*asset management company*

~~means an *undertaking* with a *Part 4A permission* under Article 51ZA of the *Regulated Activities Order* (Managing a *UCITS*) or an *undertaking*, the registered office of which is outside the *UK* and which would require such permission if it had its registered office within the *UK*.~~

(1) ((A) when used in italics in the definition of *unconsolidated entity* in the *PRA* Rulebook Glossary and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) has the meaning given in section 417 of *FSMA*; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(19) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) means an *undertaking* with a *Part 4A permission* under Article 51ZA of the *Regulated Activities Order* (Managing a UK UCITS) or an *undertaking*, the registered office of which is outside the *UK* and which would require such permission if it had its registered office within the *UK*.

...

*basic own funds*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook):~~

(1) (in relation to a *UK Solvency II firm* and Lloyd's), has the meaning given in Own Funds 2.2; or

(2) (in relation to an *insurance holding company*) means an *own funds* item referred to in Own Funds 2.2, determined in accordance with (1) as if it were a *UK Solvency II firm*.

(3) [deleted]

[Note 1: Art. 88 of the *Solvency II Directive*]

[Note 2: This rule corresponds to Article 4(1)(101) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*branch*

means:

(1) (in relation to ~~*a credit institution*~~an *institution*) a place of business which forms a legally dependent part of ~~*a credit institution*~~an *institution* and which carries out directly all or some of the transactions inherent in the business of ~~*credit institutions*~~*institutions*.

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(17) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in relation to an *investment firm*, other than a *designated investment firm*) a place of business which:

(a) is not the *firm's* head office;

(b) is part of the *firm*;

(c) has no legal personality; and

(d) provides *investment services and/or activities*; and

(e) may also perform *ancillary services* for which the *investment firm* has *permission* under Part 4A of *FSMA*.

…

*cash assimilated instrument*

means a certificate of deposit, a bond, including a covered bond, or any other non-subordinated instrument, which has been issued by an *institution* or *investment firm*, for which the *institution* or *investment firm* has already received full payment and which shall be unconditionally reimbursed by the *institution* or *investment firm* at its nominal value.

[Note: This rule corresponds to Article 4(1)(60) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*central banks*

means the *Bank of England*, the European Central Bank and the central banks of *third countries*.

[Note: This rule corresponds to Article 4(1)(46) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*central counterparty* or *CCP*

means a *body corporate* or unincorporated association which interposes itself between the counterparties to the contracts traded on one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

[Note: This rule corresponds to Article 4(1)(34) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*clearing member*

means an *undertaking* which participates in a *CCP* and which is responsible for discharging the financial obligations arising from that participation.

[Note: This rule corresponds to Article 300(3) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*close links*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook) means a situation in which two or more *persons* are linked by *control* or *participation*, or a situation in which two or more *persons* are permanently linked to one and the same *person* by a *control* relationship.~~

~~[Note: Art. 13(17) of the *Solvency II Directive*]~~

means:

(1) (when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) a situation in which two or more *persons* are linked in any of the following ways:

(a) *participation* in the form of ownership, direct or by way of *control*, of 20% or more of the voting rights or capital of an *undertaking*;

(b) *control*; or

(c) a permanent link of both or all of them to the same third person by a *control* relationship; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(38) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector of the *PRA* Rulebook) a situation in which two or more *persons* are linked by *control* or *participation*, or a situation in which two or more *persons* are permanently linked to one and the same *person* by a *control* relationship.

[Note: Art. 13(17) of the *Solvency II Directive*]

...

*collective investment undertaking* or *CIU*

means a *UCITS* or an *alternative investment fund*.

[Note: This rule corresponds to Article 4(1)(7) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*commodities finance exposure*

means an ~~exposure~~*exposure* that is providing short-term lending to finance reserves, inventories, or receivables of exchange-traded commodities (including crude oil, metals, or

crops), where the ~~exposure~~*exposure* will be repaid from the proceeds of the sale of the commodity and the obligor has no independent capacity to repay the ~~exposure~~*exposure*.

...

*commodity risk*

means the risk of losses arising from movements in commodity prices.

[Note: This rule corresponds to Article 4(1)(143) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*Common Equity Tier 1 capital* or *common equity tier 1 capital*

has the meaning given in Article 50 (Chapter 3 (Own Funds (Part Two CRR))) of the Own Funds (CRR) Part.

*Common Equity Tier 1 instruments* or *common equity tier 1 instruments*

means capital instruments that meet the applicable conditions set out in Chapter 2 and Chapter 6 of Title 1 of Chapter 3 (Own Funds (Part Two CRR)) of the Own Funds (CRR) Part.

*Common Equity Tier 1 items* or *common equity tier 1 items*

has the meaning given in Article 26 (Chapter 3 (Own Funds (Part Two CRR))) of the Own Funds (CRR) Part.

*common management relationship*

~~means:~~

(1) (in the CRR ~~firms~~Firms and Non-CRR ~~firms~~Firms Sectors, including in the Financial Conglomerates Part, of the *PRA* Rulebook) has the meaning given in ~~Article 4(1) CRR~~regulation 1(2) of the Financial Conglomerates Regulations; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(38A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II ~~firms~~Firms and Non-Solvency II ~~firms~~Firms Sectors of the *PRA* Rulebook, except in the Financial Conglomerates Part) means a relationship between two or more *undertakings* which satisfies the following conditions:

(a) the *undertakings* are not connected in the manner described in section 1162 of, and Schedule 7 to, the Companies Act 2006; and

(b) either:

(i) the *undertakings* are managed on a unified basis pursuant to a contract with one of them, or provisions in the *undertakings'* respective memoranda or articles of association; or

(ii) the *governing bodies* of those *undertakings* consist, for the major part, of the same persons in office during the financial year in respect of which it is being decided whether such a relationship exists~~; and~~.

(3) ~~(in the Financial Conglomerates Part) has the meaning given in Article 4(1) CRR.~~[deleted]

...

*competent authority*

means:

(1) the *PRA*, in respect of *PRA-authorised persons* within the meaning of section 2B(5) of *FSMA*;

(2) ~~in relation to a *MiFID investment firm* the authority designated before *IP completion day* by the *UK* in accordance with Article 67 of *MiFID II*;~~[deleted]

(3) subject to (4), the *FCA*, in respect of any other *person*~~.~~; or

(4) where the context requires, a public authority or body officially recognised by national law, which is empowered by national law to supervise *persons* as part of the supervisory system in operation in the *UK* (or, where the context requires, *a third country*).

[Note: Limbs (1) and (4) of this definition are rules that correspond to Article 4(1)(40) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*consolidated basis*

means on the basis of the *consolidated situation*.

[Note: This rule corresponds to Article 4(1)(48) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*consolidated situation*

means the situation that results from applying a rule or requirement in accordance with Articles 11, 18, 19, 23 and 24 of the Groups Part to an *institution* as if that *institution* formed, together with one or more other entities, a single *institution*.

[Note: This rule corresponds to Article 4(1)(47) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*consolidating supervisor*

means the *competent authority* responsible for the exercise of supervision on a *consolidated basis* of:

(1) a *UK parent institution*; or

(2) an ~~institution~~*institution* ~~controlled~~*controlled* by a *UK parent financial holding company* or *UK parent mixed financial holding company*.

[Note: This rule corresponds to Article 4(1)(41) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*control*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook) means the relationship between a *parent undertaking* and a *subsidiary undertaking* where that relationship falls within (1) to (6) of the definition of *parent undertaking*, or a similar relationship between any *person* and an *undertaking*.~~

~~[Note: Art. 13(18) of the *Solvency II Directive*]~~

means:

(1) ((A) when used in italics in (i) limb (1) of the definition of *close links* and anywhere in the definitions of *consolidating supervisor* and *group of connected clients* in the *PRA*

Rulebook Glossary and (ii) in the Remuneration Part and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) the relationship between a parent undertaking and a subsidiary undertaking, as defined in section 1162 of, and Schedule 7 to, the Companies Act 2006, or the accounting standards to which an *institution* is subject under section 403(1) of the Companies Act 2006, or a similar relationship between any *person* and an *undertaking*; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(37) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector of the *PRA* Rulebook) the relationship between a *parent undertaking* and a *subsidiary undertaking* where that relationship falls within limbs (2)(a)-(f) of the definition of *parent undertaking*, or a similar relationship between any *person* and an *undertaking*.

[Note: Art. 13(18) of the *Solvency II Directive*]

...

*countercyclical leverage ratio buffer*

means the amount of ~~common equity tier 1 capital as defined in Article 50 of the *CRR*~~*Common Equity Tier 1 capital* a *firm* or *CRR consolidation entity* must calculate in accordance with 4.1 and 4.2 of the Leverage Ratio – Capital Requirements and Buffers Part.

...

*credit enhancement*

means a contractual arrangement whereby the credit quality of a *securitisation position* is improved in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior *tranches* in the *securitisation* and other types of credit protection.

[Note: This rule corresponds to Article 4(1)(65) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*credit institution*

~~has the meaning given in point (1) of Article 4(1) of the *CRR*.~~means an *undertaking* the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account.

[Note: This rule corresponds to Article 4(1)(1) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*credit risk adjustment*

means the amount of specific and general loan loss provision for credit risks that has been recognised in the financial statements of the *institution* in accordance with the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(95) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*credit risk mitigation*

means a technique used by an *institution* to reduce the credit risk associated with an *exposure* or *exposures* which that *institution* continues to hold.

[Note: This rule corresponds to Article 4(1)(57) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*CRR covered bonds*

means bonds issued by a *credit institution* which:

(1) has its registered office in the *UK*; and

(2) is subject by law to special public supervision designed to protect bondholders and in particular protection under which:

(a) sums deriving from the issue of the bond must be invested in conformity with the law in assets;

(b) during the whole period of validity of the bond, those sums are capable of covering claims attaching to the bond; and

(c) in the event of failure of the issuer, those sums would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

[Note: This rule corresponds to Article 4(1)(128A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*CRR firm*

means a *UK bank*, a *building society* or a *UK designated investment firm*.

[Note: This rule corresponds to Article 4(1)(2A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*CRR rules*

has the same meaning as in section 144A of *FSMA*.

[Note: This rule corresponds to Article 4(1A) of *CRR* (to the extent it defined the term 'CRR rules') as it applied immediately before its revocation by the *Treasury*]

*CRR terms*

means the terms included in the CRR Terms List.

...

*CVA*

means an adjustment of the default risk-free price of a derivative or ~~securities financing transaction~~*securities financing transaction* due to a potential default of the counterparty.

*CVA risk*

means the risk of losses arising from changing *CVA* values in response to changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions and ~~securities financing transactions~~*securities financing transaction*.

...

*default fund*

means a fund that a *CCP* maintains relating to the default of its *clearing members*.

[Note: This rule corresponds to Article 4(1)(89) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*deferred tax assets*

has the same meaning as under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(106) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*deferred tax assets that rely on future profitability*

means *deferred tax assets* the future value of which may be realised only in the event the *institution* generates taxable *profit* in the future.

[Note: This rule corresponds to Article 4(1)(107) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*deferred tax liabilities*

has the same meaning as under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(108) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*defined benefit asset*

means the excess of the value of the assets in a *defined benefit occupational pension scheme* over the present value of the scheme liabilities, to the extent that a *firm*, as employer, in accordance with the *accounting principles* applicable to it, should recognise that excess as an asset in its balance sheet.

[Note: This rule corresponds to Article 4(1)(109) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*designated investment firm*

means an ~~investment firm~~*investment firm* ~~that has been~~which is for the time being designated by the *PRA* under Article 3 of Financial Services and Markets Act 2000 (PRA-regulated Activities) Order 2013 (~~S.I.~~SI 2013/556).

[Note: This rule corresponds to Article 4(1)(2AA) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*dilution risk*

means the risk that an amount receivable is reduced through cash or non-cash credits to the obligor.

[Note: This rule corresponds to Article 4(1)(53) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*discretionary pension benefits*

means enhanced pension benefits granted on a discretionary basis by an *institution* to an *employee* as part of that *employee's* variable remuneration package, which do not include accrued benefits granted to an *employee* under the terms of the company pension scheme.

[Note: This rule corresponds to Article 4(1)(73) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*distributable items*

means the amount of the *profits* at the end of the last financial year plus any *profits* brought forward and reserves available for that purpose, before distributions to holders of *own funds instruments*, less any losses brought forward, any *profits* which are non-distributable pursuant to the law of the *UK*, or any part of it, or of a *third country* or the *institution's* by-laws and any sums placed in non-distributable reserves in accordance with the law of the *UK*, or any part of it, or of a *third country* or the statutes of the *institution*, in each case with respect to the specific category of *own funds instruments* to which the law of the *UK*, or any part of it, or of a *third country*, *institutions'* by-laws, or statutes relate; such *profits*, losses and reserves being determined on the basis of the individual accounts of the *institution* and not on the basis of the consolidated accounts.

[Note: This rule corresponds to Article 4(1)(128) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*distributions*

means the payment of dividends or interest in any form.

[Note: This rule corresponds to Article 4(110) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*early amortisation provisions*

means a contractual clause in a *securitisation* of *revolving exposures* or a *revolving securitisation*, which requires, on the occurrence of defined events, investors' *securitisation positions* to be redeemed before the originally stated maturity of those positions.

[Note: This rule corresponds to Article 242(16) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*eligible capital*

means the sum of the following:

(1) *Tier 1 capital*, without applying the deduction in Article 36(1)(k)(i) of the Own Funds (CRR) Part;

(2) *Tier 2 capital* that is equal to or less than one third of *Tier 1 capital* as calculated pursuant to paragraph (1).

[Note: This rule corresponds to Article 4(1)(71) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*equity exposure*

in the Credit Risk: General Provisions (CRR) Part, the Credit Risk: Standardised Approach (CRR) Part and the Credit Risk: Internal Ratings Based Approach (CRR) Part means an ~~exposure~~*exposure* which meets the requirements in paragraphs 1 and 2 of Credit Risk: Standardised Approach (CRR) Part Article 133.

...

*expected loss* or *EL*

when used for purposes of the Credit Risk: General Provisions (CRR) Part, Credit Risk: Standardised Approach (CRR) Part, Credit Risk: Internal Ratings Based Approach (CRR) Part, Credit Risk Mitigation (CRR) Part, Securitisation (CRR) Part and Counterparty Credit Risk (CRR) Part means, unless the context otherwise requires, the ratio of the amount expected to be lost on an *exposure* from a potential default of a counterparty or dilution over a one-year period to the amount outstanding at default. The expression 'lost' in this definition is to be read consistently with the definition of *loss* in the *PRA* Rulebook Glossary.

[Note: This rule corresponds to Article 5(3) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*exposure*

((A) when used for purposes of the Credit Risk: General Provisions (CRR) Part, Credit Risk: Standardised Approach (CRR) Part, Credit Risk: Internal Ratings Based Approach (CRR) Part, Credit Risk Mitigation (CRR) Part, Securitisation (CRR) Part and Counterparty Credit Risk (CRR) Part and (B) when used in italics in the *PRA* Rulebook Glossary) means an asset or off-balance sheet item.

[Note: This rule corresponds to Article 5(1) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*external credit assessment institution* or *ECAI*

means a *credit rating agency*, or a *central bank* issuing credit ratings which is exempt from the application of Regulation (EC) No 1060/2009 and which is included in a list of exempt *central banks* published by *Treasury* on its website.

[Note: This rule corresponds to Article 4(1)(98) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*FCA investment firm*

means an *investment firm* that:

(1) is an authorised person within the meaning of section 31(1)(a) of *FSMA*; and

(2) is not a *designated investment firm*.

[Note: This rule corresponds to Article 4(1)(2AB) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*Financial Collateral Simple Method*

means the method set out in paragraphs 2 to 7 of Credit Risk Mitigation (CRR) Part Article 222 for calculating exposure values and assigning risk weights to collateralised ~~exposures~~*exposures*.

...

*financial holding company*

has the meaning given in ~~point (20) of Article 4(1) of the *CRR*~~section 417 of *FSMA*.

[Note: This rule corresponds to Article 4(1)(20) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*financial institution*

has the meaning given in ~~point (26) of Article 4(1) of the *CRR*~~section 417 of *FSMA*.

[Note: This rule corresponds to Article 4(1)(26) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*financial instruments*

~~means those instruments specified in Part 1 of Schedule 2 to the *Regulated Activities Order*, read with Part 2 of that Schedule.~~means:

(1) ((A) when used in italics in the definitions of *recognised exchange*, *synthetic holding* and *trading book* in the *PRA* Rulebook Glossary and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) any of the following:

(a) a contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party;

(b) an instrument specified in Part 1 of Schedule 2 to the *Regulated Activities Order*;

(c) a derivative financial instrument;

(d) a primary financial instrument; and

(e) a cash instrument.

The instruments referred to in paragraphs (a), (b) and (c) are only *financial instruments* if their value is derived from the price of an underlying *financial instrument* or another underlying item, a rate, or an index.

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(50) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) those instruments specified in Part 1 of Schedule 2 to the *Regulated Activities Order*, read with Part 2 of that Schedule.

*financial sector entity*

means any of the following:

(1) an *institution*;

(2) a *financial institution*;

(3) an *ancillary services undertaking* included in the *consolidated situation* of an *institution*;

(4) an *insurance undertaking*;

(5) a *third-country insurance undertaking*;

(6) a *reinsurance undertaking*;

(7) a *third-country reinsurance undertaking*;

(8) an *insurance holding company*;

(9) a *non-directive insurer*;

(10) a *firm* with a *Part 4A permission* to *effect contracts of insurance* or *carry out contracts of insurance* where the *firm* has the *permission* by reason only of the operation of the EEA Passport Rights (Amendment etc., and Transitional Provisions) (EU Exit) Regulations 2018; or

(11) a *third country firm* with a main business comparable to any of the entities referred to in (1) to (10).

[Note: This rule corresponds to Article 4(1)(27) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*first loss tranche*

means the most subordinated *tranche* in a *securitisation* that is the first *tranche* to bear ~~losses~~*losses* incurred on the securitised ~~exposures~~*exposures* and thereby provides protection to the second loss and, where relevant, higher ranking *tranches*.

[Note: This rule corresponds to Article 242(17) of ~~the~~ *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*foreign exchange risk*

means the risk of losses arising from movements in foreign exchange rates.

[Note: This rule corresponds to Article 4(1)(142) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*Foundation IRB Approach*

means:

...

(3) in relation to maturity for ~~exposures to corporates and *institutions*~~the exposure classes referred to in points (b) and (c) of paragraph 2 of Credit Risk: Internal Ratings Based (CRR) Part Article 147, the approach referred to in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 162.

...

*funded credit protection*

means a technique of *credit risk mitigation* where the reduction of the credit risk on the *exposure* of an *institution* derives from the right of that *institution*, in the event of the default of the counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the *exposure* to, or to replace it with, the amount of the difference between the amount of the *exposure* and the amount of a claim on the *institution*.

[Note: This rule corresponds to Article 4(1)(58) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*global systemically important institution* or *G-SII*

~~has the meaning given in point (133) of Article 4(1) of the *CRR*.~~means a *person* that has been included on the *PRA*'s most recently published list of G-SIIs.

[Note: This rule corresponds to Article 4(1)(133) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*goodwill*

has the same meaning as under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(113) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*group*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook) means a *group* of *undertakings* that:~~

~~(1) consists of a *participating undertaking*, its *subsidiary undertakings* and the *undertakings* in which it holds a *participation*, as well as *undertakings* linked to each other by a *common management relationship*; or~~

~~(2) consists of a *mutual-type group*.~~

~~[Note: Art. 212(1)(c) of the *Solvency II Directive*]~~

means:

(1) ((A) when used in italics in the definitions of *small and non-complex institution* and *third country banking and investment group* in the *PRA* Rulebook Glossary and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) a group of *undertakings* of which at least one is an *institution* and which consists of a *parent undertaking* and its *subsidiaries*, or of *undertakings* that are related to each other pursuant to a *common management relationship*; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(138) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector of the *PRA* Rulebook) means a group of *undertakings* that:

(a) consists of a *participating undertaking*, its *subsidiary undertakings* and the *undertakings* in which it holds a *participation*, as well as *undertakings* linked to each other by a *common management relationship*; or

(b) consists of a *mutual-type group*.

[Note: Art. 212(1)(c) of the *Solvency II Directive*]

...

*group of connected clients*

means any of the following:

(1) two or more *persons* who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has *control* over the other or others; or

(2) two or more *persons* between whom there is no relationship of *control* as described in paragraph (1) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would also be likely to encounter funding or repayment difficulties,

provided that:

(3) notwithstanding paragraph (1) and (2), where a central government has direct *control* over, or is directly interconnected with, more than one *person*, the set consisting of the central government and all of the *persons* directly or indirectly *controlled* by it in accordance with paragraph (1), or interconnected with it in accordance with paragraph (2), may be considered as not constituting a *group of connected clients*. Instead the existence of a *group of connected clients* formed by the central government and other

*persons* may be assessed separately for each of the *persons* directly *controlled* by it in accordance with paragraph (1), or directly interconnected with it in accordance with paragraph (2), and all of the *persons* which are *controlled* by that *person* according to paragraph (1) or interconnected with that *person* in accordance with paragraph (2), including the central government. The same applies in relation to the Scottish Government, the Welsh Government or the Northern Ireland Executive; and

(4) two or more *persons* who fulfil the conditions set out in paragraph (1) or (2) because of their direct *exposure* to the same *CCP* for clearing activities purposes are not considered as constituting a *group of connected clients*.

[Note: This rule corresponds to Article 4(1)(39) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*higher risk equity exposure*

means an *equity exposure* that is:

(1) not listed on a ~~recognised exchange~~*recognised exchange* or on an investment exchange that satisfies the market structure condition as set out in ~~2.1(1) and 2.1(a) of the Recognised Exchanges (CRR) Part~~the definition of *recognised exchange* in the *PRA* Rulebook Glossary; and

...

*independent price verification*

means a process by which market prices or *marking to model* inputs are regularly verified for accuracy and independence.

[Note: This rule corresponds to Article 4(1)(70) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*indirect holding*

means any exposure to an intermediate entity that has an exposure to capital instruments issued by a *financial sector entity* where, in the event the capital instruments issued by the *financial sector entity* were permanently written off, the loss that the *institution* would incur as a result would not be materially different from the loss the *institution* would incur from a direct holding of those capital instruments issued by the *financial sector entity*.

[Note: This rule corresponds to Article 4(1)(114) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*individual basis*

means on an individual basis excluding any ~~subsidiaries~~*subsidiaries* or, if an *individual consolidation permission* has first been granted by the *PRA*, on the basis of the relevant entity including ~~subsidiaries~~*subsidiaries* to the extent and subject to any modifications set out in that permission.

...

*initial margin* or *IM*

~~in respect of a *derivative* or a contract or asset having the effect of a *derivative* means assets which, before or at the time the contract is entered into, are transferred by the *firm* subject to a condition that such assets (or, where the assets transferred are *securities*, *equivalent securities*) will be returned to the *firm* on completion of that contract.~~means:

(1) ((A) when used in italics in the definition of *trade exposure* in the *PRA* Rulebook Glossary and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) any collateral, other than variation margin, collected from or posted to an entity to cover the current and potential future exposure of a transaction or of a portfolio of transactions in the period needed to liquidate those transactions, or to re-hedge their *market risk*, following the default of the counterparty to the transaction or portfolio of transactions; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(140) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) in respect of a *derivative* or a contract or asset having the effect of a *derivative* means assets which, before or at the time the contract is entered into, are transferred by the *firm* subject to a condition that such assets (or, where the assets transferred are *securities*, *equivalent securities*) will be returned to the *firm* on completion of that contract.

*institution*

~~has the meaning given in point (3) of Article 4(1) of the *CRR*.~~means a *credit institution* or a *designated investment firm*.

[Note: This rule corresponds to Article 4(1)(3) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*insurance undertaking*

~~means an *undertaking* or a *member*, that carries on *insurance business*, whether or not an *insurer*.~~means:

(1) ((A) when used in italics in the definition of *financial sector entity* and in limb (1) of the definition of *reinsurance undertaking* in the *PRA* Rulebook Glossary and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) a *UK Solvency II firm* or Lloyd's; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(5) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) an *undertaking* or a *member*, that carries on *insurance business*, whether or not an *insurer*.

...

*intangible assets*

has the same meaning as under the *applicable accounting framework* and includes *goodwill*.

[Note: This rule corresponds to Article 4(1)(115) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*internal hedge*

means a position that materially offsets the component risk elements between a *trading book* position and one or more non-*trading book* positions or between two *trading desks*.

[Note: This rule corresponds to Article 4(1)(96) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*investment firm*

~~means any *person* whose regular occupation or business is the provision of one or more *investment services* to third parties and/or the performance of one or more *investment activities* on a professional basis.~~

(1) ((A) when used in italics in (i) the definitions of *cash assimilated instrument*, *designated investment firm*, *FCA investment firm* and *investment holding company* in the *PRA* Rulebook Glossary and (ii) the Depositor Protection Part, the Recovery Plans Part, the Securitisation Part and the Stay in Resolution Part and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) has the meaning given to the term 'Part 4A investment firm' in section 417 of *FSMA*; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(2) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) means any *person* whose regular occupation or business is the provision of one or more *investment services* to third parties and/or the performance of one or more *investment activities* on a professional basis.

*investment holding company*

~~has the meaning given in point (22A) of Article 4(1) of the CRR.~~means a *financial institution* which is not a *financial holding company* and whose *subsidiaries*:

(1) are exclusively or mainly *investment firms* or *financial institutions*; and

(2) include at least one *investment firm*.

[Note: This rule corresponds to Article 4(1)(22A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*large institution*

means an *institution* that meets any of the following conditions:

(1) it is a *G-SII*;

(2) it has been identified as an *O-SII*; or

(3) the total value of its assets on an *individual basis* or, where applicable, on a *consolidated basis* is equal to or greater than GBP 26 billion.

[Note: This rule corresponds to Article 4(1)(146) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*large subsidiary*

means a *subsidiary* that qualifies as a *large institution*.

[Note: This rule corresponds to Article 4(1)(147) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*leverage*

means the relative size of an *institution's* assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made *commitments*, derivatives or *repurchase agreements*, but excluding obligations

which can only be enforced during the liquidation of an *institution*, compared to that *institution's own funds*.

[Note: This rule corresponds to Article 4(1)(93) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*listed activities*

means ~~an activity listed in Annex 1 to the *CRD*~~any of the *Annex 1 activities*.

...

*loss*

((A) when used for purposes of the Credit Risk: General Provisions (CRR) Part, Credit Risk: Standardised Approach (CRR) Part, Credit Risk: Internal Ratings Based Approach (CRR) Part, Credit Risk Mitigation (CRR) Part, Securitisation (CRR) Part and Counterparty Credit Risk (CRR) Part and (B) when used in italics in the *PRA* Rulebook Glossary) means economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.

[Note: This rule corresponds to Article 5(2) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*loss given default* or *LGD*

unless the context otherwise requires, means:

(1) the expected ratio of the ~~loss~~*loss* on an ~~exposure~~*exposure* related to a single facility due to the default of an obligor or facility, to the amount outstanding at default of that facility; and

(2) in the context of ~~dilution risk~~*dilution risk*, the ~~loss~~*loss* given dilution, namely the expected ratio of the ~~loss~~*loss* on an ~~exposure~~*exposure* due to dilution, to the amount outstanding according to the pledged or purchased receivable.

[Note: This rule corresponds to Article 4(1)(55) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*management body*

means a *firm's* body or bodies, which are appointed in accordance with national law, which are empowered to set the *firm's* strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the *persons* who effectively direct the business of the *firm*.

[Note: This rule corresponds to Article 4(1)(9) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*margin period of risk*

means the time period from the most recent exchange of collateral covering a *netting set* of transactions with a defaulting counterparty until the transactions are closed out and the resulting ~~market risk~~*market risk* is re-hedged.

[Note: This rule corresponds to Article 272(9) of ~~the~~ *CRR* as it applied immediately before its revocation by the *Treasury*]

*market risk*

means:

(1) ~~(except in the Solvency II Firms and Non-Solvency II Firms Sectors of the *PRA* Rulebook) means the risk that arises from fluctuations in values of, or income from assets, or in interest or exchange rates.~~[deleted]

(2) (in the Solvency II Firms and Non-Solvency II Firms Sectors of the *PRA* Rulebook) ~~means~~ the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments~~.~~; or

~~[Note: Art. 13(31) of the *Solvency II Directive*]~~

[Note: Art. 13(31) of the *Solvency II Directive*]

(3) (elsewhere in the *PRA* Rulebook) the risk of losses arising from movements in market prices, including in foreign exchange rates or commodity prices.

[Note: Limb (3) of this definition is a rule that corresponds to Article 4(1)(141) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*market value*

~~means the market value as determined in accordance with generally accepted accounting practice.~~means:

(1) (when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) for the purposes of immovable property, the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(76) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) the market value as determined in accordance with generally accepted accounting practice.

*marking to market*

means the valuation of positions at readily available close out prices that are sourced independently, including exchange prices, screen prices or quotes from several independent reputable brokers.

[Note: This rule corresponds to Article 4(1)(68) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*marking to model*

means any valuation which has to be benchmarked, extrapolated or otherwise calculated from one or more market inputs.

[Note: This rule corresponds to Article 4(1)(69) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*material subsidiary*

means a *subsidiary* that on an *individual basis* or *consolidated basis* meets any of the following conditions:

(1) the *subsidiary* holds more than 5% of the consolidated risk-weighted assets of its *parent undertaking*;

(2) the *subsidiary* generates more than 5% of the total operating income of its *parent undertaking*; or

(3) the *total exposure measure* of the *subsidiary* is more than 5% of the consolidated *total exposure measure* of its *parent undertaking*.

[Note: This rule corresponds to Article 4(1)(135) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*minority interest*

means the amount of *Common Equity Tier 1 capital* of a *subsidiary* of an *institution* that is attributable to *persons* other than the *undertakings* included in the scope of consolidation of the *institution* pursuant to the Groups Part.

[Note: This rule corresponds to Article 4(1)(120) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*mixed financial holding company*

~~means a *parent undertaking* other than a regulated entity, which together with its *subsidiaries*, at least one of which is a regulated entity which has its head office in the *UK*, and other entities constitutes a *financial conglomerate*.~~has the meaning given in regulation 1(2) of the *Financial Conglomerates Regulations*.

[Note 1: Art. 212(1)(h) of the *Solvency II Directive*]

[Note 2: This rule corresponds to Article 4(1)(21) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*mixed-activity holding company* or *mixed activity holding company*

~~has the meaning given in point (22) of Article 4(1) of the *CRR*.~~means a *parent undertaking*, other than a *financial holding company* or an *institution* or a *mixed financial holding company*, the *subsidiaries* of which include at least one *institution*.

[Note: This rule corresponds to Article 4(1)(22) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*model risk*

means the potential loss an *institution* may incur as a consequence of decisions that could be principally based on the output of internal models due to errors in the development, implementation or use of such models.

[Note: This rule corresponds to Article 4(1)(12) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*nominated ECAI*

means an *ECAI* nominated by an *institution* in accordance with either Article 138 of the Credit Risk: Standardised Approach (CRR) Part or Article 270D of the Securitisation (CRR) Part as the context requires.

[Note: This rule corresponds to Article 4(1)(99) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*non-UK global systemically important institution* or *non-UK G-SII*

~~has the meaning given in point (134) of Article 4(1) of the *CRR*.~~means a global systemically important banking group or a bank (G-SIBs) that is included in the list of G-SIBs published by the Financial Stability Board, as regularly updated, which is not a *G-SII*.

[Note: This rule corresponds to Article 4(1)(134) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*object finance exposure*

means an ~~exposure~~*exposure* that is the funding of the acquisition of physical assets (including ships, aircraft, satellites, railcars, and fleets) where the repayment of the ~~exposure~~*exposure* is dependent on the cash-flows generated by the specific assets that have been financed and pledged or assigned to the lender.

...

*one-year default rate*

means the ratio between the number of defaults occurred during a period that starts from one year prior to a date T and the number of obligors or, where applicable, the number of facilities, assigned to this grade or pool one year prior to that date.

[Note: This rule corresponds to Article 4(1)(78) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*operational risk*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook) means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events, including legal risks which, for the purposes of Solvency Capital Requirement – General Provisions 3.3(1), includes legal risks but excludes risks arising from strategic decisions and reputational risks.~~

~~(in the Non-Solvency II Firms Sector of the *PRA* Rulebook) means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.~~

~~[Note: Art. 13(33) and Art. 101(4) of the *Solvency II Directive*]~~

means:

(1) ((A) when used in italics in the Internal Capital Adequacy Assessment Part, (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA* and (C) in the Non-Solvency II Firms Sector of the *PRA* Rulebook) the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(52) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector of the *PRA* Rulebook) the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events,

including legal risks which, for the purposes of Solvency Capital Requirement – General Provisions 3.3(1), includes legal risks but excludes risks arising from strategic decisions and reputational risks.

[Note: Art. 13(33) and Art. 101(4) of the *Solvency II Directive*]

...

*original lender*

has the meaning given in ~~Securitisation 1.3~~regulation 3 of the Securitisation Regulations 2024 (SI 2024/102).

[Note: This rule corresponds to Article 4(1)(14a) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*originator*

has the meaning given in ~~Securitisation 1.3~~regulation 3 of the Securitisation Regulations 2024 (SI 2024/102).

[Note: This rule corresponds to Article 4(1)(13) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*other capital instruments*

means capital instruments issued by *financial sector entities* that do not qualify as *Common Equity Tier 1 instruments*, *Additional Tier 1 instruments* or *Tier 2 instruments* or *Tier 1 own-fund insurance items*, *Additional Tier 1 own-fund insurance items*, *Tier 2 own-fund insurance items* or *Tier 3 own-fund insurance items*.

[Note: This rule corresponds to Article 4(1)(116) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*other reserves*

means reserves within the meaning of the *applicable accounting framework* that are required to be disclosed under the applicable accounting standard, excluding any amounts already included in *accumulated other comprehensive income* or *retained earnings*.

[Note: This rule corresponds to Article 4(1)(117) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*own funds*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook) means:~~

~~(1) (in relation to a *UK Solvency II firm* and Lloyd's) the *firm's* aggregate *basic own funds* and *ancillary own funds* as determined in accordance with the Own Funds Part of the *PRA* Rulebook; or~~

~~(2) (in relation to an *insurance holding company*) own funds determined in accordance with (1) as if it were a *UK Solvency II firm*.~~

~~(3) [deleted]~~

~~[Note: Art. 87 of the *Solvency II Directive*]~~

means:

(1) ((A) when used in italics in (i) the definition of *leverage* in the *PRA* Rulebook Glossary and (ii) the Capital Buffers Part, the Definition of Capital Part, the Depositor Protection

Part, the Internal Capital Adequacy Assessment Part, the Notifications Part, the Recovery Plans Part and the Regulatory Reporting Part and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) the sum of *Tier 1 capital* and *Tier 2 capital*; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(118) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector of the *PRA* Rulebook):

(a) (in relation to a *UK Solvency II firm* and Lloyd's) the *firm*'s aggregate *basic own funds* and *ancillary own funds* as determined in accordance with the Own Funds Part of the *PRA* Rulebook; or

(b) (in relation to an *insurance holding company*) own funds determined in accordance with (a) as if it were a *UK Solvency II firm*.

(c) [deleted]

[Note: Art. 87 of the *Solvency II Directive*]

*own funds instruments*

means capital instruments issued by an *institution* that qualify as *Common Equity Tier 1 instruments*, *Additional Tier 1 instruments* or *Tier 2 instruments*.

[Note: This rule corresponds to Article 4(1)(119) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*parent undertaking*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook) means an *undertaking* which has the following relationship to another *undertaking* ("S"):~~

~~(1) it holds a majority of the voting rights in S; or~~

~~(2) it is a member of S and has the right to appoint or remove a majority of its board of *directors*; or~~

~~(3) it has the right to exercise a dominant influence over S through:~~

~~(a) provisions contained in S's memorandum or articles; or~~

~~(b) a control contract; or~~

~~(4) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or~~

~~(5)~~

~~(a) it has the power to exercise, or actually exercises, dominant influence or control over S; or~~

~~(b) it and S are managed on a unified basis; or~~

~~(6) it is a *parent undertaking* of a *parent undertaking* of S; or~~

~~(7) where it effectively exercises a dominant influence over S;~~

~~and~~

~~(8) in relation to (2) and (4), the *undertaking* will be treated as a member of S if any of its *subsidiary undertakings* is a member of S, or if any *shares* in S are held by a person acting on behalf of the *undertaking* or any of its *subsidiary undertakings*;~~

~~(9) the provisions of Schedule 7 to the Companies Act 2006 (Parent and subsidiary undertakings: supplementary provisions) explain the expressions used in and supplement paragraphs (1) to (6).~~

~~[Note: Art. 212(2) of the *Solvency II Directive*]~~

means:

(1) ((A) when used in italics in (i) limb (1) of the definition of *group* and anywhere in the definitions of *material subsidiary*, *mixed activity holding company* or *mixed-activity holding company* and *sub-consolidated basis* in the *PRA* Rulebook Glossary and (ii) the Group Financial Support Part, the Group Risk Systems Part, the Recovery Plans Part, the Securitisation Part and the Stay in Resolution Part and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) a parent undertaking within the meaning of section 1162 of, and Schedule 7 to, the Companies Act 2006; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(15) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector of the *PRA* Rulebook) an *undertaking* which has the following relationship to another *undertaking* ('S'):

(a) it holds a majority of the voting rights in S;

(b) it is a member of S and has the right to appoint or remove a majority of its board of *directors*;

(c) it has the right to exercise a dominant influence over S through:

(i) provisions contained in S's memorandum or articles; or

(ii) a control contract;

(d) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S;

(e)

(i) it has the power to exercise, or actually exercises, dominant influence or control over S; or

(ii) it and S are managed on a unified basis;

(f) it is a *parent undertaking* of a *parent undertaking* of S; or

(g) where it effectively exercises a dominant influence over S;

and:

(h) in relation to (b) and (d), the *undertaking* will be treated as a member of S if any of its *subsidiary undertakings* is a member of S, or if any shares in S are held by a person acting on behalf of the *undertaking* or any of its *subsidiary undertakings*;

(i) the provisions of section 1162(7) of the Companies Act 2006 and Schedule 7 to the Companies Act 2006 (Parent and subsidiary undertakings: supplementary provisions) explain the expressions used in and supplement paragraphs (a) to (f).

[Note: Art. 212(2) of the *Solvency II Directive*]

...

*Part 4A permission*

means a permission given by the *FCA* or *PRA* under Part 4A of *FSMA* (Permission to carry on regulated activities), or having effect as if so given.

[Note: This rule corresponds to Article 4(1A) of *CRR* (to the extent it defined the term 'Part 4A permission') as it applied immediately before its revocation by the *Treasury*]

*Part 9C rules*

has the meaning given in section 143F of *FSMA*.

[Note: This rule corresponds to Article 4A(3) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*participation*

~~(in the Solvency II Firms Sector of the *PRA* Rulebook) means:~~

~~(1) the ownership, direct or by way of *control*, of 20% or more of the voting rights or capital of an *undertaking*; or~~

~~(2) where an *undertaking* which holds, directly or indirectly, voting rights or capital in another *undertaking* over which it effectively exercises a significant influence.~~

~~[Note: Art. 13(20) and 212(2) of the *Solvency II Directive*]~~

(1) ((A) when used in italics in (i) the definition of *Article 18(6) relationship* and limb (1) of the definition of *close links* in the *PRA* Rulebook Glossary and (ii) the Financial Conglomerates Part and the Large Exposures Part and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) means:

(a) the ownership, direct or indirect, of 20% or more of the voting rights or capital in an *undertaking*, or

(b) the ownership, direct or indirect, of voting rights or capital in an *undertaking* for the purpose of maintaining links with that *undertaking* on a long-term basis which contribute to the activities of the *undertaking* which owns those voting rights or that capital; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(35) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (in the Solvency II Firms Sector of the *PRA* Rulebook) means:

(a) the ownership, direct or by way of *control*, of 20% or more of the voting rights or capital of an *undertaking*; or

(b) where an *undertaking* which holds, directly or indirectly, voting rights of capital in another *undertaking* over which it effectively exercises a significant influence.

[Note: Art. 13(20) and 212(2) of the *Solvency II Directive*]

...

*positions held with trading intent*

means any of the following:

(1) proprietary positions and positions arising from client servicing and market making;

(2) positions intended to be resold short term; or

(3) positions intended to benefit from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations.

[Note: This rule corresponds to Article 4(1)(85) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*PRA approved intermediate holding company*

means a *financial holding company* or *mixed financial holding company* ~~within the meaning of points (20) and (21) respectively of Article 4(1) of the *CRR*~~ that ~~th~~is not a *UK parent financial holding company* or a *UK parent mixed financial holding company* and that is approved under Part 12B of *FSMA*.

...

*PRA designated intermediate holding company*

means a *financial holding company* or *mixed financial holding company* ~~within the meaning of points (20) and (21) respectively of Article 4(1) of the *CRR*~~ that ~~th~~is not a *UK parent financial holding company* or a *UK parent mixed financial holding company* and that is designated under Part 12B of *FSMA*.

...

*pre-funded contribution to the default fund of a CCP*

means a contribution to the *default fund* of a *CCP* that is paid in by an *institution*.

[Note: This rule corresponds to Article 4(1)(90) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*probability of default* or *PD*

unless the context otherwise requires, means:

(1) the probability of default of an obligor or, where applicable, facility, over a one-year period; and

(2) in the context of ~~dilution risk~~*dilution risk*, the probability of dilution over that one-year period.

[Note: This rule corresponds to Article 4(1)(54) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*profit*

has the same meaning as under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(121) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*project finance exposure*

means an ~~exposure~~*exposure* in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the ~~exposure~~*exposure*.

...

*public sector entity*

means a non-commercial administrative body responsible to central governments, regional governments or local authorities, or to authorities that exercise the same responsibilities as

regional governments and local authorities, or a non-commercial undertaking that is owned by or set up and sponsored by central governments, regional governments or local authorities, and that has explicit guarantee arrangements, and may include self-administered bodies governed by law that are under public supervision.

[Note: This rule corresponds to Article 4(1)(8) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*pure reinsurer*

means an *insurer* whose *insurance business* is restricted to *reinsurance*.

[Note: This rule corresponds to Article 4(1)(6A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*qualifying central counterparty* or *QCCP*

means a *central counterparty* that has been either authorised in accordance with Article 14 of Regulation (EU) No 648/2012 or recognised in accordance with Article 25 of that Regulation.

[Note: This rule corresponds to Article 4(1)(88) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*qualifying holding*

has the meaning given in section 192Q(5) of *FSMA*.

[Note: This rule corresponds to Article 4(1)(36) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*real estate exposure*

means an *ADC exposure* or an ~~exposure~~*exposure* secured by a *charge* on immovable property.

...

*reciprocal cross holding*

means a holding by an *institution* of the *own funds instruments* or other capital instruments issued by *financial sector entities* where those entities also hold *own funds instruments* issued by the *institution*.

[Note: This rule corresponds to Article 4(1)(122) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*recognised exchange*

means an exchange which is:

(1) a *UK regulated market*;

(2) a recognised overseas investment exchange, as defined in regulation 2(1) of the Investment Bank Special Administration Regulations 2011 (SI 2011/245); or

(3) an investment exchange (other than a *UK regulated market* or a recognised overseas investment exchange) where:

(a) the market structure condition; and

(b) in respect of the relevant asset that is traded or listed on that exchange, the asset liquidity condition;

are both satisfied.

In limb (3):

(i) the market structure condition is that the investment exchange:

(1) brings together or facilitates the bringing together of parties for the purpose of buying and selling interests in *financial instruments*;

(2) is authorised (or otherwise recognised) and subject to ongoing supervision by a regulator or other public authority;

(3) functions regularly on every *business day* in the relevant jurisdiction;

(4) functions based on non-discretionary rules defining:

(a) the conditions for the operation of the investment exchange;

(b) access to or membership of the investment exchange;

(c) admission of *financial instruments* to trading; and

(d) suspension or removal of *financial instruments* from trading;

(5) has a robust clearing and settlement mechanism, including operational robustness, consistent with international standards; and

(6) applies margining practices consistent with international standards to contracts listed in Annex 1 of Chapter 3 of the Counterparty Credit Risk (CRR) Part;

(ii) the asset liquidity condition is:

(1) the value of the relevant asset that is traded or listed on the investment exchange must be capable of being determined on the basis of widely disseminated and easily available market prices, and in the absence of market-based prices, the value of the relevant asset must be capable of being determined on the basis of an easy-to-calculate formula that uses publicly available inputs and is not significantly dependent upon strong assumptions; and

(2) the investment exchange provides for an active and sizable market for outright sales of the relevant asset, taking into account:

(a) historical evidence of market breadth and depth as proven by low bid-ask spreads, high trading volume and a large and diverse number of market participants; and

(b) the presence of a robust market infrastructure.

[Note: This rule corresponds to Article 4(1)(72) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*reference obligation*

means an obligation used for the purposes of determining the cash settlement value of a credit derivative.

[Note: This rule corresponds to Article 4(1)(97) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*Regulated Activities Order*

means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).

[Note: This rule corresponds to Article 4(1A) of *CRR* (to the extent it defined the term 'Regulated Activities Order') as it applied immediately before its revocation by the *Treasury*]

...

*reinsurance undertaking*

~~means an *insurance undertaking* whose *insurance business* is restricted to *reinsurance*.~~

means:

(1) ((A) when used in italics in the definition of *financial sector entity* in the *PRA* Rulebook Glossary and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) an *insurance undertaking* whose *insurance business* is restricted to *reinsurance*; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(6) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) an *insurance undertaking* whose *insurance business* is restricted to *reinsurance*.

...

*repurchase agreement* or *reverse repurchase agreement*

means any agreement in which an *institution* or its counterparty transfers securities or commodities or guaranteed rights relating to title to securities or commodities where that guarantee is issued by a *recognised exchange* which holds the rights to the securities or commodities and the agreement does not allow an *institution* to transfer or pledge a particular security or commodity to more than one counterparty at one time, subject to a commitment to repurchase them, or substituted securities or commodities of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a *repurchase agreement* for the *institution* selling the securities or commodities and a *reverse repurchase agreement* for the *institution* buying them.

[Note: This rule corresponds to Article 4(1)(82) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*repurchase transaction*

means any transaction governed by a *repurchase agreement* or *reverse repurchase agreement*.

[Note: This rule corresponds to Article 4(1)(83) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*resecuritisation*

~~has the meaning given in Securitisation 1.3~~means a *securitisation* where at least one of the underlying *exposures* is a *securitisation position*.

[Note: This rule corresponds to Article 4(1)(63) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*resecuritisation position*

means an *exposure* to a *resecuritisation*.

[Note: This rule corresponds to Article 4(1)(64) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*residential property*

means a residence which is occupied by the owner or the lessee of the residence.

[Note: This rule corresponds to Article 4(1)(75) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*resolution*

means the application of a stabilisation option referred to in section 1(3) of the Banking Act 2009 in order to achieve one or more of the objectives referred to in section 4 of that Act.

[Note: This rule corresponds to Article 4(1)(130A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*resolution authority*

means the *Bank of England*.

[Note: This rule corresponds to Article 4(1)(130) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*resolution entity*

has the meaning given in section 3 of the Banking Act 2009.

[Note: This rule corresponds to Article 4(1)(131) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*resolution group*

has the meaning given in section 3 of the Banking Act 2009.

[Note: This rule corresponds to Article 4(1)(132) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*retained earnings*

means *profits* and losses brought forward as a result of the final application of *profit* or loss under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(123) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*revolving exposure*

means an *exposure* whereby borrowers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.

[Note: This rule corresponds to Article 242(15) of *CRR* of as it applied immediately before its revocation by the *Treasury*]

...

*revolving securitisation*

~~has the meaning given in Securitisation 1.3~~means a *securitisation* where the *securitisation* structure itself revolves by *exposures* being added to or removed from the pool of *exposures* irrespective of whether the *exposures* revolve or not.

...

*risk of excessive leverage*

means the risk resulting from an *institution's* vulnerability due to *leverage* or contingent *leverage* that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

[Note: This rule corresponds to Article 4(1)(94) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*Risk-Weight Substitution Method*

means calculating:

...

(2) where the ~~exposure~~*exposure* is subject to the *IRB Approach*, expected loss in accordance with the formula in paragraph 1A of Credit Risk Mitigation (CRR) Part Article 235.

...

*securities financing transaction*

means a *repurchase transaction*, a securities or commodities lending or borrowing transaction, or a margin lending transaction.

[Note: This rule corresponds to Article 4(1)(139) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*securitisation*

~~has the meaning given in Securitisation 1.3~~has the meaning given in regulation 3 of the Securitisation Regulations 2024 (SI 2024/102).

[Note: This rule corresponds to Article 4(1)(61) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*securitisation position*

~~has the meaning given in Securitisation 1.3~~has the meaning given in regulation 3 of the Securitisation Regulations 2024 (SI 2024/102).

[Note: This rule corresponds to Article 4(1)(62) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*securitisation special purpose entity* or *SSPE*

~~has the meaning given in Securitisation 1.3~~has the meaning given in regulation 3 of the Securitisation Regulations 2024 (SI 2024/102).

[Note: This rule corresponds to Article 4(1)(66) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*senior management*

means those natural *persons* who exercise executive functions within a *firm* and who are responsible, and accountable to the *management body*, for the day-to-day management of the *firm*.

[Note: This rule corresponds to Article 4(1)(10) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*senior securitisation position*

means a position backed or secured by a first claim on the whole of the underlying *exposures*, disregarding for these purposes amounts due under interest rate or currency derivative contracts, fees or other similar payments, and irrespective of any difference in maturity with one or more other senior *tranches* with which that position shares *losses* on a pro-rata basis.

[Note: This rule corresponds to Article 242(6) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*servicer*

means an entity that manages a pool of purchased receivables or the underlying credit *exposures* on a day-to-day basis.

[Note: This rule corresponds to Article 4(1)(129) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*SFT VaR Method*

means the method set out in paragraphs 6 to 8 of Credit Risk Mitigation (CRR) Part Article 221 for calculating an exposure value resulting from a ~~securities financing transaction~~*securities financing transaction* that is adjusted to take account of the effects of correlation between the positions of securities and their liquidity.

...

*share premium account*

has the same meaning as under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(124) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*simple repurchase agreement*

means a *repurchase transaction* of a single asset, or of similar, non-complex assets, as opposed to a basket of assets.

[Note: This rule corresponds to Article 4(1)(84) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*small and non-complex institution*

means an *institution* that meets all the following conditions:

(1) it is not a *large institution*;

(2) the total value of its assets on an *individual basis* or, where applicable, on a *consolidated basis* is on average equal to or less than the threshold of GBP 4.4 billion over the four-year period immediately preceding the current annual reporting period;

(3) it is not subject to any obligations, or is subject to simplified obligations, in relation to recovery and resolution planning in accordance with articles 7 and 8 of the Bank Recovery and Resolution (No. 2) Order 2014 (SI 2014/3348);

(4) its *trading book* business is classified as small within the meaning of Article 94(1) of the Trading Book (CRR) Part;

(5) the total value of its derivative *positions held with trading intent* does not exceed 2% of its total on- and off-balance-sheet assets and the total value of its overall derivative positions does not exceed 5%, both calculated in accordance with Article 273a(3) of the Counterparty Credit Risk (CRR) Part;

(6) more than 75% of both the *institution's* consolidated total assets and liabilities, excluding in both cases the intragroup exposures, relate to activities with counterparties located in the *UK*; and

(7) the *institution* does not use internal models to meet the prudential requirements in the *PRA* Rulebook or *PRA* technical standards as amended from time to time, except for *subsidiaries* using internal models developed at the *group* level, provided that the *group* is subject to the disclosure requirements laid down in Articles 433a or 433c of the Disclosure (CRR) Part on a *consolidated basis*.

[Note: This rule corresponds to Article 4(1)(145) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*SME*

~~in the Credit Risk: Standardised Approach (CRR) Part, the Securitisation (CRR) Part and the Credit Risk: Internal Ratings Based Approach (CRR) Part~~ means a micro, small or medium enterprise with an annual turnover of not more than GBP 44 million where:

(1) the annual turnover shall be calculated on the basis of the highest consolidated accounts of the group to which the enterprise belongs, if any, according to the rules on accounting consolidation in the applicable jurisdiction; and

(2) an enterprise shall be considered to be any undertaking regularly engaged in an economic activity irrespective of its legal form, including without limitation: self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations of natural persons.

...

*sponsor*

has the meaning given in ~~Securitisation 1.3~~regulation 3 of the Securitisation Regulations 2024 (SI 2024/102).

[Note: This rule corresponds to Article 4(1)(14) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*sub-consolidated basis*

means on the basis of the *consolidated situation* of a parent institution, *financial holding company* or *mixed financial holding company*, excluding a sub-group of entities, or on the

basis of the *consolidated situation* of a parent institution, *financial holding company* or *mixed financial holding company* that is not the ultimate parent institution, *financial holding company* or *mixed financial holding company*. In this definition, the term 'parent institution' means an *institution* which is a *parent undertaking*.

[Note: This rule corresponds to Article 4(1)(49) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*subsidiary*

(1) ((A) when used in italics in (i) limb (1) of the definition of *group* and anywhere in the definitions of *individual basis, investment holding company*, *large subsidiary*, *material subsidiary*, *minority interest*, *mixed activity holding company* or *mixed-activity holding company* and *small and non-complex institution* in the *PRA* Rulebook Glossary and (ii) the Contractual Recognition Of Bail-In Part, the Group Financial Support Part, the Group Risk Systems Part, the Internal Capital Adequacy Assessment Part, the Large Exposures Part, the Recovery Plans Part, the Remuneration Part, the Securitisation Part and the Stay in Resolution Part and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of *FSMA*) means a subsidiary undertaking within the meaning of section 1162 of, and Schedule 7 to, the Companies Act 2006; or

[Note: Limb (1) of this definition is a rule that corresponds to Article 4(1)(16) of *CRR* as it applied immediately before its revocation by the *Treasury*]

(2) (elsewhere in the *PRA* Rulebook) has the meaning given in section 420 of *FSMA*.

...

*synthetic holding*

means an investment by an *institution* in a *financial instrument* the value of which is directly linked to the value of the capital instruments issued by a *financial sector entity*.

[Note: This rule corresponds to Article 4(1)(126) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*synthetic securitisation*

means a *securitisation* where the transfer of risk is achieved by the use of credit derivatives or guarantees, and the ~~exposures~~*exposures* being securitised remain ~~exposures~~*exposures* of the ~~originator~~*originator*.

[Note: This rule corresponds to Article 242(14) of ~~the~~ *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*temporary differences*

has the same meaning as under the *applicable accounting framework*.

[Note: This rule corresponds to Article 4(1)(125) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*third country*

means a territory or country other than the ~~*United Kingdom*~~*UK*.

[Note: This rule corresponds to Article 4(1)(25A) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*third country insurance undertaking* or *third-country insurance undertaking*

means an *undertaking* that has its head office outside the *UK* and if its head office were situated in the *UK* would:

(1) need *Part 4A permission*; and

(2) satisfy the conditions set out in Insurance General Application 2.2.

[Note: This rule corresponds to Article 4(1)(23) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*third country reinsurance undertaking* or *third-country reinsurance undertaking*

means an *undertaking* that pursues only the business of reinsurance and has its head office outside the *UK* and if its head office were situated in the *UK* would:

(1) need *Part 4A permission*; and

(2) satisfy the conditions set out in Insurance General Application 2.2.

[Note: This rule corresponds to Article 4(1)(24) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*Tier 1 capital* or *tier 1 capital*

has the meaning ~~it has~~given in Article 25 (Chapter 3 (Own Funds (Part Two CRR))) of the ~~*CRR*~~.Own Funds (CRR) Part.

*tier 1 capital (leverage)*

means ~~tier 1 capital as defined in Article 25 of the *CRR*~~*Tier 1 capital* except that an ~~additional tier 1 capital instrument~~*Additional Tier 1 instrument* and any related *share premium account* can only be counted as *tier 1 capital (leverage)* if ~~it~~the *Additional Tier 1 instrument* either:

(a) converts into ~~common equity tier 1 capital~~*Common Equity Tier 1 capital*; or

(b) writes down,

when the common equity tier 1 capital ratio of the *firm* falls below a level equal to either:

(a) 7%; or

(b) a level higher than 7%,

as specified in the provisions governing the instrument.

In this definition:

(a) ~~'additional tier 1 capital' has the meaning given in Article 61 of the *CRR*;~~[deleted]

(b) ~~'common equity tier 1 capital' has the meaning given in Article 50 of the *CRR*; and~~[deleted]

(c) 'common equity tier 1 capital ratio' has the meaning given in Article 92(2)(a) of the ~~*CRR*~~Required Level of Own Funds (CRR) Part.

*Tier 1 own-fund insurance items*

has the same meaning as the term '*Tier 1 own funds*' in the *PRA* Rulebook Glossary.

[Note: This rule corresponds to Article 4(1)(102) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*Tier 2 capital* or *tier 2 capital*

has the meaning given in Article 71 (Chapter 3 (Own Funds (Part Two CRR))) of the Own Funds (CRR) Part.

*Tier 2 instruments* or *tier 2 instruments*

means capital instruments that meet the applicable conditions set out in Chapter 4 and Chapter 6 of Title 1 of Chapter 3 (Own Funds (Part Two CRR)) of the Own Funds (CRR) Part.

*Tier 2 items* or *tier 2 items*

has the meaning given in Article 62 (Chapter 3 (Own Funds (Part Two CRR))) of the Own Funds (CRR) Part.

*Tier 2 own-fund insurance items*

has the same meaning as the term *Tier 2 basic own funds* in the *PRA* Rulebook Glossary.

[Note: This rule corresponds to Article 4(1)(104) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*Tier 3 own-fund insurance items*

means *Tier 3 own funds* that are *basic own funds*.

[Note: This rule corresponds to Article 4(1)(105) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*trade exposure*

means a current exposure, including a variation margin due to the *clearing member* but not yet received, and any potential future exposure of a *clearing member* or a client as defined in Counterparty Credit Risk (CRR) Part 1.3, to a *CCP* arising from contracts and transactions listed in Article 301(1)(a), (b) and (c) of the Counterparty Credit Risk (CRR) Part, as well as *initial margin*.

[Note: This rule corresponds to Article 4(1)(91) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*trade finance*

means financing, including guarantees, connected to the exchange of goods and services through financial products of fixed short-term maturity, generally of less than one year, without automatic rollover.

[Note: This rule corresponds to Article 4(1)(80) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*trading book*

means all positions in *financial instruments* and commodities held by an *institution* either with trading intent or to hedge *positions held with trading intent* in accordance with Article 104 and Article 104a of the Trading Book (CRR) Part.

[Note: This rule corresponds to Article 4(1)(86) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*trading desk*

means a well-identified group of dealers set up by the *institution* to jointly manage a portfolio of *trading book* positions in accordance with a well-defined and consistent business strategy and operating under the same risk management structure.

[Note: This rule corresponds to Article 4(1)(144) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*traditional securitisation*

means a *securitisation* involving the transfer of the economic interest in the ~~exposures~~*exposures* being securitised through the transfer of ownership of those ~~exposures~~*exposures* from the *originator* to an *SSPE* or through sub-participation by an *SSPE*, where the securities issued do not represent payment obligations of the *originator*.

[Note: This rule corresponds to Article 242(13) of ~~the~~ *CRR* as it applied immediately before its revocation by the *Treasury*]

*tranche*

~~has the meaning given in Securitisation 1.3~~has the meaning given in regulation 3 of the Securitisation Regulations 2024 (SI 2024/102).

[Note: This rule corresponds to Article 4(1)(67) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*transactor exposure*

means an ~~exposure~~*exposure* to an obligor for the following *revolving facilities*:

...

*UCITS*

has the meaning given in section 236A of *FSMA*.

~~(1) an *undertaking*:~~

~~(a) with the sole object of collective investment in *transferable securities* or in other liquid *financial instruments* of capital raised from the public and which operate on the principle of risk-spreading;~~

~~(b) with *units* which are, at the request of holders, repurchased or redeemed, directly or indirectly, out of those *undertakings'* assets (and for these purposes, action taken by the *undertaking* to ensure that the stock exchange value of its *units* does not significantly vary from their asset value is to be regarded as equivalent to such repurchase or redemption).~~

~~(2) *undertakings* for collective investment in *transferable securities* that are established in the *European Economic Area* in accordance with the *UCITS Directive*.~~

...

*UK deposit guarantee scheme*

means the deposit protection scheme established by the *PRA* under section 213 of *FSMA* and managed by the Financial Services Compensation Scheme Limited.

[Note: This rule corresponds to Article 4(1)(128F) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*UK parent financial holding company*

~~means a *financial holding company firm* in the *UK* which is not itself a *subsidiary* of an *institution* authorised in the *UK*, or of a *financial holding company firm* or *mixed financial holding company* set up in the *UK*~~has the meaning given in section 192O of *FSMA*.

[Note: This rule corresponds to Article 4(1)(30) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*UK parent institution*

~~means an institution authorised in the *UK* which has an institution, financial institution or *ancillary services undertaking* as *subsidiary* or which holds a *participation* in such an institution, financial institution or *ancillary services undertaking*, and which is not itself a *subsidiary* of another institution authorised in the *UK* or of a financial holding company or *mixed financial holding company* set up in the *UK*~~has the meaning given in Article 2 of The Bank Recovery and Resolution (No 2) Order 2014 (SI 2014/3348).

[Note: This rule corresponds to Article 4(1)(28) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*UK parent mixed financial holding company*

~~means a *mixed financial holding company* in the *UK* which is not itself a *subsidiary* of an *institution* authorised in the *UK*, or of a *financial holding company firm* or *mixed financial holding company* set up in the *UK*~~has the meaning given in section 192O of *FSMA*.

[Note: This rule corresponds to Article 4(1)(32) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*UK regulated market*

has the meaning given in Article 2(1)(13A) of *MiFIR*.

[Note: This rule corresponds to Article 4(1)(92) of *CRR* as it applied immediately before its revocation by the *Treasury*]

...

*UK-adopted international accounting standards*

has the meaning given in section 474(1) of the Companies Act 2006.

[Note: This rule corresponds to Article 4(1)(128G) of *CRR* as it applied immediately before its revocation by the *Treasury*]

*unconsolidated entity*

means an *undertaking* other than an *excluded entity*, including, but not limited to:

(1) ~~SSPEs (as defined in Article 4(1)(66) of the *CRR*)~~*SSPEs*;

(2) ~~asset management companies (as defined in Article 4(1)(19) of the *CRR*)~~*asset management companies*;

(3) *financial institutions*;

(4) ~~ancillary services undertakings (as defined in Article 4(1)(18) of the *CRR*)~~*ancillary services undertakings;*

(5) suppliers under *material outsourcing* arrangements; and

(6) where the *firm* is a member of a *consolidation group, undertakings* that have been included within the scope of prudential consolidation on a proportional consolidation basis and those that have been consolidated using the equity method.

...

*unfunded credit protection*

means a technique of *credit risk mitigation* where the reduction of the credit risk on the *exposure* of an *institution* derives from the obligation of a third party to pay an amount in the event of the default of the counterparty or the occurrence of other specified credit events.

[Note: This rule corresponds to Article 4(1)(59) of *CRR* as it applied immediately before its revocation by the *Treasury*]

**Annex C**

**Amendments to the Interpretation Part**

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

…

**2 INTERPRETIVE PROVISIONS**

…

2.2B In the *PRA* Rulebook, other than in the Glossary or where otherwise indicated in a Part of the *PRA* Rulebook, *CRR terms* that are used without italics in *CRR rules* or in rules made under section 192XA of *FSMA* have the applicable meaning given in the *PRA* Rulebook Glossary.

…

2.13 ~~Unless the contrary intention appears, *CRR rules* and rules made under section 192XA *FSMA* shall be read as if they formed part of *CRR*, and accordingly words and expressions used in those rules shall bear the meaning they have in *CRR* (and not the meaning in the Glossary to the Rulebook).~~[Deleted]

**Annex D**

**Amendments to the Capital Buffers 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:

…

*distribution in connection with common equity tier 1 capital*

includes

...

(c) a redemption or purchase by an ~~institution~~*institution* of its own shares or other capital instruments referred to in Article 26(1)(a) of the *CRR*;

...

*FPC*

means the ~~*Financial Policy Committee*~~Financial Policy Committee of the *Bank of England.*

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~Additional Tier 1 capital~~ | ~~Article 61 CRR~~ |
| ~~Additional Tier 1 instruments~~ | ~~Article 52 CRR~~ |
| ~~Common Equity Tier 1 capital~~ | ~~Article 50 CRR~~ |
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |
| ~~discretionary pension benefits~~ | ~~Article 4(1)(73) CRR~~ |
| ~~institution~~ | ~~Article 4(1)(3) CRR~~ |
| ~~own funds~~ | ~~Article 4(1)(118) CRR~~ |
| ~~securitisation~~ | ~~Article 4(1)(61) CRR~~ |

| | |
|---|---|
| ~~sub-consolidated basis~~ | ~~Article 4(1)(49) CRR~~ |
| ~~Tier 2 capital~~ | ~~Article 71 CRR~~ |
| ~~trading book~~ | ~~Article 4(1)(86) CRR~~ |

**Annex E**

**Amendments to the Contractual Recognition Of Bail-In Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~additional tier 1 instruments~~ | ~~Article 52 CRR~~ |
| ~~financial holding company~~ | ~~Article 4(1)(20) CRR~~ |
| ~~institution~~ | ~~Article 4(1)(3) CRR~~ |
| ~~mixed financial holding company~~ | ~~Article 4(1)(21) CRR~~ |
| ~~mixed activity holding company~~ | ~~Article 4(1)(22) CRR~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) CRR~~ |
| ~~Tier 2 instrument~~ | ~~Article 63 CRR~~ |

**Annex F**

**Amendments to the Credit Risk: General Provisions (CRR) Part**

In this Annex deleted text is struck through.

…

**Article 110 TREATMENT OF CREDIT RISK ADJUSTMENTS**

…

2. An institution applying the *IRB Approach* shall treat general credit risk adjustments in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part Article 159, and point (d) of paragraph 1 of Article 36 and point (d) of Article 62 of Own Funds (CRR) Part. ~~For the purposes of this Article, Credit Risk: Standardised Approach (CRR) Part and Credit Risk: Internal Ratings Based Approach (CRR) Part, general and specific credit risk adjustments shall exclude funds for general banking risk.~~

…

**Annex G**

**Amendments to the Credit Risk: Standardised Approach (CRR) Part**

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

…

**Article 134 OTHER ITEMS**

1. Tangible assets ~~within the meaning of item 10 under the heading 'Assets' in Article 4 of Directive 86/635/EEC UK law~~in accordance with the applicable accounting framework shall be assigned a risk weight of 100%.

2 Prepayments and accrued income in accordance with the applicable accounting framework for which an institution is unable to determine the counterparty ~~in accordance with Directive 86/635/EEC UK law~~ shall be assigned a risk weight of 100%.

…

## Annex H

## Amendments to the Credit Risk: Internal Ratings Based Approach (CRR)

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

### 1 APPLICATION AND DEFINITIONS

…

1.4 In this Part the definition of 'financial sector entity' in ~~point (27) of Article 4(1) of *CRR*~~the *PRA* Rulebook Glossary shall have effect as if it excludes any financial institution that satisfies each of the following conditions:

…

### Article 162 MATURITY: CORPORATES AND INSTITUTIONS

…

3. …

(e) self-liquidating trade finance transactions~~, as set out in point (80) of Article 4(1) of *CRR*~~, with a residual maturity of less than one year;

…

**Annex I**

**Amendments to the Credit Risk Mitigation (CRR) Part**

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

…

**Article 192 DEFINITIONS**

…

2. For the purposes of this Part, references to 'institutions' as issuers or as eligible credit providers shall also include ~~undertakings~~*undertakings* established in ~~third countries~~*third countries* which would fall within the definition of '~~"~~institution~~"~~' in ~~Article 4(1)(3) of *CRR*~~the *PRA* Rulebook Glossary, if they were established in the *UK*.

[Note: This rule corresponds to Article 192(2) of *CRR* as it applied immediately before revocation by the *Treasury*]

…

**Article 229 VALUATION PRINCIPLES FOR OTHER ELIGIBLE COLLATERAL UNDER THE FOUNDATION COLLATERAL METHOD**

…

3. For physical collateral other than immovable property, an institution shall ensure the collateral is valued at, or at less than, its market value, by a suitably robust statistical method or by an independent valuer who possesses the necessary qualifications, ability and experience to execute a valuation. For the purposes of this paragraph, the market value is the estimated amount for which the collateral would exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction.

4. ~~For the purposes of this Article, the market value is the estimated amount for which the property would exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction.~~[Deleted]

…

**Annex J**

**Amendments to the Credit Valuation Adjustment Risk Part**

In this Annex deleted text is struck through.

**1 APPLICATION AND DEFINITIONS**

…

1.2 In this Part, the following definitions shall apply:

…

~~*clearing member*~~

~~has the definition in Counterparty Credit Risk (CRR) Part 1.3.~~

…

**Annex K**

**Amendments to the Counterparty Credit Risk (CRR) Part**

In this Annex deleted text is struck through.

**1 APPLICATION AND DEFINITIONS**

…

1.3 For the purposes of Section 9 of this Part, the following definitions apply

…

~~*clearing member*~~

~~means a *clearing member* as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.~~

…

**Annex L**

**Amendments to the Definition of Capital 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:

…

~~S~~*small specialist bank*

a *bank* that has capital resources equal to or in excess of the base capital resources requirement for a *small specialist bank* in 12.1 but less than the base capital resources requirement of a *bank* and that carries out one or more of the following activities:

…

(2) lending to ~~*small and medium-sized enterprises*~~*SMEs*;

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~Additional Tier 1 instruments~~ | ~~Article 52 CRR~~ |
| ~~applicable accounting framework~~ | ~~Article 4(1)(77) CRR~~ |
| ~~Common Equity Tier 1 instrument~~ | ~~Article 28 CRR~~ |
| ~~consolidated basis~~ | ~~Article 4 (48) CRR~~ |
| ~~credit institution~~ | ~~Article 4(1)(1) CRR~~ |
| ~~financial institution~~ | ~~Article 4(1)(26) CRR~~ |
| ~~financial sector entities~~ | ~~Article 4(1)(27) CRR~~ |
| ~~management body~~ | ~~Article 4(1)(9) CRR~~ |
| ~~own funds~~ | ~~Article 4(1)(118) CRR~~ |

| | |
|---|---|
| ~~own funds instruments~~ | ~~Article 4(1)(119) CRR~~ |
| ~~sub-consolidated basis~~ | ~~Article 4 (49) CRR~~ |
| ~~Tier 2 instruments~~ | ~~Article 63 CRR~~ |

## Annex M

## Amendments to the Depositor Protection Part

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

### 1 APPLICATION AND DEFINITIONS

…

1.5 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

### PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~credit institution~~ | ~~Article 4(1)(1) CRR~~ |
| ~~financial institution~~ | ~~Article 4(1)(26) CRR~~ |
| ~~investment firm~~ | ~~Article 4(1)(2) CRR~~ |
| ~~low-risk assets~~ | ~~Table 1 of Article 336 CRR~~ |
| ~~own funds~~ | ~~Article 4(1)(118) CRR~~ |

**Annex N**

**Amendments to the Disclosure (CRR) Part**

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

…

## 4 DISCLOSURE (PART EIGHT CRR)

…

### Article 431 DISCLOSURE REQUIREMENTS AND POLICIES

…

5. Institutions shall, if requested, explain their rating decisions to ~~SMEs~~*SMEs* and other corporate applicants for loans, providing an explanation in writing when asked. The administrative costs of the explanation shall be proportionate to the size of the loan.

…

### Article 449 DISCLOSURE OF EXPOSURE TO SECURITISATION POSITIONS

Institutions calculating risk-weighted exposure amounts in accordance with Chapter 5 of Title II of Part Three or own funds requirements in accordance with Article 337 or 338 shall disclose the following information separately for their trading and non-trading book activities:

(a) a description of their securitisation and ~~re-securitisation~~resecuritisation activities, including their risk management and investment objectives in connection with those activities, their role in securitisation and ~~re-securitisation~~resecuritisation transactions, whether they use the simple, transparent and standardised securitisation (STS) as defined in point (10) of Article 242, and the extent to which they use securitisation transactions to transfer the credit risk of the securitised exposures to third parties with, where applicable, a separate description of their synthetic securitisation risk transfer policy;

(b) the type of risks they are exposed to in their securitisation and ~~re-securitisation~~resecuritisation activities by level of seniority of the relevant securitisation positions providing a distinction between STS and non-STS positions and:

…

(g) a summary of their accounting policies for securitisation activity, including where relevant a distinction between securitisation and ~~re-securitisation~~resecuritisation positions;

…

(k) for the trading and the non-trading book activities, the following information:

(i) the aggregate amount of securitisation positions where institutions act as originator or sponsor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1250%, broken down between traditional and synthetic securitisations and between securitisation and ~~re-securitisation~~resecuritisation exposures, separately for STS and non-STS positions, and further broken down into a meaningful number of risk-weight or capital requirement bands and by approach used to calculate the capital requirements;

(ii) the aggregate amount of securitisation positions where institutions act as investor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1250%, broken down between traditional and synthetic securitisations, securitisation and ~~re-securitisation~~resecuritisation positions, and STS and non-STS positions, and further broken down into a meaningful number of risk weight or capital requirement bands and by approach used to calculate the capital requirements;

…

**Annex O**

**Amendments to the Financial Conglomerates Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.4 In this Part, the following definitions shall apply:

...

~~*mixed financial holding company*~~

~~has the meaning given in regulation 1(2) of the *Financial Conglomerates Regulations*.~~

…

~~*participation*~~

~~has the meaning given in point (35) of Article 4(1) of the *CRR*.~~

…

*recognised third country investment firm*

means an *investment firm* ~~that falls within the meaning of "investment firm" given in point (2) of Article 4(1) of the *CRR* and~~ which satisfies the following conditions:

(1) its head office is outside the *UK*;

(2) it is authorised by a *third country competent authority* in the state or territory in which the *investment firm's* head office is located; and

(3) that *investment firm* is subject to and complies with prudential rules of or administered by that *third country competent authority* that are at least as stringent as those laid down in whichever of the *CRR* or *MIFIDPRU* would apply if its head office was in the *UK*.

…

1.5 ~~Unless otherwise defined in this Part, any italicised expression used in this Part and in the *CRR* or the *Solvency II Directive* has the same meaning as in the *CRR* or the *Solvency II Directive*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~financial institution~~ | ~~Article 4(1)(26) CRR~~ |

## Annex P

## Amendments to the General Organisational Requirements Part

In this Annex deleted text is struck through.

…

**PART EXTERNALLY DEFINED TERMS**

| Term | Definition source |
|---|---|
| ~~qualifying holding~~ | ~~Art. 4(1)(36) of the CRR~~ |

**Annex Q**

**Amendments to the Group Financial Support Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 In this Part, the following definitions shall apply:

~~*competent authority*~~

~~means:~~

~~(1) the *PRA*, in respect of *PRA-authorised persons*;~~

~~(2) the *FCA*, in respect of any other *person*.~~

…

1.4 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## 3 SUBMISSION OF GROUP FINANCIAL SUPPORT AGREEMENT

3.1 This Chapter applies to a *BRRD undertaking* which is a *UK parent undertaking*, ~~unless the *FCA* is the *consolidating supervisor* of its *group*~~provided that the *PRA* is the *consolidating supervisor* of its *group*.

…

## 6 NOTIFICATION OF PROPOSED GROUP FINANCIAL SUPPORT

6.1 A *BRRD undertaking* that intends to provide financial support in accordance with a *group financial support agreement* must ensure that its *management body* notifies~~:~~ the *PRA* before it provides that financial support.

(1) ~~the *PRA*;~~[deleted]

(2) ~~the *FCA* where it is the *consolidating supervisor*.~~[deleted]

(3) [deleted~~.~~]

(4) [deleted~~.~~]

~~before it provides that financial support.~~

…

## 7 PROVISION AND NOTIFICATION OF GROUP FINANCIAL SUPPORT

…

7.3 Where the *management body* of a *BRRD undertaking* decides to provide the financial support, that *BRRD undertaking* must notify~~:~~ the *PRA*.

(1) ~~the *PRA*;~~[deleted]

(2) ~~the *FCA* where it is the *consolidating supervisor*.~~[deleted]

(3) [deleted.]

(4) [deleted.]

[Note: Art. 25(6) of the *BRRD*]

…

**PART EXTERNALLY DEFINED TERMS**

| Term | Definition source |
|---|---|
| ~~financial holding company~~ | ~~Article 4(1)(20) CRR~~ |
| ~~financial institution~~ | ~~Article 4(1)(2) CRR~~ |
| ~~institution~~ | ~~Article 4(1)(3) CRR~~ |
| ~~mixed activity holding company~~ | ~~Article 4(1)(22) CRR~~ |
| ~~mixed financial holding company~~ | ~~Article 4(1)(21) CRR~~ |
| ~~parent undertaking~~ | ~~Article 4(1)(15) CRR~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) CRR~~ |

## Annex R

## Amendments to the Group Risk Systems Part

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

### 1 APPLICATION AND DEFINITIONS

…

1.4 ~~Unless otherwise defined in this Part, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

### PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~mixed-activity holding company~~ | ~~Article 4(1)(22) CRR~~ |
| ~~parent undertaking~~ | ~~Article 4(1)(15) CRR~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) CRR~~ |

## Annex S

## Amendments to the Group Supervision Part

In this Annex deleted text is struck through.

### 1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

~~*Part 9C rules*~~

~~has the meaning given in section 143F(1) of *FSMA*.~~

*...*

**Annex T**

**Amendments to the Groups Part**

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

…

## 5 LEVEL OF APPLICATION OF REQUIREMENTS (TITLE II, PART ONE CRR)

…

### Chapter 2 PRUDENTIAL CONSOLIDATION

…

### Article 23 UNDERTAKINGS IN THIRD COUNTRIES

For the purposes of applying supervision on a *consolidated basis* in accordance with this Chapter 2, the terms 'investment firm', 'credit institution', 'financial institution', and 'institution' shall also include within the scope of consolidation undertakings established in third countries which, were they established in the *United Kingdom*, would fulfil the applicable definitions of those terms ~~in Article 4 of *CRR*~~ in the *PRA* Rulebook Glossary.

[Note: This rule corresponds to Article 23 of ~~the~~ *CRR* as it applied immediately before revocation by the *Treasury*]

…

**Annex U**

**Amendments to the Insurance Company – Overall Resources and Valuation 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:

…

~~*mark to market*~~

~~means valuation at readily available close out prices from independent sources.~~

~~*mark to model*~~

~~means any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input.~~

…

## 4 MARKING TO MARKET

4.1 Wherever possible, a *firm* must use ~~*mark to market*~~*marking to market* in order to measure the value of investments and positions.

…

## 5 MARKING TO MODEL

5.1 Where *marking to market* is not possible, a *firm* must use ~~*mark to model*~~*marking to model* in order to measure the value of the investments and positions.

…

5.3 A *firm* must ensure that its senior management are aware of the positions which are subject to ~~*mark to model*~~*marking to model* and understand the materiality of the uncertainty this creates in the reporting of the performance of the business of the *firm* and the risks to which it is subject.

…

**Annex V**

**Amendments to the Insurance Special Purpose Vehicles**

In this Annex deleted text is struck through.

## 1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

...

~~*qualifying holding*~~

~~means a direct or indirect holding in an *undertaking* which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that *undertaking*.~~

...

**Annex W**

**Amendments to the Internal Capital Adequacy Assessment 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:

...

~~*central counterparty*~~

~~has the meaning given in point (1) of Article 2 of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, central counterparties and trade repositories.~~

...

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## 3 STRATEGIES, PROCESSES AND SYSTEMS

…

3.2 As part of its obligations under the overall Pillar 2 rule in 3.1, a *firm* must identify separately the amount of ~~*common equity tier one capital*~~, ~~*additional tier one capital*~~ and ~~*tier two capital*~~*Common Equity Tier 1 capital*, *Additional Tier 1 capital* and *Tier 2 capital* and each category of capital (if any) that is not eligible to form part of its *own funds* which it considers adequate for the purposes described in the overall Pillar 2 rule.

…

## 7 SECURITISATION RISK

…

7.2 A *firm* which is an *originator* of a ~~revolving *securitisation*~~*revolving securitisation* transaction involving *early amortisation provisions* must have liquidity plans to address the implications of both scheduled and early amortisation.

[Note Art 82(2) of the *CRD*]

...

## 9 STRATEGIES, PROCESSES AND SYSTEMS

…

9.4A A *firm* must regularly carry out an evaluation in respect of the interest rate shock scenarios in 9.7 and immediately notify the *PRA* if any evaluation under this rule indicates that, as a result of the application of the interest rate scenarios in 9.7, the *EVE* would decline by more than 15% of the sum of its ~~*common equity tier one capital*~~*Common Equity Tier 1 capital* and its ~~*additional tier one capital*~~*Additional Tier 1 capital*.

…

9.20 A *firm* must perform the allocation in 9.19 for all interest rate-sensitive non-trading book:

(1) assets, excluding assets that are:

(a) deducted from ~~*common equity tier one capital*~~*Common Equity Tier 1 capital*;

(b) fixed assets, including real estate and intangible assets; or

(c) equity exposures in the non-trading book;

(2) liabilities, including all non-remunerated deposits and excluding ~~*common equity tier one capital*~~*Common Equity Tier 1 capital*; and

(3) off-balance sheet items.

…

**PART EXTERNALLY DEFINED TERMS**

| Term | Definition source |
|---|---|
| ~~additional tier one capital~~ | ~~Article 61 CRR~~ |
| ~~Consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |
| ~~common equity tier one capital~~ | ~~Article 50 CRR~~ |
| ~~consolidated situation~~ | ~~Article 4(1)(47) CRR~~ |
| ~~ECAI~~ | ~~Article 4(1)(98) CRR~~ |
| ~~early amortisation provisions~~ | ~~Article 242(14) CRR~~ |
| ~~Operational risk~~ | ~~Article 4(1)(52) CRR~~ |
| ~~originator~~ | ~~Article 4(1)(13) CRR~~ |
| ~~own funds~~ | ~~Article 4(1)(118) CRR~~ |
| ~~risk of excessive leverage~~ | ~~Article 4(1)(94) CRR~~ |
| ~~sub-consolidated basis~~ | ~~Article 4(1)(49) CRR~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) CRR~~ |
| ~~securitisation~~ | ~~Article 4(1)(61) CRR~~ |
| ~~securitisation positions~~ | ~~Article 4(1)(62) CRR~~ |
| ~~sponsor~~ | ~~Article 4(1)(14) CRR~~ |

| | |
|---|---|
| ~~tier two capital~~ | ~~Article 71 CRR~~ |
| ~~trading book~~ | ~~Article 4(1)(86) CRR~~ |

**Annex X**

**Amendments to the Internal Liquidity Adequacy Assessment Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |
| ~~consolidated situation~~ | ~~Article 4(1)(47) CRR~~ |
| ~~EU parent institution~~ | ~~Article 4(1)(29) CRR~~ |
| ~~EU parent financial holding company~~ | ~~Article 4(1)(31) CRR~~ |
| ~~EU parent mixed financial holding company~~ | ~~Article 4(1)(33) CRR~~ |
| ~~securitisation special purpose entities~~ | ~~Article 4(1)(66) CRR~~ |
| ~~sponsor~~ | ~~Article 4(1)(14) CRR~~ |

**Annex Y**

**Amendments to the Investments 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:

[Note: there are currently no Part specific definitions]

~~*original lender*~~

~~has the meaning given in Securitisation 1.3.~~

~~*originator*~~

~~has the meaning given in Securitisation 1.3.~~

~~*sponsor*~~

~~has the meaning given in Securitisation 1.3.~~

…

**Annex Z**

**Amendments to the Large Exposures Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined:~~[Deleted]

~~(1) any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*; and~~

~~(2) any italicised expression used in this Part and in the *CRD* has the same meaning as in the *CRD*.~~

## 2 INTRA-GROUP EXPOSURES: NON-CORE LARGE EXPOSURES GROUP AND RESOLUTION EXEMPTIONS

**NCLEG non-trading book exemption**

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~~*participations* or other kinds of holdings, incurred by the firm to members of its *NCLEG* that are:

...

**PART EXTERNALLY DEFINED TERMS**

| Term | Definition source |
|---|---|
| ~~central banks~~ | ~~Article 4(1)(46) CRR~~ |
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |
| ~~nominated ECAI~~ | ~~Article 4(1)(99) CRR~~ |
| ~~participation~~ | ~~Article 4(1)(35) CRR~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) CRR~~ |
| ~~trading book~~ | ~~Article 4(1)(86) CRR~~ |

**Annex AA**

**Amendments to the Large Exposures (CRR) 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:

~~*control*~~

~~means the relationship between a *parent undertaking* and a *subsidiary undertaking*:~~

~~(1) as defined in either:~~

~~(a) the accounting standards referred to in section 403(1) of the Companies Act 2006; or~~

~~(b) section 1162 of the Companies Act 2006; or~~

~~(2) a similar relationship between any natural or legal *person* and an *undertaking*.~~

...

~~*group of connected clients*~~

~~means any of the following:~~

~~(1) two or more natural or legal *persons* who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has *control* over the other or others; or~~

~~(2) two or more natural or legal *persons* between whom there is no relationship of *control* as described in point (1) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or others would also be likely to encounter funding or repayment difficulties,~~

~~provided that:~~

~~(3) notwithstanding points (1) and (2), where a central government has direct *control* over, or is directly interconnected with, more than one natural or legal *person*, the set consisting of the central government and all of the natural or legal *persons* directly or indirectly *controlled* by it in accordance with point (1), or interconnected with it in accordance with point (2), may be considered as not constituting a group of connected clients. Instead the existence of a group of connected clients formed by the central government and other natural or legal *persons* may be assessed separately for each of the natural or legal *persons* directly *controlled* by it in accordance with point (1), or directly interconnected with it in accordance with point (2), and all of the natural or legal *persons* which are *controlled* by that natural or legal *person* according to point (1) or interconnected with that natural or legal *person* in accordance with point (2), including the central government. The same applies in cases of regional governments or local authorities to which Article 115(2) of *CRR* applies and in the *United Kingdom* regional governments means the Scottish Government, the Welsh Government and the Northern Ireland Executive; and~~

~~(4) two or more natural or legal *persons* who fulfil the conditions set out in point (1) or (2) because of their direct exposure to the same *central counterparty* for clearing activities purposes are not considered as constituting a group of connected clients.~~

…

## 4 LARGE EXPOSURES (PART FOUR CRR)

…

### Article 400 EXEMPTIONS

1. The following *exposures* shall be exempted from the application of Article 395(1):

…

(j) ~~clearing members'~~*clearing members'* trade exposures and default fund contributions to qualifying central counterparties; and

…

**Annex AB**

**Amendments to the Leverage Ratio – Capital Requirements and Buffers 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:

…

~~*FPC*~~

~~means the Financial Policy Committee of the Bank of England.~~

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~common equity tier 1 capital~~ | ~~Article 50 CRR~~ |
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |

**Annex AC**

**Amendments to the Leverage Ratio (CRR) Part**

In this Annex deleted text is struck through.

## 1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

~~*clearing member*~~

~~means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.~~

…

**Annex AD**

**Amendments to the Liquidity (CRR) Part**

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

…

**4 LIQUIDITY (PART SIX CRR)**

…

**Article 411 DEFINITIONS**

For the purposes of this Part, the following definitions apply:

…

(2) '*retail deposit*' means a liability to a natural person or to an ~~SME~~*SME*, where the natural person or the ~~SME~~*SME* would qualify for the retail exposure class under the Standardised or IRB approaches for credit risk, or a liability to a company which is eligible for the treatment set out in Article 153(4), and where the aggregate deposits by that ~~SME~~*SME* or company on a group basis do not exceed GBP 880,000;

…

(17) '*committed credit or liquidity facility*' means:

(a) a '*committed credit facility*' which is a credit facility that is irrevocable or conditionally revocable; or

(b) a '*committed liquidity facility*' which is a liquidity facility that is irrevocable or conditionally revocable~~;~~.

(18) ~~'*clearing member*' means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.~~[deleted]

...

**Article 428 ITEMS REQUIRING STABLE FUNDING**

1. Unless deducted from own funds, the following items shall be reported to the *competent authority* separately in order to allow an assessment of the needs for stable funding:

…

(g) non-renewable loans and receivables, and separately those non-renewable loans and receivables for which borrowers are:

…

(ii) ~~SMEs~~*SMEs* that qualify for the retail exposure class under the Standardised or IRB approaches for credit risk or to a company which is eligible for the treatment set out in Article 153(4) and where the aggregate deposit placed by that client or group of connected clients is less than GBP 880,000;

…

**Article 428ad 50% REQUIRED STABLE FUNDING FACTOR**

The following assets shall be subject to a 50% required stable funding factor:

…

(c) monies due from transactions with a residual maturity of less than one year with:

…

(v) non-financial corporates, retail customers and ~~SMEs~~*SMEs*, unless otherwise specified in Article 428aa(c);

…

**Annex AE**

**Amendments to the Liquidity Coverage Ratio (CRR) Part**

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

…

## 2 RULES ON STANDARDS FOR THE LIQUIDITY COVERAGE REQUIREMENT FOR CREDIT INSTITUTIONS (PREVIOUSLY REGULATION (EU) NO 2015/61)

…

### Article 3 DEFINITIONS

For the purposes of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part ~~of the *PRA* Rulebook~~, the following definitions shall apply:

…

(9A) ~~'*UK deposit guarantee scheme*' means the depositor protection part of the Financial Services Compensation Scheme established under section 213 of *FSMA*;~~[Deleted]

…

### Article 13 LEVEL 2B SECURITISATIONS

…

2. The securitisation position and the exposures underlying the position shall meet all the following requirements:

   …

   (g) the securitisation position is backed by a pool of underlying exposures and those underlying exposures either all belong to only one of the following subcategories or else they consist of a combination of residential loans referred to in point (i):

      …

      (iii) commercial loans, leases and credit facilities to *undertakings* established in the *United Kingdom* to finance capital expenditures or business operations other than the acquisition or development of commercial real estate, provided that at least 80% of the borrowers in the pool in terms of portfolio balance are small and medium-sized enterprises at the time of issuance of the securitisation, and none of the borrowers is an institution ~~as defined in Article 4(1)(3) of *CRR*~~;

      …

13. The originator of the exposures underlying the securitisation shall be an institution ~~as defined in Article 4(3) of *CRR*~~ or an *undertaking* whose principal activity is to pursue one or more of the activities listed in ~~points~~paragraphs 2 to 12 and ~~point~~paragraphs 15 to 16 of ~~Annex I to Directive 2013/36/EU, as that Directive has effect immediately before exit day, provided that for the purposes of this paragraph the reference in point 4 of Annex 1 to that Directive to point (3) of Article 4 of Directive (EU) 2015/2366 is to be read as a reference to regulation 2 of the Payment Services Regulations 2017~~the *PRA* Rulebook Glossary definition of the term 'Annex 1 activities'.

…

**Article 31A OUTFLOWS FROM LIABILITIES AND COMMITMENTS NOT COVERED BY OTHER PROVISIONS OF THIS CHAPTER**

…

2. Where the total of all contractual commitments to extend funding to non-*financial customers* within 30 calendar days, other than commitments referred to in Articles 24 to 31, exceeds the amount of inflows from those non-*financial customers* calculated in accordance with point (a) of Article 32(3), the excess shall be subject to a 100% outflow rate. For the purposes of this paragraph, non-*financial customers* shall include, but not be limited to, natural persons, ~~SMEs~~*SMEs*, corporates, sovereigns, multilateral development banks and public sector entities, and shall exclude *financial customers* and central banks.

…

**Annex AF**

**Amendments to the Liquidity Coverage Requirement - UK Designated Investment Firms Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~competent authority~~ | ~~Article 4(1)(40) CRR~~ |
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |

**Annex AG**

**Amendments to the Market Risk: Simplified Standardised Approach (CRR) Part**

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

…

## 4 OWN FUNDS REQUIREMENTS FOR POSITION RISK (CHAPTER 2 OF TITLE IV OF PART THREE OF CRR)

…

### ARTICLE 336 OWN FUNDS REQUIREMENT FOR NON-SECURITISATION DEBT INSTRUMENTS

…

4. Other qualifying items are:

   (a) long and short positions in assets for which a credit assessment by a nominated ECAI is not available and which meet all of the following conditions:

      …

      (iii) they are listed on at least one ~~regulated market in the *United Kingdom* or on a stock exchange in a *third country* provided the exchange is recognised by the competent authorities of the *United Kingdom*~~recognised exchange or an investment exchange that satisfies the market structure condition as set out in the definition of 'recognised exchange' in the *PRA* Rulebook Glossary;

   …

   (c) securities issued by institutions that are deemed to be of equivalent, or higher, credit quality than those associated with credit quality step 2 of exposures to institutions and that are subject to supervisory and regulatory arrangements comparable to those applicable to institutions under *CRR*~~,~~ and *CRR rules* ~~and Directive 2013/36/EU UK law~~.

   …

## Annex AH

## Amendments to the Non-Performing Exposures Securitisation (CRR)

In this Annex deleted text is struck through.

### 1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions apply:

…

~~*SSPE*~~

~~has the meaning given in the Securitisation Part.~~

~~*traditional securitisation*~~

~~has the meaning given in the Securitisation Part.~~

### 2 CALCULATION OF RISK WEIGHT

...

2.2 Where the risk weight for a *qualifying NPE securitisation* is calculated by a *firm* in accordance with Article 254 or 267 of ~~the~~ *CRR*, the *firm* must assign a risk weight of 100% to the ~~senior securitisation position~~*senior securitisation position*, save where Article 263 of ~~the~~ *CRR* applies.

...

**Annex AI**

**Amendments to the Notifications Part**

In this Annex deleted text is struck through.

## 1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

~~*mixed financial holding company*~~

~~has the meaning given in point (21) of Article 4(1) of the *CRR*.~~

…

~~*own funds*~~

~~has the meaning given in point (118) of Article 4(1) of the *CRR*.~~

…

~~*repurchase transaction*~~

~~has the meaning given in point (83) of Article 4(1) of the *CRR*.~~

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~credit institution~~ | ~~Article 4 CRR Regulation~~ |

**Annex AJ**

**Amendments to the Own Funds (CRR) 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:

[Note: there are currently no Part specific definitions]

~~*UK-adopted international accounting standards*~~

~~has the same meaning it has in section 474(1) of the Companies Act 2006.~~

1.3 To the extent that the rules in this Part are not ~~*CRR* rules~~*CRR rules*, rule ~~2.13~~2.2B of the Interpretation Part shall apply to the rules as if they were ~~*CRR* rules~~*CRR rules* and references in the *PRA* Rulebook Glossary to '*CRR rules*' shall be read accordingly.

…

**3 OWN FUNDS (PART TWO CRR)**

…

**ARTICLE 26 COMMON EQUITY TIER 1 ITEMS**

1. Common Equity Tier 1 items of institutions consist of the following:

(a) subject to paragraph 3, ~~capital instruments, provided that the conditions laid down in Article 28 or, where applicable, Article 29 are met~~Common Equity Tier 1 instruments;

…

**ARTICLE 36 DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS**

1. Institutions shall deduct the following from Common Equity Tier 1 items:

…

(e) ~~defined benefit pension fund assets~~*defined benefit assets* on the balance sheet of the institution;

…

**ARTICLE 38 DEDUCTION OF DEFERRED TAX ASSETS THAT RELY ON FUTURE PROFITABILITY**

…

4. Associated deferred tax liabilities of the institution used for the purposes of paragraph 3 may not include deferred tax liabilities that reduce the amount of intangible assets or ~~defined benefit pension fund assets~~*defined benefit assets* required to be deducted.

…

**ARTICLE 41 DEDUCTION OF ~~DEFINED BENEFIT PENSION FUND ASSETS~~DEFINED BENEFIT ASSETS**

1. For the purposes of point (e) of Article 36(1), the amount of ~~defined benefit pension fund assets~~*defined benefit assets* to be deducted shall:

…

(b) not be reduced by the amount of assets in the ~~defined benefit pension fund~~*defined benefit occupational pension scheme* which the institution has an unrestricted ability to use, unless the institution has received the prior *138BA permission* of the *PRA*.

…

**ARTICLE 51 ADDITIONAL TIER 1 ITEMS**

Additional Tier 1 items shall consist of the following:

(a) ~~capital instruments, where the conditions laid down in Article 52(1) are met~~Additional Tier 1 instruments;

…

**ARTICLE 62 TIER 2 ITEMS**

Tier 2 items shall consist of the following:

(a) ~~capital instruments where the conditions set out in Article 63 are met~~Tier 2 instruments, ~~and~~ to the extent specified in Article 64;

…

**ARTICLE 81 MINORITY INTERESTS THAT QUALIFY FOR INCLUSION IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL**

1. Minority interests shall comprise the sum of Common Equity Tier 1 items of a subsidiary where the following conditions are met:

(a) the subsidiary is one of the following:

...

(iic) an ~~*FCA investment firm*~~FCA investment firm;

...

**ARTICLE 82 QUALIFYING ADDITIONAL TIER 1, TIER 1, TIER 2 CAPITAL AND QUALIFYING OWN FUNDS**

Qualifying Additional Tier 1, Tier 1, Tier 2 capital and qualifying own funds shall comprise the minority interest, Additional Tier 1 or Tier 2 instruments, as applicable, plus the related retained earnings and share premium accounts, of a subsidiary where the following conditions are met:

(a) the subsidiary is either of the following:

...

(iic) an ~~*FCA investment firm*~~FCA investment firm;

...

**ARTICLE 84 MINORITY INTERESTS INCLUDED IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL**

1. Institutions shall determine the amount of minority interests of a subsidiary that is included in consolidated Common Equity Tier 1 capital by subtracting from the minority interests of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

   (a) the Common Equity Tier 1 capital of the subsidiary minus the lower of the following:

      (i) the amount of Common Equity Tier 1 capital of that subsidiary required to meet the following:

         ...

         B where the subsidiary is an ~~*FCA investment firm*~~FCA investment firm, the sum of the own funds requirements set out in rules made under Part 9C *FSMA* which apply to the subsidiary and any requirements set out in additional local supervisory regulations in *third countries* insofar as those requirements are to be met by Common Equity Tier 1 capital;

   ...

3A. Where rules made under Part 9C *FSMA* provide that, in relation to any subsidiaries which are ~~*FCA investment firms*~~FCA investment firms, the calculation referred to in paragraph 1 is to be undertaken on a consolidated basis so as to include those subsidiaries, minority interests within those subsidiaries shall not be recognised in own funds at the sub-consolidated or consolidated level, as applicable.

...

**ARTICLE 85 QUALIFYING TIER 1 INSTRUMENTS INCLUDED IN CONSOLIDATED TIER 1 CAPITAL**

1. Institutions shall determine the amount of qualifying *Tier 1 capital* of a subsidiary that is included in consolidated own funds by subtracting from the qualifying *Tier 1 capital* of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

   (a) the *Tier 1 capital* of the subsidiary minus the lower of the following:

      (i) the amount of *Tier 1 capital* of the subsidiary required to meet the following:

         ...

         B where the subsidiary is an ~~*FCA investment firm*~~FCA investment firm, the sum of the own funds requirements set out in rules made under Part 9C *FSMA* which apply to the subsidiary and any requirements set out in additional local supervisory regulations in *third countries* insofar as those requirements are to be met by *Tier 1 capital*;

   ...

3A. Where rules made under Part 9C *FSMA* provide that, in relation to any subsidiaries which are ~~*FCA investment firms*~~FCA investment firms, the calculation referred to in paragraph 1 is to be undertaken on a consolidated basis so as to include those subsidiaries, Tier 1 instruments within those subsidiaries shall not be recognised in own funds at the sub-consolidated or consolidated level, as applicable.

...

**ARTICLE 87 QUALIFYING OWN FUNDS INCLUDED IN CONSOLIDATED OWN FUNDS**

1. Institutions shall determine the amount of qualifying own funds of a subsidiary that is included in consolidated own funds by subtracting from the qualifying own funds of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

   (a) the own funds of the subsidiary minus the lower of the following:

      (i) the amount of own funds of the subsidiary required to meet the following:

         ...

         B where the subsidiary is an ~~*FCA investment firm*~~FCA investment firm, the sum of the own funds requirements set out in rules made under Part 9C *FSMA* which apply to the subsidiary and any requirements set out in additional local supervisory regulations in *third countries*;

      ...

3A. Where rules made under Part 9C *FSMA* provide that, in relation to any subsidiaries which are ~~*FCA investment firms*~~FCA investment firms, the calculation referred to in paragraph 1 is to be undertaken on a consolidated basis so as to include those subsidiaries, own funds instruments within those subsidiaries shall not be recognised in own funds at the sub-consolidated or consolidated level, as applicable.

...

**4 RULES SUPPLEMENTING THE CRR WITH REGARDS TO OWN FUNDS REQUIREMENTS (PREVIOUSLY REGULATION (EU) NO 241/2014)**

…

**ARTICLE 7a MULTIPLE DISTRIBUTIONS CONSTITUTING A DISPROPORTIONATE DRAG ON OWN FUNDS**

1. ~~Distributions on Common Equity Tier 1 instruments referred to in Article 28 of the *CRR*~~For the purposes of Article 28 of Chapter 3, distributions on Common Equity Tier 1 instruments shall be deemed not to constitute a disproportionate drag on capital where all of the following conditions are met:

   ...

**ARTICLE 7b PREFERENTIAL DISTRIBUTIONS REGARDING PREFERENTIAL RIGHTS TO PAYMENTS OF DISTRIBUTIONS**

1. ~~For Common Equity Tier 1 instruments referred to in Article 28 of the *CRR*~~For the purposes of Article 28 of Chapter 3, a distribution on a Common Equity Tier 1 instrument shall be deemed to be preferential relative to other Common Equity Tier 1 instruments where there are differentiated levels of distributions, unless the conditions of Article 7a ~~of this Part~~ are met.

…

**ARTICLE 8 INDIRECT FUNDING OF CAPITAL INSTRUMENTS FOR THE PURPOSES OF ARTICLE 28(1)(B), ARTICLE 52(1)(C) AND ARTICLE 63(C) OF THE CRR**

…

3. Direct funding shall also include funding granted for other purposes than acquisition of ownership of an institution's capital instruments, to any *person* who has a qualifying holding in the credit institution~~, as referred to in Article 4(36) of the *CRR*~~, or who is deemed to be a related

party within the meaning of the definitions in paragraph 9 of International Accounting Standard 24 on Related Party Disclosures as applied under *UK-adopted international accounting standards*, taking into account any additional guidance issued by the *PRA*, if the institution is not able to demonstrate all of the following:

(a) the transaction is realised at similar conditions as other transactions with third parties;

(b) the *person* or the related party does not have to rely on the distributions or on the sale of the capital instruments held to support the payment of interest and the repayment of the funding.

…

**ARTICLE 13 DEDUCTION OF LOSSES FOR THE CURRENT FINANCIAL YEAR FOR THE PURPOSES OF ARTICLE 36(1)(A) OF THE CRR**

…

3. Where losses for the current financial year have already reduced Common Equity Tier 1 items as a result of an interim or a year-end financial report, a deduction is not needed. For the purpose of this Article, the financial report means that the profit and losses have been determined after a closing of the interim or the annual accounts in accordance with the applicable accounting framework ~~(as that term is defined in the *CRR*)~~.

...

**ARTICLE 14 DEDUCTIONS OF DEFERRED TAX ASSETS THAT RELY ON FUTURE PROFITABILITY FOR THE PURPOSES OF ARTICLE 36(1)(C) OF THE CRR**

…

3. The amount of associated deferred tax liabilities which are eligible for offsetting deferred tax assets that rely on future profitability is equal to the difference between the amount in point (a) and the amount in point (b):

…

(b) the amount of associated deferred tax liabilities arising from intangible assets and from ~~defined benefit pension fund assets~~*defined benefit assets*.

…

**ARTICLE 15 DEDUCTION OF ~~DEFINED BENEFIT PENSION FUND ASSETS~~DEFINED BENEFIT ASSETS FOR THE PURPOSES OF ARTICLE 36(1)(E) OF THE CRR AND ARTICLE 41(1)(B) OF THE CRR**

1. For the purposes of an application for permission under point (b) of Article 41(1) of ~~the~~ *CRR*, the unrestricted ability to use the respective ~~defined benefit pension fund *assets*~~*defined benefit assets* entails immediate and unfettered access to the assets such as when the use of the assets is not barred by a restriction of any kind and there are no claims of any kind from third parties on these assets.

2. Unfettered access to the assets is likely to exist when the institution is not required to request and receive specific approval from the manager of the ~~pension funds~~*defined benefit occupational pension scheme* or the pension beneficiaries each time it would access excess funds in the plan.

…

**ARTICLE 15A INDIRECT HOLDINGS FOR THE PURPOSES OF ARTICLE 36(1)(F), (H) AND (I) OF CRR**

1. For the purposes of Articles 15c, 15d, 15e and 15i of this Chapter 4 of this Part, 'intermediate entity' as referred to in ~~Article 4(1)(114) of *CRR*~~the *PRA* Rulebook Glossary definition of the term 'indirect holding' comprises any of the following entities that hold capital instruments of financial sector entities:

   …

   (b) a pension fund other than a ~~defined benefit pension fund~~*defined benefit occupational pension scheme*;

   (c) a ~~defined benefit pension fund~~*defined benefit occupational pension scheme*, where the institution is supporting the investment risk and where the ~~defined benefit pension fund~~*defined benefit occupational pension scheme* is not independent from its sponsoring institution;

   …

2. Without prejudice to point (h) of paragraph 1, an 'intermediate entity' as referred to in ~~Article 4(1)(114) of the *CRR*~~the *PRA* Rulebook Glossary definition of the term 'indirect holding' does not comprise:

   …

   (b) entities that are, by virtue of applicable law of the *United Kingdom* (or a part of it), subject to the requirements of the *CRR* ~~and Directive 2013/36/EU UK law~~;

   …

3. For the purposes of point (c) of paragraph 1, a ~~defined benefit pension fund~~*defined benefit occupational pension scheme* shall be deemed to be independent from its sponsoring institution where all of the following conditions are met:

   (a) the ~~defined benefit pension fund~~*defined benefit occupational pension scheme* is legally separate from the sponsoring institution and its governance is independent;

   (b) the statutes, the instruments of incorporation and the internal rules of the specific ~~pension fund~~*defined benefit occupational pension scheme*, as applicable, have been approved by an independent regulator; or the rules governing the incorporation and functioning of the ~~defined benefit pension fund~~*defined benefit occupational pension scheme*, as applicable, are established in the applicable law of the relevant country;

   (c) the trustees or administrators of the ~~defined pension fund~~*defined benefit occupational pension scheme* have an obligation under applicable national law to act impartially in the best interests of the scheme beneficiaries instead of those of the sponsor, to manage assets of the ~~defined pension fund~~*defined benefit occupational pension scheme* prudently and to conform to the restrictions set out in the statutes, the instruments of incorporation and the internal rules of the specific ~~pension fund~~*defined benefit occupational pension scheme*, as applicable, or statutory or regulatory framework described in point (b);

   (d) the statutes or the instruments of incorporation or the rules governing the incorporation and functioning of the ~~defined benefit pension fund~~*defined benefit occupational pension scheme* referred to in point (b) include restrictions on investments that the ~~defined pension scheme~~*defined benefit occupational pension scheme* can make in own funds instruments issued by the sponsoring institution.

4. Where a ~~defined benefit pension fund~~*defined benefit occupational pension scheme* referred to in point (c) of paragraph 1 holds own funds instruments of the sponsoring institution, the

sponsoring institution shall treat that holding as an indirect holding of own Common Equity Tier 1 instruments, own Additional Tier 1 instruments or own Tier 2 instruments, as applicable. The amount to be deducted from the Common Equity Tier 1 items, Additional Tier 1 items or Tier 2 items, as applicable, of the sponsoring institution, shall be calculated in accordance with Article 15c.

…

**ARTICLE 17 OTHER DEDUCTIONS FOR CAPITAL INSTRUMENTS OF FINANCIAL INSTITUTIONS**

1. Holdings of capital instruments of financial institutions ~~as defined in Article 4(26) of the *CRR*~~ shall be deducted according to the following calculations:

…

**ARTICLE 18 CAPITAL INSTRUMENTS OF THIRD COUNTRY INSURANCE AND REINSURANCE UNDERTAKINGS**

…

2. Where the third country is an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the *IRPR regulations* in respect of the insurance group capital requirements calculation, including the third country's rules on own funds,

   (a) [deleted]

   (b) [deleted]

   holdings of capital instruments of the third-country insurance or reinsurance undertakings shall be treated as holdings of capital instruments of insurance undertakings or reinsurance undertakings ~~within the meaning of 'insurance undertaking' and 'reinsurance undertaking' in section 417(1) of *FSMA*~~.

**ARTICLE 19 CAPITAL INSTRUMENTS OF UNDERTAKINGS EXCLUDED FROM THE SCOPE OF DIRECTIVE 2009/138/EC**

Holdings of capital instruments of ~~undertakings within Article 4(1)(27)(k) of the CRR~~:

1. *non-directive insurers*; or
2. *firms* with a *Part 4A permission* to *effect contracts of insurance* or *carry out contracts of insurance* where the *firm* has the *permission* by reason only of the operation of the EEA Passport Rights (Amendment etc., and Transitional Provisions) (EU Exit) Regulations 2018

shall be deducted as follows:

…

**Annex AK**

**Amendments to the Permissions Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

**Annex AL**

**Amendments to the Public Disclosure Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

**Annex AM**

**Amendments to the Recognised Exchanges (CRR) Part**

This Part is deleted.

**Part**

**RECOGNISED EXCHANGES (CRR) [DELETED]**

This Part has been deleted in its entirety.

**Annex AN**

**Amendments to the Recovery Plans 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:

...

~~*competent authority*~~

~~means:~~

~~(1) the *PRA*, in respect of *PRA-authorised persons*;~~

~~(2) the *FCA*, in respect of any other *person*.~~

…

~~*consolidating supervisor*~~

~~means a *competent authority* responsible for the exercise of supervision on a *consolidated basis* of:~~

~~(1) a *UK parent institution*; or;~~

~~(2) *institutions* controlled by a *UK parent financial holding company* or a *UK parent mixed financial holding company*.~~

…

~~*parent undertaking*~~

~~has the meaning given in Article 4(1)(15) of the *CRR*.~~

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## 2 RECOVERY PLANS

2.1 This Chapter applies to a *firm* that is not part of a *group* subject to consolidated supervision by ~~a~~the *consolidating supervisor*.

[Note: Art. 5(1) of the BRRD]

…

## 3 GROUP RECOVERY PLANS

3.1 This Chapter applies to a *BRRD undertaking* which is~~:~~ a *UK parent undertaking*, provided that the *PRA* is the *consolidating supervisor* of its *group*.

(1) ~~a *UK parent undertaking* unless *the FCA* is the *consolidating supervisor* of its *group*;~~[deleted]

(2) [deleted~~.~~]

…

**PART EXTERNALLY DEFINED TERMS**

| Term | Definition source |
|---|---|
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |
| ~~financial holding company~~ | ~~Article 4(1)(20) CRR~~ |
| ~~financial institution~~ | ~~Article 4(1)(2) CRR~~ |
| ~~institution~~ | ~~Article 4(1)(3) CRR~~ |
| ~~investment firm~~ | ~~Article 4(1)(2) CRR~~ |
| ~~mixed activity holding company~~ | ~~Article 4(1)(22) CRR~~ |
| ~~mixed financial holding company~~ | ~~Article 4(1)(21) CRR~~ |
| ~~own funds~~ | ~~Article 4(1)(118) CRR~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) CRR~~ |

**Annex AO**

**Amendments to the Regulatory Reporting Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~consolidated situation~~ | ~~Article 4(1)(47) CRR~~ |
| ~~mixed-activity holding company~~ | ~~Article 4(1)(22) CRR~~ |
| ~~mixed financial holding company~~ | ~~Article 4(1)(21) CRR~~ |
| ~~own funds~~ | ~~Article 4(1)(118) CRR~~ |

## Annex AP

## Amendments to the Related Party Transaction Risk Part

In this Annex deleted text is struck through.

…

**PART EXTERNALLY DEFINED TERMS**

| Term | Definition source |
|---|---|
| ~~qualifying holding~~ | ~~*Art. 4(1)(36) of the CRR*~~ |

**Annex AQ**

**Amendments to the Remuneration Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 (1) In this Part, the following definitions shall apply:

…

~~*large institution*~~

~~has the meaning provided in point 146 of Article 4 of the *CRR*.~~

…

1.4 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRD* or *CRR* has the same meaning as in the *CRD* or *CRR*.~~[Deleted]

~~[Note: CRD and CRR]~~

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~Additional Tier 1 instrument~~ | ~~Article 52 CRR~~ |
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |
| ~~Common Equity Tier 1 instrument~~ | ~~Article 28 CRR~~ |
| ~~controlled~~ | ~~Article 4(1)(37) CRR~~ |
| ~~financial institution~~ | ~~Article 4(1)(2) CRR~~ |
| ~~institution~~ | ~~Article 4(1)(3) CRR~~ |
| ~~sub-consolidated basis~~ | ~~Article 4(1)(49) CRR~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) CRR~~ |
| ~~Tier 2 instrument~~ | ~~Art 63 CRR~~ |

**Annex AR**

**Amendments to the Reporting (CRR) 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:

…

*Directive 2013/36/EU UK law*

means the law of the *UK* or any part of it which immediately before *IP completion day* implemented the *CRD* and its implementing measures:

(1) as they had effect on 1 January 2022, in the case of rules made by the *FCA* or the *PRA* under *FSMA*; and

(2) as amended from time to time, in all other cases.

…

**4 REPORTING (PART SEVEN A CRR)**

**Article 430 REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION**

1. Institutions shall report to the *PRA* on:

...

(f) the requirements and guidance set out in provisions implementing ~~Directive 2013/36/EU UK law~~*Directive 2013/36/EU UK law* qualified for standardised reporting, except for any additional reporting requirement in provisions implementing point (j) of Article 104(1) of that Directive;

…

**5 REPORTING REQUIREMENTS**

…

**Article 4 REPORTING THRESHOLDS – ENTRY AND EXIT CRITERIA**

1. Institutions that meet or cease to meet the conditions ~~set out in Article 4(1) point (145) or (146) of the *CRR*~~for being small and non-complex institutions or for being large institutions as set out in the *PRA* Rulebook Glossary shall commence or cease, respectively, reporting information as small and non-complex or as large institutions, on the first reporting reference date after these conditions have been met or have ceased to be met.

…

**Article 15 FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

…

2. The information specified in cell {r0410;c0010} of template LV 40.00 of Annex X of Chapter 6 shall be reported only by:

   (a) large institutions that either are G-SIIs or have issued securities that are admitted to trading on a UK regulated market with a semi-annual frequency;

   …

   (c) institutions other than large institutions and small and non-complex institutions that have issued securities that are admitted to trading on a UK regulated market with an annual frequency.

…

**Annex AS**

**Amendments to the Reporting Pillar 2 Part**

In this Annex deleted text is struck through.

…

**PART EXTERNALLY DEFINED TERMS**

| Term | Definition source |
|---|---|
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |

**Annex AT**

**Amendments to the Required Level of Own Funds (CRR) Part**

In this Annex deleted text is struck through.

## 1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

~~*clearing member*~~

~~means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.~~

…

**Annex AU**

**Amendments to the Resolution Assessment Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless the contrary intention appears, all words and expressions used in this Part and in the *CRR* shall have the same meaning as in the *CRR*.~~[Deleted]

## 2 ASSESSMENT

2.1 A *firm* must carry out an adequate assessment of its preparations for ~~resolution~~*resolution*.

2.2 The assessment in 2.1 must:

…

(2) include analysis of how the *firm* understands it would be resolved, any risks to its ~~resolution~~*resolution* and steps the *firm* is taking or plans to take to remove or reduce those risks; and

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |

**Annex AV**

**Amendments to the Resolution Pack 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:

~~*consolidating supervisor*~~

~~means a *competent authority* responsible for the exercise of supervision on a *consolidated basis* of:~~

~~(1) a *UK parent institution*; or~~

~~(2) *institutions* controlled by a *UK parent financial holding company* or a *UK parent mixed financial holding company*.~~

…

~~*resolution authority*~~

~~means the *Bank of England*.~~

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## 3 GROUP RESOLUTION PACK

3.1 This Chapter applies to a *BRRD undertaking* which is~~:~~ a *UK parent undertaking,* provided that the *PRA* is the *consolidating supervisor* of its *group*.

(1) ~~a *UK parent undertaking* unless *the FCA* is the *consolidating supervisor* of its *group*;~~[deleted]

(2) [deleted~~.~~]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~consolidated basis~~ | ~~Article 4(1)(48) CRR~~ |
| ~~institution~~ | ~~Article 4(1)(3) CRR~~ |

**Annex AW**

**Amendments to the Ring-fenced Bodies Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.4 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~central counterparty~~ | ~~Article 4(1)(34) CRR~~ |
| ~~clearing member~~ | ~~Article 300(3) CRR~~ |
| ~~sub-consolidated basis~~ | ~~Article 4(1)(49) CRR~~ |
| ~~trading book~~ | ~~Article 4(1)(86) CRR~~ |

**Annex AX**

**Amendments to the Risk Control Part**

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

…

**3 RISK COMMITTEE**

…

3.4 A *firm* must ensure the following:

…

(3) the risk management function is able to report directly to the *management body* in its ~~supervisory function~~*supervisory function*, independent from *senior management* and that it can raise concerns and warn the *management body*, where appropriate, where specific risk developments affect or may affect the *firm*, without prejudice to the responsibilities of the *management body* in its ~~supervisory~~*supervisory function* and/or managerial function~~s~~ pursuant to the *CRD* and the *CRR*.

[Note: Art. 76(5) of the *CRD*]

…

**Annex AY**

**Amendments to the Securitisation Part**

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

**1 APPLICATION AND DEFINITIONS**

…

1.3 In this Part, unless the context otherwise provides, the following definitions shall apply:

...

~~*first loss tranche*~~

~~means the most subordinated *tranche* in a *securitisation* that is the first *tranche* to bear losses incurred on the securitised exposures and thereby provides protection to the second loss and, where relevant, higher ranking *tranches*.~~

…

*institutional investor*

means an *investor* which is one of the following:

…

(9) a ~~CRR firm as defined by Article 4(1)(2A) of *CRR*~~*CRR firm*; or

(10) an ~~FCA investment firm as defined by Article 4(1)(2AB) of *CRR*~~*FCA investment firm*.

…

~~*original lender*~~

~~means an entity which, itself or through related entities, directly or indirectly, concluded the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposures being securitised.~~

~~*originator*~~

~~means an entity which:~~

~~(1) itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposures being securitised; or~~

~~(2) purchases a third party's exposures on its own account and then securitises them.~~

…

~~*resecuritisation*~~

~~means *securitisation* where at least one of the underlying exposures is a *securitisation position.*~~

~~*revolving exposure*~~

~~means an exposure whereby borrowers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.~~

*revolving securitisation*

means a *securitisation* where the *securitisation* structure itself revolves by exposures being added to or removed from the pool of exposures irrespective of whether the exposures revolve or not.

*securitisation*

means a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is *tranched*, having all of the following characteristics:

(1) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures;

(2) the subordination of *tranches* determines the distribution of losses during the ongoing life of the transaction or scheme; and

(3) the transaction or scheme does not create exposures which possess all of the following characteristics:

(a) the exposure is to an entity which was created specifically to finance or operate physical assets or is an economically comparable exposure;

(b) the contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and

(c) the primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

*securitisation position*

means an exposure to a *securitisation*.

…

*servicer*

means an entity that manages a pool of purchased receivables or the underlying credit exposures on a day-to-day basis.

*sponsor*

means a credit institution as defined in point (1) of Article 4(1) of *CRR* or an investment firm as defined in paragraph 1A of Article 2 of *MiFIR*, whether located in the *UK* or in a country or *territory* outside the *UK*, which:

(1) is not an *originator*;

(2) either:

(a) establishes and manages an *ABCP programme* or other *securitisation* that purchases exposures from third party entities; or

(b) establishes an *ABCP programme* or other *securitisation* that purchases exposures from third party entities and delegates the day-to-day active portfolio management involved in that *securitisation* to an entity which is authorised to manage assets belonging to another *person* in accordance with the law of the country or *territory* in which the entity is established.

*SSPE or securitisation special purpose vehicle*

means a corporation, trust or other entity, other than an *originator* or *sponsor*, established for the purpose of carrying out one or more *securitisations*, the activities of which are

~~limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the entity from those of the *originator*.~~

…

~~*synthetic securitisation*~~

~~means a *securitisation* where the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the *originator*.~~

…

~~*traditional securitisation*~~

~~means a *securitisation* involving the transfer of the economic interest in the exposures being securitised through the transfer of ownership of those exposures from the *originator* to an *SSPE* or through sub-participation by an *SSPE*, where the securities issued do not represent payment obligations of the *originator*.~~

~~*tranche*~~

~~means a contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in another segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.~~

## 2 SECURITISATION: GENERAL PROVISIONS

### ARTICLE 5 DUE DILIGENCE REQUIREMENTS FOR INSTITUTIONAL INVESTORS

1. Prior to holding a *securitisation position*, an *institutional investor*, other than the *originato*r, *sponsor* or *original lender*, shall verify that:

   (a) where the *originator* or *original lender* is *established in the UK* and is not ~~a CRR firm or an FCA investment firm as defined in points (2A) and (2AB) of Article 4(1) of *CRR*~~*a CRR firm* or an *FCA investment firm*, the *originator* or *original lender* grants all the credits giving rise to the underlying exposures (unless they are trade receivables not originated in the form of a loan) on the basis of sound and well-defined criteria and clearly established processes for approving, amending, renewing and financing those credits and has effective systems in place to apply those criteria and processes in accordance with Article 9(1) of this Chapter (or equivalent *FCA* rules);

   …

2. As regards *fully supported ABCP transactions*, the requirement specified in point (a) of paragraph 1 of this Article shall apply to the *sponsor* and not to the *institutional investor*. In such cases, the *sponsor* shall verify that the *originator* or *original lender* which is not ~~a CRR firm or an FCA investment firm as defined in points (2A) and (2AB) of Article 4(1) of *CRR*~~*a CRR firm* or an *FCA investment firm* grants all the credits giving rise to the underlying exposures on the basis of sound and well-defined criteria and clearly established processes for approving, amending, renewing and financing those credits and has effective systems in place to apply those criteria and processes in accordance with Article 9(1) of this Chapter (or equivalent *FCA* rules).

…

**ARTICLE 6 RISK RETENTION**

…

4. Where:

   (a) a ~~mixed financial holding company~~*mixed financial holding company*;

   (b) a ~~UK parent institution~~*UK parent institution*;

   (c) a ~~financial holding company~~*financial holding company established in the UK*; or

   (d) a ~~subsidiary~~*subsidiary* of such a company or ~~institution~~*institution*;

   as an *originator* or *sponsor*, securitises exposures from one or more ~~*CRR firms*, *FCA investment firms* or other *financial institutions*~~*CRR firms*, *FCA investment firms* or other *financial institutions* which are included in the scope of supervision on a *consolidated basis*, the requirements set out in paragraph 1 of this Article may be satisfied on the basis of the ~~consolidated situation~~*consolidated situation* of the ~~mixed financial holding company, UK parent institution or financial holding company~~*mixed financial holding company, UK parent institution* or *financial holding company* concerned.

   Subject to the modifications set out in the third subparagraph of SECN 5.2.9R of the *FCA Handbook* to the requirements set out in Article 79 of Directive 2013/36/EU of the European Parliament and of the Council in respect of ~~*FCA investment firms*~~*FCA investment firms*, the first subparagraph applies only if ~~*CRR firms*, *FCA investment firms* or *financial institutions*~~*CRR firms*, *FCA investment firms* or *financial institutions* which created the securitised exposures comply with the requirements set out in Article 79 of Directive 2013/36/EU of the European Parliament and of the Council and deliver the information needed to satisfy the requirements provided for in Article 5 of this Chapter, in a timely manner, to the *originator* or *sponsor* and, if the *originator* or *sponsor* is a ~~*subsidiary*~~*subsidiary*, to the ~~mixed financial holding company, UK parent institution or financial holding company~~*mixed financial holding company, UK parent institution* or *financial holding company* which is the ~~parent undertaking~~*parent undertaking* of the ~~subsidiary~~*subsidiary*.

   ~~In this paragraph:~~

   ~~(a) 'CRR firm', 'financial holding company', 'financial institution', 'FCA investment firm', 'subsidiary' and 'UK parent institution' have the meaning given in Article 4 of *CRR*; and~~

   ~~(b) 'mixed financial holding company' has the meaning given in regulation 1(2) of the *Financial Conglomerates Regulations*.~~

5. Paragraph 1 of this Article shall not apply where the securitised exposures are exposures to or exposures fully, unconditionally and irrevocably guaranteed by:

   …

   (b) regional governments, local authorities and ~~public sector entities~~*public sector entities* ~~within the meaning of point (8) of Article 4(1) of *CRR*~~;

   …

**ARTICLE 43 TRANSITIONAL PROVISIONS RELATING TO PRE-2019 SECURITISATIONS**

…

6. In respect of *securitisations* the securities of which were issued before 1 January 2019 a CRR firm (as defined by Article 4(1)(2A) of *CRR* as *CRR* had effect on *IP completion day*), an insurance undertaking (as defined in section 417(1) of *FSMA*) and a reinsurance undertaking (as defined in section 417(1) of *FSMA*) shall continue to apply Article 405 of *CRR* and Chapters

I, II and III and Article 22 of Commission Delegated Regulation (EU) No 625/2014, Articles 254 and 255 of Commission Delegated Regulation (EU) 2015/35 respectively as in the version applicable on 31 December 2018 as if they still had effect and were set out expressly here. For the purposes of this paragraph, Article 405 of *CRR* is to be read with the following modifications:

(a) read paragraph 2 as if:

(i) for the first subparagraph, substitute:

'Where:

(a) a ~~mixed financial holding company~~*mixed financial holding company*,

(b) a ~~UK parent institution~~*UK parent institution* which is a ~~credit institution~~*credit institution*,

(c) a ~~financial holding company~~*financial holding company* established in the *United Kingdom*, or

(d) a ~~subsidiary~~*subsidiary* of such a company or ~~institution~~*institution*;

as an *originator* or *sponsor*, securitises exposures from one or more ~~credit institutions, investment firms or other financial institutions~~*credit institutions, investment firms* or other *financial institutions* which are included in the scope of supervision on a *consolidated basis*, the requirement set out in paragraph 1 may be satisfied on the basis of the ~~consolidated situation~~*consolidated situation* of the ~~mixed financial holding company, UK parent institution or financial holding company~~*mixed financial holding company, UK parent institution* or *financial holding company* concerned'; and

(ii) in the second subparagraph for the words from 'in a timely manner' to the end there were substituted 'the information needed to satisfy the requirements set out in Article 409, in a timely manner, to the *originator* or *sponsor* and, if the *originator* or *sponsor* is a ~~subsidiary~~*subsidiary*, to the ~~mixed financial holding company, UK parent institution or financial holding company~~*mixed financial holding company, UK parent institution* or *financial holding company* which is the ~~parent undertaking~~*parent undertaking* of the ~~subsidiary~~*subsidiary*'~~; and~~.

(iii) ~~after the second subparagraph there were inserted:~~[deleted]

~~'In this paragraph~~

~~(a) 'credit institution', 'financial holding company', 'financial institution', 'investment firm', 'subsidiary' and 'UK parent institution' have the meaning given in Article 4(1) of *CRR*; and,~~

~~(b) 'mixed financial holding company' has the meaning given in the *PRA* Rulebook'; and~~

…

## Annex AZ

## Amendments to the Securitisation (CRR) 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:

…

~~*early amortisation provision*~~

~~means a contractual clause in a *securitisation* of *revolving exposures* or a *revolving securitisation*, as defined in the Securitisation Part, which requires, on the occurrence of defined events, *investors' securitisation positions* to be redeemed before the originally stated maturity of those positions.~~

~~[Note: This rule corresponds to Article 242(16) of the *CRR* as it applied immediately before its revocation by the *Treasury*]~~

…

~~*revolving exposure*~~

~~means an exposure whereby borrowers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.~~

~~[Note: This rule corresponds to Article 242(15) of the *CRR* as it applied immediately before its revocation by the *Treasury*]~~

...

~~*senior securitisation position*~~

~~means a position backed or secured by a first claim on the whole of the underlying exposures, disregarding for these purposes amounts due under interest rate or currency derivative contracts, fees or other similar payments, and irrespective of any difference in maturity with one or more other senior *tranches* with which that position shares losses on a pro-rata basis.~~

~~[Note: This rule corresponds to Article 242(6) of the *CRR* as it applied immediately before its revocation by the *Treasury*]~~

…

**Annex AAA**

**Amendments to the Stay in Resolution Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.6 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~central bank~~ | ~~Article 4(1)(46) *CRR*~~ |
| ~~central counterparty~~ | ~~Article 4(1)(34) *CRR*~~ |
| ~~credit institution~~ | ~~Article 4(1)(1) *CRR*~~ |
| ~~financial institution~~ | ~~Article 4(1)(26) *CRR*~~ |
| ~~financial holding company~~ | ~~Article 4(1)(20) *CRR*~~ |
| ~~investment firm~~ | ~~Article 4(1)(2) *CRR*~~ |
| ~~mixed financial holding company~~ | ~~Article 4(1)(21) *CRR*~~ |
| ~~parent undertaking~~ | ~~Article 4(1)(15) *CRR*~~ |
| ~~subsidiary~~ | ~~Article 4(1)(16) *CRR*~~ |

**Annex AAB**

**Amendments to the Solvency Capital Requirement – Standard Formula 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:

...

~~*CCP*~~

~~means a CCP as defined in point (1) of Article 2 of Regulation (EU) No 648/2012 of the European Parliament and of the Council.~~

…

~~*clearing member*~~

~~means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.~~

…

~~*resecuritisation*~~

~~has the meaning given in Securitisation 1.2.~~

~~*securitisation*~~

~~has the meaning given in Securitisation 1.2.~~

~~*securitisation position*~~

~~has the meaning given in Securitisation 1.2.~~

~~*senior securitisation position*~~

~~means a senior securitisation position within the meaning of Article 242(6) of the CRR.~~

…

## 3D MARKET RISK MODULE

…

## 3D21 SPREAD RISK ON SECURITISATION POSITIONS: CALCULATION OF THE CAPITAL REQUIREMENT

...

3. In respect of ~~senior securitisation positions~~*<u>senior securitisation positions</u>* in *STS securitisations* which fulfil the requirements set out in Article 243 of the *CRR* and for which a credit assessment by a nominated *external credit assessment institution* is available, a *firm* must assign a risk factor $stress_i$ depending on the *credit quality step* and the modified duration of the *securitisation position I*, as set out in the following table:

...

## 3E COUNTERPARTY DEFAULT RISK MODULE

…

### 3E5 EXPOSURE TO CLEARING MEMBERS

1. For the purposes of 3E4.5, a *derivative* falls within this rule if the following requirements are met:

   …

   (5) the *CCP* is a ~~qualifying central counterparty as defined in Article 4(1)(88) of the *CRR*~~*qualifying central counterparty*.

…

**Annex AAC**

**Amendments to the Step-In Risk Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

1.4 Interpretation ~~2.13~~2.2B does not apply to this Part.

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~original lender~~ | ~~has the meaning given in point (14a) of Article 4(1) of *CRR*~~ |
| ~~originator~~ | ~~has the meaning given in point (13) of Article 4(1) of *CRR*~~ |
| ~~securitisation~~ | ~~has the meaning given in point (61) of Article 4(1) of *CRR*~~ |
| ~~senior securitisation position~~ | ~~has the meaning given Article 242(6) of *CRR*.~~ |
| ~~sponsor~~ | ~~has the meaning given in point (14) of Article 4(1) of *CRR*.~~ |
| ~~SSPE~~ | ~~has the meaning given in point (66) of Article 4(1) of *CRR*.~~ |
| ~~sub-consolidated basis~~ | ~~has the meaning given in point (49) of Article 4(1) of *CRR*.~~ |

**Annex AAD**

**Amendments to the Trading Book (CRR) Part**

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

…

## 3 TRADING BOOK (PART THREE TITLE I CHAPTER 1, AND ARTICLE 94, CRR)

…

### ARTICLE 104 INCLUSION IN THE TRADING BOOK OR NON-TRADING BOOK

1. An institution shall have in place clearly defined policies and procedures for determining which position to include in the trading book for the purposes of calculating their capital requirements, in accordance with the requirements set out in Article 102 and the definition of ~~trading book in accordance with point (86) of Article 4(1) of *CRR*~~*trading book* in the *PRA* Rulebook Glossary, taking into account the institution's risk management capabilities and practices. The institution shall fully document its compliance with these policies and procedures and shall subject them to annual internal audit.

2. An institution must assign to the non-trading book instruments that are:

   …

   (e) retail credit exposures (including those which are credit exposures to ~~small or medium-sized enterprise (SME)~~*SMEs*);

   …

**Annex AAE**

**Amendments to the Waivers Transitional Provisions Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.3 ~~Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.~~[Deleted]

…

## PART EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~competent authority~~ | ~~Article 4(1)(40) CRR~~ |
| ~~consolidated situation~~ | ~~Article 4(1)(47) CRR~~ |

## GLOSSARY EXTERNALLY DEFINED TERMS

| Term | Definition source |
|---|---|
| ~~central bank~~ | ~~Article 4(1)(46) *CRR*~~ |
| ~~central counterparty~~ | ~~Article 4(1)(34) CRR~~ |
| ~~clearing member~~ | ~~Article 300(3) CRR~~ |
| ~~sub-consolidated basis~~ | ~~point (49) of Article 4(1) *CRR*~~ |
| ~~subsidiary~~ | ~~s420(2) FSMA~~ |

# PRA RULEBOOK: CRR FIRMS: REPORTING PILLAR 2 (AMENDMENT) INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers); and
(3) section 192XA (Rules applying to holding companies).

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

## PRA Rulebook: CRR Firms: Reporting Pillar 2 (Amendment) Instrument 2026

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

## Templates, Annexes and instruction documents

D. The rules in this instrument include any template or Annex or instruction document referred to in the rules. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

## Commencement

E. The Annex comes into force on 1 January 2027.

## Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms: Reporting Pillar 2 (Amendment) Instrument 2026.

## By order of the Prudential Regulation Committee

19 May 2026

**Annex**

**Amendments to the Reporting Pillar 2 Part**

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

## 1 APPLICATION AND DEFINITIONS

…

1.6 In this Part the following definitions shall apply:

~~*Advanced Measurement Approach*~~

~~means the advanced measurement approach referred to in Article 312(2) of the *CRR*.~~

…

~~*IRB Approach*~~

~~has the meaning given in article 143(1) of the *CRR*.~~

…

~~*Standardised Approach to credit risk*~~

~~means the approach to credit risk set out in Chapter 2 of Title II of *CRR*.~~

## 2 PILLAR 2 REPORTING REQUIREMENTS

…

2.3 A significant *firm* ~~and any *firm* that is not significant but that had permission as at 31 December 2026 from the *PRA* to use the *Advanced Measurement Approach* referred to in Article 312(2) of *CRR* as it applied immediately before 1 January 2027~~ must complete the *data items* FSA072, FSA073, FSA074 and FSA075 for operational risk, unless the data required in that *data item* has already been reported to the *PRA* by other means.

…

2.5 ~~A *firm* with permission from the *PRA* to use the *IRB Approach* for retail claims or contingent retail claims must complete the *data item* FSA082 for credit risk that relates to the *IRB Approach* for retail exposures.~~[Deleted]

…

2.7 A *firm* other than an *SDDT* or an *SDDT consolidation entity* must complete the *data item* FSA076 ~~for any wholesale portfolio of~~ where they have any of the following exposures~~ for which capital requirements are calculated using the *Standardised Approach to credit risk*~~.

(1) exposures to central governments or central banks that are assigned a risk weight in accordance with Article 114(7) of *CRR*;

(2) exposures to regional governments or local authorities that are assigned a risk weight in accordance with Article 115(4) of *CRR*; or

(3) off-balance sheet items that are assigned to the exposure class in Credit Risk: Standardised Approach (CRR) Part Article 112(1)(h), that are not exposures to *SMEs,* and that are subject to a conversion factor of 10% in accordance with Table A1 in Credit Risk: Standardised Approach (CRR) Part Article 111.

2.7A For the purposes of 2.7(1) and 2.7(2), exposures to central governments or central banks and exposures to regional governments or local authorities also include, as applicable:

(1) the part of any exposure covered by the unfunded credit protection that the *firm* has recognised by the *Risk-Weight Substitution Method* where the protection provider is a central government, central bank, regional authority or local authority; or

(2) the underlying exposure of a collective investment undertaking, where:

(a) the *firm* has calculated the risk weight of an exposure to a collective investment undertaking using the look-through approach in:

(i) Credit Risk: Standardised Approach (CRR) Part Article 132A(1); or

(ii) paragraphs 2 and 4 of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 152; and

(b) the underlying exposure is to a central government, central bank, regional government or local authority.

2.8 ~~A *firm* other than an *SDDT* or an *SDDT consolidation entity* must complete the *data item* FSA077 for any retail portfolio of exposures for which capital requirements are calculated using the *Standardised Approach to credit risk*.~~[Deleted]

…

## 4 DATA ITEMS

…

4.9 FSA081 can be found ~~here~~here.

4.10 ~~FSA082 can be found here.~~[Deleted]

4.11 FSA076 can be found ~~here~~here.

4.12 ~~FSA077 can be found here.~~[Deleted]

…

# PRA RULEBOOK: PRA FEES AMENDMENT INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers); and
(3) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.

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

## PRA Rulebook: PRA Fees Amendment Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

## Commencement

D. Annex A of this instrument comes into force on 13 July 2026.
E. Annex B of this instrument comes into force on 1 January 2027.

## Citation

F. This instrument may be cited as the PRA Rulebook: PRA Fees Amendment Instrument 2026.

**By order of the Prudential Regulation Committee**
2 July 2026

**Annex A**

**Amendments to the Fees Part**

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

…

**3 PERIODIC FEES**

…

**PERIODIC FEES SCHEDULE – FEE RATES AND MODIFICATIONS FOR THE PERIOD FROM 1 MARCH 2025~~5~~6 TO 28 FEBRUARY 2026~~6~~7**

…

TABLE IIA – FUTURE BANKING DATA FEE

| **FIRMS** | **TARIFF BASE FOR ALLOCATION TO FIRMS** |
|---|---|
| All *firms* in the *designated firms dealing as principal fee block* and all *firms* in the *deposit acceptors fee block,* apart from *credit unions*. | Total *periodic fees*, excluding the minimum *periodic fee*, payable by the *firm* multiplied by ~~0.014250~~0.03094. |

TABLE IIIA – PERIODIC FEE RATES APPLICABLE TO PRA FEE BLOCKS OTHER THAN THE MINIMUM FEE BLOCK FOR THE FEE YEAR 2025~~5~~6-2~~6~~7

| **Column 1**<br>***Fee block*** | **Column 2**<br>***Tariff base*** | **Column 3**<br>***Tariff bands*** | **Column 4**<br>***Tariff rates*** |
|---|---|---|---|
| A1 ~~deposit acceptors fee block~~*~~deposit acceptors fee block~~* | *modified eligible liabilities* | Band width (£million of *MELs*) | Fee payable per million or part million of *MELs*(£) |
| | | >10 – 140 | ~~34.975~~32.358 |
| | | >140 – 630 | ~~34.975~~32.358 |
| | | >630 – 1,580 | ~~34.975~~32.358 |
| | | >1,580 – 13,400 | ~~43.719~~40.448 |
| | | > 13,400 | ~~57.709~~53.391 |
| A3 general insurers ~~fee block~~*~~fee block~~ gross written premium for fees purposes*, *best estimate liabilities for fees purposes* | *gross written premium for fees purposes* | Band width (£million of *gross written premium for fees purposes*) | Fee payable per million of *gross written premium for fees purposes* (£) |
| | | >0.5 | ~~429.43~~430.70 |
| | *best estimate liabilities for fees purposes* | Band Width (£ million of *best estimate liabilities for fees* | Fee payable per million of *best estimate liabilities for fees purposes* (£) |

| | | | |
|---|---|---|---|
| | | *purposes*) | |
| | | >1 | ~~28.3~~27.66 |
| | | For *UK ISPVs* the *tariff rates* are not relevant and a flat fee of £430.00 is payable in respect of each *fee year*. | |
| A4 Life insurers ~~fee block~~*fee block gross written premium for fees purposes*, *best estimate liabilities for fees purposes* | *gross written premium for fees purposes* | Band width (£million of *gross written premium for fees purposes*) | Fee payable per million of *gross written premium for fees purposes* (£) |
| | | >1 | ~~227.98~~235.06 |
| | *best estimate liabilities for fees purposes* | Band width (£million of *best estimate liabilities for fees purposes*) | Fee payable per million of *best estimate liabilities for fees purposes* (£) |
| | | >1 | ~~18.88~~16.89 |
| A5 managing agents at Lloyd's | *active capacity* | Band width (£million of *active capacity*) | Fee payable per million of *active capacity* (£) |
| | | >50 | ~~36.65~~33.85 |
| A6 Society of Lloyd's | flat fee | N/A | General periodic fee (£) ~~2,514,958.79~~2,461,783.66 |
| A10 Firms dealing as principal ~~fee block~~*fee block*<br><br>*total assets for fees purposes*, *total operating income for fees purposes* | *total assets for fees purposes* | Band width (£million of *total assets for fees purposes*) | Fee payable per million or part million of *total assets for fees purposes* (£) |
| | | N/A | ~~2.866~~2.67 |
| | *total operating income for fees purposes* | Band width (£million of *total operating income for fees purposes*) | Fee payable per million or part million of *total operating income for fees purposes* (£) |
| | | N/A | ~~360.23~~344.21 |

…

TABLE VIII – MODEL MAINTENANCE FEES

| | **Annual fee for *CRR firms* per model type (£)** | | | | **Annual fee for *UK Solvency II firms* per *group* or *solo internal model* (£)** | |
|---|---|---|---|---|---|---|
| **Basis of scale, (aggregated figures for all *UK firms* within the scope of each model or model type)** | **IMA** | **IMM** | **IRB** | **AMA** | **A3 ~~fee block~~*fee block*** | **A4 ~~fee block~~*fee block*** |

| | | | | | | |
|---|---|---|---|---|---|---|
| *CRD credit institutions* with *modified eligible liabilities* in excess of £40,000million, or *designated investment firms* with *total assets for fees purposes* in excess of £100,000million | ~~70,000~~72,500 | ~~92,500~~95,000 | ~~127,500~~132,500 | 35,000 | - | - |
| *CRD credit institutions* with *modified eligible liabilities* greater than £5,000million and less than £40,000million, or *designated investment firms* with *total assets for fees purposes* greater than £12,500million and less than £100,000million | 27,500 | ~~42,500~~45,000 | ~~52,500~~55,000 | 15,000 | - | - |
| … | … | … | … | … | … | … |
| The sum of a *firm's best estimate liabilities for fees purposes* and *gross written premium for fees purposes* is £1,000-million or more for *firms* in the *general insurance fee block* (A3), or for *firms* in the *life insurance fee block* (A4), £15,000million or more | - | - | - | - | ~~205,000~~212,500 | ~~267,500~~277,500 |
| The sum of a *firm's best estimate liabilities for fees purposes* and *gross written premium for fees purposes* is greater than £300million and less than £1,000million for *firms* in | - | - | - | - | ~~82,500~~85,000 | ~~107,500~~110,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| the *general insurance fee block* (A3) or greater than £5,000million and less than £15,000million for *firms* in the *life insurance fee block* (A4) | | | | | | |
| The sum of a *firm's best estimate liabilities for fees purposes* and *gross written premium for fees purposes* is less than £300million for *firms* in the *general insurance fee block* (A3) or less than £5,000million, for *firms* in the *life insurance fee block* (A4) | - | - | - | - | 35,000 | ~~45,000~~47,500 |

…

## 4 REGULATORY TRANSACTION FEES

…

4.5 Regulatory transaction fees for *applications* for *new authorisations* are payable in accordance with Table B:

(1) [Deleted~~.~~]

| **Table B – New authorisations** | |
|---|---|
| **Application type** | **£** |
| Type 1:<br><br>A3 or A4 *fee payer* which is a *friendly society* or a *fee payer* which is an A1 *credit union* | ~~1,500~~0 |
| … | ... |
| Type 3: | ~~27,870~~28,150 |

| | |
|---|---|
| A1 *fee payer* (other than a *credit union*) seeking permission to accept deposits<br><br>A3 *fee payer* (other than a *friendly society* or *UK insurance special purpose vehicle*)<br><br>A4 *fee payer* other than a *friendly society* | |

…

4.14A (1) Where a *CRR firm* seeks permission to apply any model type the fee payable is as set out in Table D below.

**Table D - Model types under *CRR***

| **Applicant**<br>(groupings based on *tariff data* submitted by *firms* as at 31 December in the *fee year* prior to the *fee year* in which the fee is payable). | **Fee payable (£)** | |
|---|---|---|
| Where the application relates to *CRD credit institutions* or *designated investment firms* and includes five or more significant overseas entities within the same group. | **model type** | **£** |
| | *advanced IRB*, *IMM* or *IMA* | ~~367,500~~380,000 |
| | *foundation IRB* | ~~317,500~~327,500 |
| | *AMA* | ~~245,000~~252,500 |
| Where the applicant:<br>(1) has *modified eligible liabilities* in excess of £40,000million; or<br>(2) is a *designated investment firm* with *total assets for fees purposes* in excess of £100,000million. | **model type** | **£** |
| | *advanced IRB*, *IMM* or *IMA* | ~~312,500~~322,500 |
| | *foundation IRB* | ~~267,500~~277,500 |
| | *AMA* | ~~195,000~~202,500 |
| Where the applicant:<br>(1) has *modified eligible liabilities* greater than £5,000million and less than £40,000million; or<br>(2) is a *designated investment firm* with *total assets for fees purposes* greater than £15,000million and less than £100,000million. | **model type** | **£** |
| | *advanced IRB*, *IMM* or *IMA* | ~~127,500~~132,500 |
| | *foundation IRB* | ~~97,500~~100,000 |
| | *AMA* | ~~72,250~~75,000 |
| | **model type** | **£** |

| | | |
|---|---|---|
| Where the applicant:<br>(1) has *modified eligible liabilities* of £5,000million or less; or<br>(2) is a *designated investment firm* with *total assets for fees purposes* of £15,000million or less. | *advanced IRB*, *IMM* or *IMA* | ~~57,500~~60,000 |
| | *foundation IRB* | ~~40,000~~42,500 |
| | *AMA* | 35,000 |

…

**Table E – Internal model application fees**

| **Applicant**<br>(groupings based on *tariff data* submitted by *firms* as at 31 December in the *fee year* prior to the *fee year* in which the fee is payable) | **Fee payable (£)** |
|---|---|
| ***Group Internal Model*** **(Full and Partial)** | |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *groups* in the *general insurance fee block* of £1,000million or more | ~~337,500~~347,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *groups* in the *general insurance fee block* greater than £300million and less than £1,000million | ~~127,500~~132,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *groups* in the *general insurance fee block* less than £300million | ~~65,000~~67,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *groups* in the *life insurance fee block* of £15,000million or more | ~~337,500~~347,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *groups* in the *life insurance fee block* greater than £5,000million and less than £15,000million | ~~127,500~~132,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *groups* in the *life insurance fee block* less than £5,000million | ~~65,000~~67,500 |
| ***Solo Internal Model*** **(Full and Partial)** | |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *firms* in the *general insurance fee block* of £1,000million or more | ~~297,500~~307,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *firms* in the *general insurance fee block* greater than £300million and less than £1,000million | ~~107,500~~110,000 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *firms* in the *general insurance fee block* less than £300million | ~~55,000~~57,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *firms* in the *life insurance fee block* of £15,000million or more | ~~297,500~~307,500 |
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *firms* in the *life insurance fee block* greater than £5,000million and less than £15,000million | ~~107,500~~110,000 |

| | |
|---|---|
| Sum of *best estimate liabilities for fees purposes* and *gross written premium for fees purposes* for *firms* in the *life insurance fee block* less than £5,000million | ~~55,000~~57,500 |

…

## 5 SPECIAL PROJECT FEE FOR RESTRUCTURING

…

Payment calculation

5.7 The *SPF* for restructuring is calculated as follows:

(1) Determine the number of hours, or part of an hour, taken by the *PRA* in relation to regulatory work conducted as a consequence of the activities referred to in 5.2 or 5.4. The number of hours or part hours is as recorded on the *PRA*'s systems in relation to the work.

(2) Next, multiply the applicable rate in the table of *SPF* hourly rates below by the number of hours or part hours arrived at under 5.7(1):

| ***SPF* hourly rates** | |
|---|---|
| **Pay grade of persons employed by the *PRA*** | **Hourly rate** |
| Administrator | £70 |
| Associate | ~~£155~~£160 |
| Technical specialist | ~~£225~~£230 |
| Manager | ~~£300~~£310 |
| Any other persons employed by the *PRA* | ~~£415~~£430 |

…

**Annex B**

**Amendments to the Fees Part**

This Annex incorporates changes made by Annex A.

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:

…

~~*advanced IRB*~~

~~means the internal ratings based approach for assessing credit risk referred to in Article 151(4) and (9) of the *CRR*.~~

~~*advanced measurement approaches or AMA*~~

~~means advanced measurement approaches to operational risk based on a *firm's* own operational risk management systems as referred to in s312(2) *CRR*.~~

…

~~*foundation IRB*~~

~~means the internal ratings based approach for assessing credit risk referred to in Article 143(1) of the *CRR*.~~

…

*Internal model method or IMM*

means the internal approach to counterparty credit risk referred to in Article 283 of the ~~*CRR*~~Counterparty Credit Risk (CRR) Part.

*Internal models approach or IMA*

means ~~the internal models approach referred to in Article 363 of the *CRR*~~ an internal risk-measurement model under Market Risk: Internal Model Approach (CRR) Part Articles 325az to 325bp or Part A of Annex 3 of the Market Risk: Internal Model Approach (CRR) Part.

*IRB*

means the *IRB Approach*.

…

*Type 1 IRB Approach*

means the *IRB Approach* where it includes the use of the *Advanced IRB Approach*, except where the *Advanced IRB Approach* is used solely for retail exposures as defined in rule 1.3 of the Credit Risk: Internal Ratings Based Approach (CRR) Part.

*Type 2 IRB Approach*

means any *IRB approach* other than a *Type 1 IRB Approach*.

…

## 3 PERIODIC FEES

…

**PERIODIC FEES SCHEDULE – FEE RATES AND MODIFICATIONS FOR THE PERIOD FROM 1 MARCH 2026 TO 28 FEBRUARY 2027**

…

TABLE VIII – MODEL MAINTENANCE FEES

| | **Annual fee for *CRR firms* per model type (£)** | | | | **Annual fee for *UK Solvency II firms* per *group* or *solo internal model* (£)** | |
|---|---|---|---|---|---|---|
| **Basis of scale, (aggregated figures for all *UK firms* within the scope of each model or model type)** | **~~IMA~~*IMA*** | **~~IMM~~*IMM*** | **~~IRB~~*IRB*** | **~~AMA~~*SFT VaR Method*** | **A3 *fee block*** | **A4 *fee block*** |
| *CRD credit institutions* with *modified eligible liabilities* in excess of £40,000million, or *designated investment firms* with *total assets for fees purposes* in excess of £100,000million | 72,500 | 95,000 | 132,500 | ~~35,000~~47,500 | - | - |
| *CRD credit institutions* with *modified eligible liabilities* greater than £5,000million and less than £40,000million, or *designated investment firms* with *total assets for fees purposes* greater than £12,500million and less than £100,000million | 27,500 | 45,000 | 55,000 | ~~15,000~~22,500 | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| *CRD credit institutions* with *modified eligible liabilities* of £5,000million or less, or *designated investment firms* with *total assets for fees purposes* of £12,500million or less | 10,000 | 15,000 | 20,000 | ~~5,000~~7,500 | - | - |
| … | … | … | … | … | … | ... |

…

## 4 REGULATORY TRANSACTION FEES

…

4.14A (1) Where a *CRR firm* seeks permission to apply any model type the fee payable is as set out in Table D below.

**Table D - Model types under *CRR***

| **Applicant** (groupings based on *tariff data* submitted by *firms* as at 31 December in the *fee year* prior to the *fee year* in which the fee is payable). | **Fee payable (£)** | |
|---|---|---|
| Where the application relates to *CRD credit institutions* or *designated investment firms* and includes five or more significant overseas entities within the same group. | **model type** | **£** |
| | ~~*advanced IRB*~~*Type 1 IRB Approach*, *IMM* or *IMA* | 380,000 |
| | ~~*foundation IRB*~~*Type 2 IRB Approach* | 327,500 |
| | ~~*AMA*~~*SFT VaR Method* | ~~252,500~~190,000 |
| Where the applicant:<br>(1) has *modified eligible liabilities* in excess of £40,000million; or<br>(2) is a *designated investment firm* with *total assets for fees purposes* in excess of £100,000million. | **model type** | **£** |
| | ~~*advanced IRB*~~*Type 1 IRB Approach*, *IMM* or *IMA* | 322,500 |
| | ~~*foundation IRB*~~*Type 2 IRB Approach* | 277,500 |
| | ~~*AMA*~~*SFT VaR Method* | ~~202,500~~161,250 |

| | | |
|---|---|---|
| Where the applicant:<br>(1) has *modified eligible liabilities* greater than £5,000million and less than £40,000million; or<br>(2) is a *designated investment firm* with *total assets for fees purposes* greater than £15,000million and less than £100,000million. | **model type** | **£** |
| | ~~*advanced IRB*~~*Type 1 IRB Approach*, *IMM* or *IMA* | 132,500 |
| | ~~*foundation IRB*~~*Type 2 IRB Approach* | 100,000 |
| | ~~*AMA*~~*SFT VaR Method* | ~~75,000~~66,250 |
| Where the applicant:<br>(1) has *modified eligible liabilities* of £5,000million or less; or<br>(2) is a *designated investment firm* with *total assets for fees purposes* of £15,000million or less. | **model type** | **£** |
| | ~~*advanced IRB*~~*Type 1 IRB Approach*, *IMM* or *IMA* | 60,000 |
| | ~~*foundation IRB*~~*Type 2 IRB Approach* | 42,500 |
| | ~~*AMA*~~*SFT VaR Method* | ~~35,000~~30,000 |

…

# PRA RULEBOOK: CRR FIRMS: OVERSEAS PRUDENTIAL RECOGNITION REGIME INSTRUMENT 2026

**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);
(2) section 137T (General supplementary powers);
(3) section 144H(1) (Relationship with the CRR); and
(4) section 192XA (Rules applying to holding companies).

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

**PRA Rulebook: CRR Firms: Overseas Prudential Recognition Regime Instrument 2026**

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Credit Risk: General Provisions (CRR) | B |
| Credit Risk: Standardised Approach (CRR) | C |
| Credit Risk: Internal Ratings Based Approach (CRR) | D |
| Credit Risk Mitigation (CRR) | E |
| Securitisation (CRR) | F |
| Counterparty Credit Risk (CRR) | G |
| Large Exposures (CRR) | H |
| Market Risk: Advanced Standardised Approach (CRR) | I |
| Market Risk: Simplified Standardised Approach (CRR) | J |
| Settlement Risk (CRR) | K |
| Reporting Pillar 2 | L |

**Notes**

D. In the Annexes to this instrument, the "notes" (indicated by "[Note: ]") are included for the convenience of readers but do not form part of the legislative text.

**Commencement**

E. This instrument comes into force on 1 January 2027.

**Citation**

F. This instrument may be cited as the PRA Rulebook: CRR Firms: Overseas Prudential Recognition Regime Instrument 2026.

**By order of the Prudential Regulation Committee**

2 July 2026

**Annex A**

**Amendments to the Glossary Part**

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

…

*eligible covered bonds*

~~has the meaning in paragraphs 1 and 6 of Credit Risk: Standardised Approach (CRR) Part Article 129~~means bonds which meet the criteria set out in Article 129(A1) of the Credit Risk: Standardised Approach (CRR) Part, including bonds that are treated as eligible covered bonds by virtue of *OPRR*.

…

*exposures to Article 119 institutions*

means *exposures* that meet the requirement specified in Article 119(A1) of the Credit Risk: Standardised Approach (CRR) Part, including *exposures* that are treated as an 'exposure to an institution' for the purpose of Articles 119 to 121 of the Credit Risk: Standardised Approach (CRR) Part by virtue of regulation 4(2) or 9(2)(a) of *OPRR*.

…

*OPRR*

means the Overseas Prudential Requirements Regime (Credit Institutions and Investment Firms) Regulations 2026, as amended from time to time.

…

*Standardised Approach*

means the approach set out in the Credit Risk: Standardised Approach (CRR) Part and *OPRR*.

…

**Annex B**

**Amendments to the Credit Risk: General Provisions (CRR) Part**

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

…

## 3 CREDIT RISK GENERAL PROVISIONS

### ARTICLE 107 APPROACHES TO CREDIT RISK

1. Institutions shall apply either the *Standardised Approach* ~~provided for in Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*~~ or, if permitted by the *PRA* in accordance with Credit Risk: Internal Ratings Based Approach (CRR) Part 1.1 and 1.2 and paragraphs 1 and 2A of Credit Risk: Internal Ratings Based Approach (CRR) Part Article 143, the *IRB Approach* to calculate their risk-weighted exposure amounts for the purposes of points (a) and (f) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92.

2. For trade exposures and for default fund contributions to a central counterparty, institutions shall apply the treatment set out in Section 9 of Chapter 3 of Counterparty Credit Risk (CRR) Part to calculate their risk-weighted exposure amounts for the purposes of points (a) and (f) of paragraph 3 of Required Level of Own Funds (CRR) Part Article 92, where applicable. For all other types of exposures to a central counterparty, institutions shall treat those exposures as follows:

   (a) as ~~exposures to an institution~~*exposures to Article 119 institutions* for other types of exposures to a qualifying CCP;

   …

3. ~~[Note: Provision not in *PRA* Rulebook]~~[Note: Provision left blank]

4. ~~[Note: Provision not in *PRA* Rulebook]~~[Note: Provision left blank]

   [Note: This rule corresponds to Articles 107(1) and (2) of *CRR* as it applied immediately before revocation by the *Treasury*]

…

**Annex C**

**Amendments to the Credit Risk: Standardised Approach (CRR) Part**

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

…

## 4 STANDARDISED APPROACH

### SECTION 1 GENERAL PRINCIPLES

…

#### ARTICLE 112 EXPOSURE CLASSES

…

2. Subject to paragraph 3, ~~A~~an institution shall assign exposures to the exposure classes listed in Column A of Table A2 according to the criteria in the corresponding row of Column B of Table A2. Where an exposure meets the criteria for more than one exposure class it shall be assigned to the exposure class that has the highest position in Table A2.

   Table A2

| | **Column A: Exposure Class** | **Column B: Criteria** |
|---|---|---|
| … | … | … |
| (11) | Exposures to central governments or central banks (point (a) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 114, Article 115(2), Article 137(2), ~~Article 114(7) of *CRR*, Article 115(4) of *CRR*~~ or regulation 6(1), 6(3) or 9(2)(c) of *OPRR* or, for exposures that are deferred tax assets, paragraph 4 of Own Funds (CRR) Part Article 48. |
| … | … | … |
| (13) | Exposures to public sector entities (point (c) of paragraph 1). | Exposures for which a risk-weight treatment is set out in Article 116 ~~or Article 116(5) of *CRR*~~ or regulation 6(4) or 9(2)(b) of *OPRR*. |
| … | … | … |

3. For the purpose of paragraph 2, an institution shall disregard references to a risk-weight treatment set out in *OPRR* where the institution chooses to not apply that treatment.

#### ARTICLE 113 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS

1. Subject to paragraph 6, to calculate risk-weighted exposure amounts, risk weights shall be applied to all exposures, unless deducted from own funds, in accordance with the provisions of Articles 114 to 134, Article 137(2), Articles 48(4) and 89(3) of Own Funds (CRR) Part and ~~Section 2 of Chapter 2 of Title II of Part Three of *CRR*~~*OPRR*. The application of risk weights

shall be based on the exposure class to which the exposure is assigned and, to the extent specified in Articles 114 to 134 and Article 137(2), its credit quality. Where applicable, credit quality shall be determined by reference to the credit assessments of ECAIs or the credit assessments of export credit agencies in accordance with Articles 135 to 141.

2. For the purposes of applying a risk weight, as referred to in paragraph 1, the exposure value shall be multiplied by the risk weight specified or determined in accordance with Articles 114 to 134, Article 137(2), Articles 48(4) and 89(3) of Own Funds (CRR) Part and ~~Section 2 of Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*.

…

5. Exposures for which no calculation is provided in Articles 114 to 134, Article 137(2), Articles 48(4) and 89(3) of Own Funds (CRR) Part and ~~Section 2 of Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* shall be assigned a risk weight of 100%.

…

**SECTION 2 RISK WEIGHTS**

**ARTICLE 114 EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS**

1. Exposures to central governments or central banks shall be assigned a 100% risk weight, unless any of the treatments set out in the following provisions apply:

   …

   (b) ~~Article 114(7) of *CRR*; or~~regulation 6(1) or 9(2)(c) of *OPRR*; or

   …

…

7. ~~[Note: Provision not in *PRA* Rulebook]~~[Note: Provision left blank]

[Note: This rule corresponds to Article 114(1) to (4) of *CRR* as it applied immediately before revocation by the *Treasury*]

**ARTICLE 115 EXPOSURES TO REGIONAL GOVERNMENTS OR LOCAL AUTHORITIES**

1. Unless they are treated as exposures to central governments under paragraph 2~~,~~ or regulation 6(3) of *OPRR*, or ~~fall within scope of Article 115(4) of *CRR* or~~ receive a risk weight as specified in paragraph 5, exposures to regional governments or local authorities shall be assigned risk weights as follows:

   …

…

4. ~~[Note: Provision not in *PRA* Rulebook]~~[Note: Provision left blank]

…

**ARTICLE 116 EXPOSURES TO PUBLIC SECTOR ENTITIES**

…

3A. For the purpose of ~~Article 116(5) of *CRR*~~ an institution applying the treatment set out in regulation 6(4) of *OPRR*~~, the references in paragraphs 1 and 2 to~~:

(a) the references in paragraph 1 to the central government of the *UK* means the central government of the jurisdiction ~~in which the *third country* public sector entity is based~~ for which regulations made under regulation 3(1) of *OPRR*, in relation to regulation 6(4) of *OPRR*, are in force; ~~and~~

(b) the references in paragraphs 1 and 2 to *UK* public sector entities means ~~*third country* public sector entities.~~ established in the jurisdiction for which regulations made under regulation 3(1) of *OPRR*, in relation to regulation 6(4) of *OPRR*, are in force; and

(c) paragraph 1 is modified to include 'or the *third country* does not allow the treatment in Article 116(2) to be applied to public sector entities' at the end of the first subparagraph, before the colon.

…

5. ~~[Note: Provision not in *PRA* Rulebook]~~Exposures to *third country* public sector entities shall be assigned a risk weight of 100%, unless either:

(a) they are assigned a risk weight in accordance with regulation 6(4) of *OPRR*; or

(b) they are treated as a *UK* public sector entity in accordance with regulation 9(2)(b) of *OPRR*.

[Note: This rule corresponds to Articles 116(1) to (3) and (5) of *CRR* as it applied immediately before revocation by the *Treasury*]

…

**ARTICLE 119 EXPOSURES TO INSTITUTIONS**

A1. Exposures shall be categorised as *exposures to Article 119 institutions* if they are:

(a) exposures to *UK* credit institutions;

(b) exposures to *UK* designated investment firms; or

(c) exposures to investment firms subject to Part 9C rules.

[Note: This paragraph should be read in conjunction with regulation 4(2) and 9(2)(a) of *OPRR*]

1. ~~Exposures to institutions~~*Exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Article 120.

1A. ~~Exposures to institutions~~*Exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight in accordance with Article 121.

1B. Articles 119 to 121 do not prevent the application of Articles 138 and 139 in relation to *exposures to Article 119 institutions*.

…

5. ~~Exposures to financial institutions that are subject to the requirements laid down in Part 9C rules shall be treated as exposures to institutions.~~[Note: Provision left blank]

…

**ARTICLE 120 EXPOSURES TO RATED INSTITUTIONS**

1. Subject to paragraph 2A, ~~exposures to institutions~~*exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is available where the original maturity of the

exposure was more than three *months* shall be assigned a risk weight in accordance with the credit quality step in Table 3 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 3

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 30% | 50% | 100% | 100% | 150% |

2. Subject to paragraph 3, ~~exposures to institutions~~*exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was three *months* or less shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

2A. Subject to paragraph 3, ~~exposures to institutions~~*exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was six *months* or less and the exposure arose from the movement of goods shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 4

| **Credit quality step** | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| **Risk weight** | 20% | 20% | 20% | 50% | 50% | 150% |

2B. Subject to paragraph 3, ~~exposures to institutions~~*exposures to Article 119 institutions* for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 4A which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 4A

| **Credit quality step** | 1 | 2 | 3 | Others |
|---|---|---|---|---|
| **Risk weight** | 20% | 50% | 100% | 150% |

…

**ARTICLE 121 EXPOSURES TO UNRATED INSTITUTIONS**

1. ~~Exposures to institutions~~*Exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available shall be classified as Grade A, Grade B or Grade C in accordance with the following principles:

   (a) where the counterparty ~~institution~~ has adequate capacity to meet their financial commitments in a timely manner for the projected life of the assets or exposures and its ability to do so is robust against adverse changes in the economic cycle and business

conditions, it may be classified as Grade A. A counterparty ~~institution~~ classified as Grade A shall meet or exceed the published minimum financial regulatory requirements and buffers as implemented in the jurisdiction where it is incorporated, except for institution-specific minimum financial regulatory requirements or buffers that may be imposed through supervisory actions and not made public. If such minimum financial regulatory requirements and buffers (other than institution-specific minimum requirements or buffers) are not publicly disclosed or otherwise made available by the counterparty ~~institution~~, the counterparty ~~institution~~ may not be classified as Grade A;

(b) where the counterparty ~~institution~~ is subject to substantial credit risk, such as when the counterparty's repayment capacity is dependent on stable or favourable economic or business conditions, it may not be classified as Grade A. A counterparty ~~institution~~ may be classified as Grade B provided it meets or exceeds the published minimum financial regulatory requirements (excluding buffers) established by its national supervisor as implemented in the jurisdiction where it is incorporated, except for institution-specific minimum financial regulatory requirements that may be imposed through supervisory actions and not made public. If such minimum financial regulatory requirements are not publicly disclosed or otherwise made available by the counterparty ~~institution~~, the counterparty ~~institution~~ shall be classified as Grade C;

(c) where the counterparty ~~institution~~ has material default risks it shall be classified as Grade C. For this purpose, material default risks includes circumstances where adverse business, financial or economic conditions are very likely to lead, or have led, to an inability of the counterparty to meet its financial commitments. Counterparti<u>es</u>~~y institutions~~ with any of the following characteristics shall be classified as Grade C:

(i) the counterparty ~~institution~~ does not meet the criteria for being classified as Grade B with respect to its published minimum regulatory requirements; or

(ii) where audited financial statements are required, the external auditor has issued an adverse audit opinion or has expressed substantial doubt about the counterparty's<u> ~~institution's~~</u> ability to continue as a going concern in its financial statements or audited reports within the previous 12 *months*.

1A. For the purposes of paragraph 1, where a counterparty ~~institution~~ is a *CRR firm* the references to minimum financial regulatory requirements include:

…

(b) the additional own funds ~~an institution~~<u>the counterparty</u> is required to hold in accordance with regulation 34(1) of the *Capital Requirements Regulations*; and

…

in each case, if they apply to the relevant counterparty ~~institution~~.

…

2. ~~Exposures to institutions~~<u>*Exposures to Article 119 institutions*</u> for which a credit assessment by a nominated ECAI is not available where the original maturity of the exposure was more than three *months* shall be assigned a risk weight in accordance with Table 5.

Table 5

| **Credit quality step** | Grade A | Grade B | Grade C |
|---|---|---|---|
| **Risk weight** | 40% | 75% | 150% |

3. ~~Exposures to institutions~~*Exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available where the original maturity of the exposure was three *months* or less shall be assigned a risk weight in accordance with Table 5A.

4. ~~Exposures to institutions~~*Exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available, where the original maturity of the exposure was six *months* or less and the exposure arose from the movement of goods, shall be assigned a risk weight in accordance with Table 5A.

   Table 5A

| **Credit quality step** | Grade A | Grade B | Grade C |
|---|---|---|---|
| **Risk weight** | 20% | 50% | 150% |

5. Notwithstanding paragraph 2, ~~exposures to institutions~~*exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available may be assigned a risk weight of 30% if the original maturity of the exposure was more than three *months*, the exposure is classified as Grade A and the ~~institution~~ counterparty has:

   …

6. Notwithstanding paragraphs 2 to 5, the risk weight assigned to ~~an exposure to an institution~~*exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available may not be less than the risk weight applicable to exposures to the central government of the jurisdiction where the ~~institution~~counterparty is incorporated as set out in Article 114(1) and (2) if:

   (a) the exposure:

      (i) is not in the local currency of the jurisdiction of incorporation of the debtor ~~institution~~counterparty; or

      …

…

**ARTICLE 122B RISK WEIGHTS FOR SPECIALISED LENDING EXPOSURES**

…

5. A *project finance exposure* shall be considered high quality if:

   …

   (b) the following conditions are met:

      …

      (iv) the entity's revenue depends on one main counterparty and this main counterparty is one of the following:

         (1) subject to paragraph 5A, a central bank, a central government, a regional government, a local authority, a public sector entity or a corporate entity, exposures to which would be assigned a risk weight of 80% or lower under this Part ~~and Chapter 2 of Title II of Part Three of *CRR*~~ and *OPRR*;

         …

5A. For the purposes of point (b)(iv)(1) of paragraph 5, exposures to the main counterparty may only be assigned a risk weight of 0% under Article 114(4) (including by virtue of regulation 9(2)(a) of *OPRR*), or regulation 6(1) of *OPRR*, if the *project finance exposure* is denominated and funded in the domestic currency of the main counterparty.

…

**ARTICLE 124L COUNTERPARTY RISK WEIGHTS FOR REAL ESTATE EXPOSURES**

1. For the purposes of point (b) of Article 124F(1), Article 124H(1) and (3), and Article 124J(2) and (3), the relevant counterparty risk weights are:

…

(d) for *residential real estate exposures* that are social housing exposures under point (d) of Article 124E(1), or *residential real estate exposures* to an association or cooperative of natural persons under point (e) of Article 124E(1), the higher of:

…

(ii) the risk weight that would be assigned to an unsecured exposure to that counterparty under this Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*; or

(e) for exposures to other counterparties, the risk weight that would be assigned to an unsecured exposure to that counterparty under this Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*.

…

**ARTICLE 129 EXPOSURES IN THE FORM OF ELIGIBLE COVERED BONDS**

A1. *Eligible covered bonds* must meet the following criteria:

(a) they are bonds issued by a credit institution;

(b) the issuer of the bonds has its registered office in the *UK*;

(c) the issuer of the bonds is subject by law to special public supervision designed to protect bondholders and in particular protection under which:

(i) sums deriving from the issue of the bond must be invested in conformity with the law in assets;

(ii) during the whole period of validity of the bond, those sums are capable of covering claims attaching to the bond; and

(iii) in the event of failure of the issuer, those sums would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest;

(d) the bonds either:

(i) are collateralised by any of the eligible assets listed in paragraph 1 and, to the extent that such collateral is immovable property, the immovable property meets the requirements in paragraph 3; or

(ii) meet the requirements in paragraph 6; and

(e) the bonds meet the requirements set out in paragraph 7.

[Note: This paragraph should be read in conjunction with regulation 5(2) of *OPRR*]

1. ~~Subject to paragraph 6, *eligible covered bonds* are CRR covered bonds which meet the requirements in paragraphs 3 and 7 and are~~ The eligible assets referred to in point (d)(i) of paragraph A1 must be any of the following~~collateralised by any of the following eligible assets~~:

   (a) exposures to or guaranteed by:

   …

   (iv) a public sector entity in the *UK* or Gibraltar or a local authority in the *UK*;

   (b) exposures to or guaranteed by:

   …

   (v) *third country* public sector entities that are risk-weighted in accordance with Article 116(1) or (2) or regulation 6(4) of *OPRR*, and that qualify for the credit quality step 1 as mapped in Article 136A;

   (vi) *third country* regional governments or *third country* local authorities that are risk-weighted in accordance with Article 115(1) or which are risk-weighted as ~~exposures to institutions or~~ central governments or central banks in accordance with ~~Article 115(4) of *CRR*~~ regulation 6(3) of *OPRR* and that qualify for the credit quality step 1 as mapped in Article 136A; or

   (vii) exposures within the meaning of this point (b) that qualify as a minimum for the credit quality step 2 as mapped in Article 136A, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of the issuing institutions;

   (c) ~~exposures to institutions~~*exposures to Article 119 institutions* which are exposures to credit institutions or investment firms that have a credit assessment which corresponds with a credit quality step of 1 or 2 as mapped in Article 136A, provided that the total exposures of this kind shall not exceed 15% of the nominal amount of outstanding covered bonds of the issuing credit institution;

   …

…

6. The requirements referred to in point (d)(ii) of paragraph A1 are that bonds are CRR covered bonds issued before 31 December 2007 which have not reached their maturity. ~~which meet the requirements of paragraph 7 shall be *eligible covered bonds* until their maturity and shall not be subject to the requirements of paragraphs 1 and 3.~~

7. ~~CRR covered bonds shall only be *eligible covered bonds* where the institution investing in the CRR covered bonds:~~The requirements referred to in point (e) of paragraph A1 are that:

   (a) the institution investing in the bonds receives portfolio information at least on:

   …

…

**ARTICLE 132 OWN FUNDS REQUIREMENTS FOR EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS**

---

…

8.

(a) An institution shall notify the *PRA* if either:

(i) the total risk-weighted exposure amounts for all of its exposures in the form of units or shares in *relevant CIUs* exceed 0.5% of the institution's total risk-weighted exposures for credit risk and dilution risk calculated in accordance with ~~Title II of Part Three of *CRR* and~~ the Credit Risk: General Provisions (CRR) Part, the Credit Risk: Standardised Approach (CRR) Part and *OPRR*, the Credit Risk: Internal Ratings Based Approach (CRR) Part, the Credit Risk Mitigation (CRR) Part, the Securitisation (CRR) Part, and the Counterparty Credit Risk (CRR) Part; or

…

…

**ARTICLE 132A APPROACHES FOR CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS OF CIUS**

…

2. …

An institution shall carry out the calculations referred to in the first sub-paragraph in accordance with the methods set out in the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*, the Securitisation (CRR) Part, and in Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part, as applicable.

…

…

**ARTICLE 140 LONG-TERM AND SHORT-TERM CREDIT ASSESSMENTS**

1. An institution shall only use short-term credit assessments for short-term asset and off-balance sheet items constituting ~~exposures to institutions~~*exposures to Article 119 institutions* and exposures to corporates in accordance with Articles 120 and 122 respectively.

…

**Annex D**

**Amendments to the Credit Risk: Internal Ratings Based Approach (CRR) Part**

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

…

## 3 CREDIT RISK: INTERNAL RATINGS BASED APPROACH (CRR) PART

…

### ARTICLE 143 PERMISSION TO USE THE IRB APPROACH

…

6. An institution may, with the prior permission of the *PRA*, use the *Overseas Model Approach*, if it can demonstrate to the satisfaction of the *PRA* that its use of the *Overseas Model Approach* complies with the following conditions:

   …

   (b) the scope of the *rating system* only includes exposures of a type specified in point (c) that are located within a subsidiary in a~~n equivalent~~ jurisdiction~~, as determined under Article 114(7) of *CRR*~~ which is designated by regulations made under regulation 3(1) of *OPRR*, in relation to regulation 6(1) of *OPRR*, or Gibraltar, the model used in the *Overseas Model Approach* has been reviewed and approved for the purpose of the institution calculating its local capital requirements by the relevant overseas regulator, and the institution uses that model to calculate local capital requirements in that jurisdiction;

   …

…

### ARTICLE 147 METHODOLOGY TO ASSIGN EXPOSURES TO EXPOSURE CLASSES AND EXPOSURE SUBCLASSES

…

4. The following exposures shall be assigned to the *exposure class* referred to in point (b) of paragraph 2 (exposures to institutions):

   (a) ~~exposures to institutions~~*exposures to Article 119 institutions*, with the exception of any exposures that are assigned to the *exposure class* referred to in point (e) of paragraph 2 (equity exposures) in accordance with paragraph 6;

   (b) ~~exposures to financial institutions treated as exposures to institutions in accordance with Credit Risk: Standardised Approach (CRR) Part Article 119(5), with the exception of any exposures that are assigned to the *exposure class* referred to in point (e) of paragraph 2 (equity exposures) in accordance with paragraph 6.~~[Note: Provision left blank]

   …

…

### ARTICLE 152 TREATMENT OF EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS

…

4. An institution that applies the look-through approach in accordance with paragraphs 2 and 3 and is either using the *Standardised Approach* or does not meet the conditions for using the methods set out in this Part or one or more of the methods set out in the Securitisation (CRR) Part for all or parts of the underlying exposures of the CIU, shall calculate risk-weighted exposure amounts and expected loss amounts in accordance with the following principles:

   …

   (c) for all other underlying exposures, the institution shall apply the *Standardised Approach* ~~laid down in the Credit Risk: Standardised Approach (CRR) Part~~.

…

**ARTICLE 162 MATURITY: CORPORATES AND INSTITUTIONS**

…

3. In application of the calculation methods set out in paragraph 2A, an institution shall, where the documentation requires daily re-margining and daily revaluation and includes provisions that allow for the prompt liquidation or set-off of collateral in the event of default or failure to re-margin, set M as at least one day, instead of the minimum set out in paragraph 2A, for:

   …

   (d) ~~exposures to institutions or investment firms~~ *exposures to Article 119 institutions* arising from settlement of foreign exchange obligations;

   …

…

**ARTICLE 181B ECONOMIC DOWNTURN: RELEVANT INDICATOR SET**

1. An institution shall classify the following economic indicators as relevant for exposures within a given *type of exposures* where this would not result in the institution incurring disproportionate costs:

   …

   (b) in addition to the economic indicators listed in point (a):

      …

      (vii) ~~for exposures to institutions: financial credit indices;~~[deleted]

   …

…

**Annex E**

**Amendments to the Credit Risk Mitigation (CRR) Part**

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

…

## 3 CREDIT RISK MITIGATION (CHAPTER 4 OF TITLE II OF PART THREE OF CRR)

…

### ARTICLE 193 PRINCIPLES FOR RECOGNISING THE EFFECT OF CREDIT RISK MITIGATION TECHNIQUES

…

2. An institution shall not double count the effect of credit risk mitigation. Where the risk-weighted exposure amount already takes account of credit protection under the Credit Risk: Standardised Approach (CRR) Part, ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* or the Credit Risk: Internal Ratings Based Approach (CRR) Part an institution shall not take into account that credit protection in the calculations under this Part.

…

5. Where an institution calculating risk-weighted exposure amounts under the *Standardised Approach* has more than one form of credit risk mitigation covering a single exposure (other than the situation described in point (e) of paragraph 2 of Article 191A, which shall be considered a single form of credit risk mitigation for the purposes of this paragraph) it shall do both of the following:

   …

   (b) calculate the risk-weighted exposure amount for each part obtained in point (a) separately in accordance with the provisions of the Credit Risk: Standardised Approach (CRR) Part, ~~Chapter 2 of Title II of Part Three of *CRR*~~*OPRR* and this Part.

6. Subject to the prior application of paragraph 5, if applicable, if an institution calculating risk-weighted exposure amounts under the *Standardised Approach* covers a single exposure with multiple items of credit protection of the same form and provided by a single protection provider and these items of protection have differing maturities (other than the situation described in point (e) of paragraph 2 of Article 191A, which shall be considered a single form of credit protection for the purposes of this paragraph), it shall do both of the following:

   …

   (b) calculate the risk-weighted exposure amount for each part obtained in point (a) separately in accordance with the provisions of the Credit Risk: Standardised Approach (CRR) Part, ~~Chapter 2 of Title II of Part Three of *CRR*~~*OPRR* and this Part.

…

**ARTICLE 197 ELIGIBILITY OF COLLATERAL UNDER THE FINANCIAL COLLATERAL SIMPLE METHOD, THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD, THE FOUNDATION COLLATERAL METHOD AND THE SFT VAR METHOD**

1. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use the following items as eligible collateral:

…

(b) debt securities issued by central governments or central banks, where:

…

and the available credit assessment in point (i), (ii), (iii) or (iv), as applicable, is associated with credit quality step 4 or above or with a minimum export insurance premium (MEIP) of 4 or better under the rules for the risk weighting of exposures to central governments or central banks under the Credit Risk: Standardised Approach (CRR) Part ~~and Chapter 2 of Title II of Part Three of *CRR*~~, and for this purpose where a credit assessment is available under both (iv) and either (ii) or (iii), the institution may decide which credit assessment to refer to;

(c) debt securities issued by:

(i) ~~institutions~~credit institutions, exposures to which are *exposures to Article 119 institutions*; or

(ii) ~~financial institutions exposures to which may be treated as exposures to institutions under Credit Risk: Standardised Approach (CRR) Part Article 119(5)~~investment firms, exposures to which are *exposures to Article 119 institutions*,

where the securities have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of ~~exposures to institutions~~*exposures to Article 119 institutions* under the Credit Risk: Standardised Approach (CRR) Part ~~and Chapter 2 of Title II of Part Three of *CRR*~~;

(d) debt securities issued by other entities where the securities have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under the Credit Risk: Standardised Approach (CRR) Part ~~and Chapter 2 of Title II of Part Three of *CRR*~~;

(e) debt securities with a short-term credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of short-term exposures under the Credit Risk: Standardised Approach (CRR) Part ~~and Chapter 2 of Title II of Part Three of *CRR*~~;

…

…

3. For the purposes of point (c) of paragraph 1, 'debt securities issued by institutions' include:

…

(b) debt securities issued by public sector entities, exposures to which are treated in accordance with paragraphs 1 and 2 of Credit Risk: Standardised Approach (CRR) Part

Article 116 or are treated in accordance with paragraphs 1 and 2 of Credit Risk: Standardised Approach (CRR) Part Article 116 under ~~Article 116(5) of *CRR*~~ regulation 6(4) or 9(2)(b) of *OPRR*;

…

4. ~~An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use as eligible collateral debt securities issued by other institutions, or financial institutions exposures to which may be treated as exposures to institutions under Credit Risk: Standardised Approach (CRR) Part Article 119(5), where such debt securities do not have a credit assessment by an ECAI where:~~

   ~~(a) the debt securities are listed on a recognised exchange;~~

   ~~(b) the debt securities qualify as senior debt;~~

   ~~(c) all rated issues by the issuing institution of the same seniority have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of exposures to institutions or short-term exposures under the Credit Risk: Standardised Approach (CRR) Part and Chapter 2 of Title II of Part Three of *CRR*;~~

   ~~(d) the institution has no information to suggest that the issue would justify a credit assessment below that indicated in point (c); and~~

   ~~(e) the market liquidity of the instrument is sufficient for these purposes.~~[Deleted]

4A. An institution using the *Financial Collateral Simple Method*, the *Financial Collateral Comprehensive Method*, the *Foundation Collateral Method* or the *SFT VaR Method* may use as eligible collateral debt securities issued by:

   (a) credit institutions, exposures to which are *exposures to Article 119 institutions*; or

   (b) investment firms, exposures to which are *exposures to Article 119 institutions*,

   where such debt securities do not have a credit assessment by an ECAI, provided the conditions in paragraph 4B are met.

4B. The conditions referred to in paragraph 4A are that:

   (a) the debt securities are listed on a recognised exchange;

   (b) the debt securities qualify as senior debt;

   (c) all rated issues by the issuing entity of the same seniority have a credit assessment by an ECAI which is associated with credit quality step 3 or above under the rules for the risk weighting of *exposures to Article 119 institutions* or short-term exposures under the Credit Risk: Standardised Approach (CRR) Part;

   (d) the institution has no information to suggest that the issue would justify a credit assessment below that indicated in point (c); and

   (e) the market liquidity of the instrument is sufficient for these purposes.

…

**ARTICLE 200 OTHER FUNDED CREDIT PROTECTION**

1. An institution may use the following *other funded credit protection* as eligible collateral when using the *Other Funded Credit Protection Method*:

   …

   (b) life insurance policies pledged to the institution; or

   (c) instruments issued by ~~another institution (or by a financial institution exposures to which may be treated as exposures to institutions under Credit Risk: Standardised Approach (CRR) Part Article 119(5)), which~~ other credit institutions or investment firms, where exposures to such other credit institutions or investment firms are *exposures to Article 119 institutions*, and those instruments will be repurchased by that credit institution or ~~financial institution~~ investment firm on request.

[Note: This rule corresponds to Article 200 of *CRR* as it applied immediately before revocation by the *Treasury*]

**SUB-SECTION 2 UNFUNDED CREDIT PROTECTION**

**ARTICLE 201 ELIGIBILITY OF PROTECTION PROVIDERS UNDER THE RISK-WEIGHT SUBSTITUTION METHOD AND THE PARAMETER SUBSTITUTION METHOD**

1. An institution using the *Risk-Weight Substitution Method* or the *Parameter Substitution Method* may use the following parties as eligible providers of unfunded credit protection:

   …

   (f) ~~institutions, (and financial institutions exposures to which may be treated as exposures to institutions under Credit Risk: Standardised Approach (CRR) Part Article 119(5))~~credit institutions or investment firms, exposures to which are *exposures to Article 119 institutions*;

   …

…

**ARTICLE 222 FINANCIAL COLLATERAL SIMPLE METHOD**

…

3. The institution shall assign a risk weight to those portions of exposure values that are collateralised by the market value of eligible collateral, being the risk weight that it would assign under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* where the institution had a direct exposure to the collateral instrument.

   The risk weight of the collateralised portion shall be at least 20% except as specified in paragraphs 4 to 6. The institution shall apply to the remainder of the exposure value the risk weight that it would assign to an unsecured exposure to the counterparty under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*.

…

3B. For the purpose of determining the risk weight referred to in the first sub-paragraph of paragraph 3, the institution may only apply the treatments set out in paragraph 4 of Credit Risk: Standardised Approach (CRR) Part Article 114 (including by virtue of regulation 9(2)(c) of

*OPRR*), or regulation 6(1) of *OPRR*, where the collateral is denominated in the domestic currency of that central government or central bank and the exposure is funded in that currency.

…

6. For transactions other than those referred to in paragraph 4, the institution may assign a 0% risk weight where the exposure and the collateral are denominated in the same currency, and either of the following conditions is met:

…

(b) subject to paragraph 6A, the collateral is in the form of debt securities issued by central governments or central banks eligible for a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*, and its market value has been discounted by 20%.

6A. For the purpose of determining whether the condition set out in point (b) of paragraph 6 is met, the institution may only apply the treatments set out in paragraph 4 of Credit Risk: Standardised Approach (CRR) Part Article 114 (including by virtue of regulation 9(2)(c) of *OPRR*), or regulation 6(1) of *OPRR,* where the collateral is denominated in the domestic currency of that central government or central bank and the exposure is funded in that currency.

…

**ARTICLE 223 FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

…

3. The institution shall calculate the volatility-adjusted value of the exposure ($E_{VA}$) they need to take into account as follows:

$$E_{VA} = E \cdot (1 + H_E)$$

where:

$E$ =

(a) where Article 219 applies, the exposure value calculated in accordance with that Article;

(b) where Article 219 does not apply, the exposure value as would be determined under the Credit Risk: Standardised Approach (CRR) Part~~, Chapter 2 of Title II of Part Three of *CRR*~~ and *OPRR,* or the Credit Risk: Internal Ratings Based Approach (CRR) Part as applicable, as if the exposure was not collateralised;

…

…

**ARTICLE 224 SUPERVISORY VOLATILITY ADJUSTMENT UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

…

3. In Tables 1 to 4 of paragraph 1 and, in paragraphs 4 to 6, the credit quality step with which a credit assessment of the debt security is associated is the credit quality step with which the credit assessment is associated under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~*OPRR*.

…

6. For unrated debt securities issued by ~~institutions (or financial institutions exposures to which may be treated as exposures to institutions under Credit Risk: Standardised Approach (CRR) Part Article 119(5))~~ credit institutions or investment firms, exposures to which are *exposures to Article 119 institutions,* and satisfying the eligibility criteria in paragraph 4 of Article 197, the institution shall apply the same volatility adjustment as for securities issued by institutions or corporates with an external credit assessment associated with credit quality step 2 or 3.

…

**ARTICLE 227 CONDITIONS FOR APPLYING A 0% VOLATILITY ADJUSTMENT UNDER THE FINANCIAL COLLATERAL COMPREHENSIVE METHOD**

…

2. The conditions referred to in paragraph 1 are:

   (a) subject to paragraph 2A, both the exposure and the collateral are cash or debt securities issued by central governments or central banks within the meaning of point (b) of paragraph 1 of Article 197 and eligible for a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part, or ~~Article 114(7) of *CRR*~~ regulation 6(1) or 9(2)(c) of *OPRR*;

   …

2A. For the purpose of determining whether the condition set out in point (a) of paragraph 2 is met in respect of the collateral, the institution may only apply the treatment set out in paragraph 4 of Credit Risk: Standardised Approach (CRR) Part Article 114 (including by virtue of regulation 9(2)(c) of *OPRR*), or regulation 6(1) of *OPRR*, where the collateral is denominated in the domestic currency of that central government or central bank and the exposure is funded in that currency.

3. The following entities are core market participants:

   (a) the entities referred to in point (b) of paragraph 1 of Article 197 where exposures to such entities would be assigned a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part or ~~under Article 114(7) of *CRR*~~ regulation 6(1) or 9(2)(c) of *OPRR*, where exposures to such entities that are denominated and funded in the entity's domestic currency would be assigned a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part or regulation 6(1) or 9(2)(c) of *OPRR*;

   (b) ~~institutions~~credit institutions, exposures to which are *exposures to Article 119 institutions*;

   (ba) ~~financial institutions exposures to which may be treated as exposures to institutions under Credit Risk: Standardised Approach (CRR) Part Article 119(5)~~investment firms, exposures to which are *exposures to Article 119 institutions*;

   …

…

**ARTICLE 232 OTHER FUNDED CREDIT PROTECTION METHOD**

…

3. For the purposes of point (a) of paragraph 2, the institution shall assign the following risk weights on the basis of the risk weight assigned to a senior unsecured exposure to the

undertaking providing the life insurance under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*:

…

…

**ARTICLE 235 CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE RISK-WEIGHT SUBSTITUTION METHOD**

1. For the purposes of point (1) of the definition of *Risk-Weight Substitution Method*, the institution shall separate each exposure into a covered part and an uncovered part, and determine the size of these parts and the risk weights that apply to each part separately as follows:

   (a) The covered part shall be the portion of the exposure that is in scope of the unfunded credit protection. The size of this part prior to the application of any applicable conversion factors, $E_g$, shall equal $\min\{G_A, E\}$, where:

   …

   The risk weight that applies to the covered part shall be:

   $r_g$ = the risk weight of a comparable direct exposure to the protection provider as specified under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*.

   …

…

3. For the purpose of applying paragraph 1, an institution may only apply the treatment set out in paragraph 4 of Credit Risk: Standardised Approach (CRR) Part Article 114 (including by virtue of regulation 9(2)(c) of *OPRR*) and ~~Article 114(7) of *CRR*~~ regulation 6(1) of *OPRR* to exposures or parts of exposures guaranteed by the central government or central bank, where the guarantee is denominated in the domestic currency of that central government or central bank and the exposure is funded in that currency.

[Note: This rule corresponds to Article 235 of CRR as it applied immediately before revocation by the Treasury]

…

**Annex F**

**Amendments to the Securitisation (CRR) Part**

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

…

## 3 SECURITISATION (CRR) PART

…

### ARTICLE 251 ORIGINATOR INSTITUTION'S CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS SECURITISED IN A SYNTHETIC SECURITISATION

1. For the purpose of calculating risk-weighted exposure amounts for the underlying exposures, the *originator* institution of a *synthetic securitisation* shall use the calculation methodologies set out in Articles 247 to 270A as applicable instead of those set out in the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*. For institutions calculating risk-weighted exposure amounts and, where relevant, expected loss amounts with respect to the underlying exposures under the Credit Risk: Internal Ratings Based Approach (CRR) Part, the expected loss amount in respect of such exposures shall be zero.

…

### ARTICLE 255 DETERMINATION OF $K_{IRB}$ AND $K_{SA}$

…

6. Where an institution applies the *SEC-SA* under Articles 258 to 266, it shall calculate $K_{SA}$ by multiplying the risk-weighted exposure amounts that would be calculated under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* in respect of the underlying exposures as if they had not been securitised by 8% divided by the value of the underlying exposures. $K_{SA}$ shall be expressed in decimal form between zero and one.

   For the purposes of this paragraph, institutions shall calculate the exposure value of the underlying exposures without netting any specific credit risk adjustments and additional value adjustments in accordance with Article 34 of the Own Funds (CRR) Part, Article 110 of the Credit Risk: General Provisions (CRR) Part, Commission Delegated Regulation (EU) No 183/2014 and other own funds reductions.

…

10. For the purpose of calculating $K_{SA}$, an institution that is not the *originator* institution may replace the risk weight for an underlying exposure that would be applied under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* with one of the following risk weights:

    …

…

### SUB-SECTION 4 CAPS FOR SECURITISATION POSITIONS

**ARTICLE 267 MAXIMUM RISK WEIGHT FOR SENIOR SECURITISATION POSITIONS: LOOK-THROUGH APPROACH**

…

2. In the case of pools of underlying exposures where the institution uses exclusively the *Standardised Approach* or the *IRB Approach*, the maximum risk weight of the *senior securitisation position* shall be equal to the exposure-weighted-average risk weight that would apply to the underlying exposures under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* or the Credit Risk: Internal Ratings Based Approach (CRR) Part, respectively, as if they had not been securitised.

   In the case of *mixed pools* the maximum risk weight shall be calculated as follows:

   …

…

**ARTICLE 268 MAXIMUM CAPITAL REQUIREMENTS**

…

1B. The capital requirement Y in paragraph 1A is equal to the capital requirement that would be calculated under the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* or the Credit Risk: Internal Ratings Based Approach (CRR) Part in respect of the underlying exposures had they not been securitised. For the purposes of this Article, the *IRB Approach* capital requirement shall include the amount of the expected losses associated with those exposures calculated under the Credit Risk: Internal Ratings Based Approach (CRR) Part and that of unexpected losses.

…

**ARTICLE 270 SENIOR POSITIONS IN SME SECURITISATIONS**

An *originator* institution may calculate the risk-weighted exposure amounts in respect of a *securitisation position* in accordance with Articles 260, 262 or 264, as applicable, where the following conditions are met:

…

(e) the third party to which the credit risk is transferred is one or more of the following:

   (i) the central government of the *United Kingdom*, the *Bank of England*, a *multilateral development bank*, an international organisation listed in Article 118(1) of the Credit Risk: Standardised Approach (CRR) Part or a *promotional entity*, provided that the exposures to the guarantor or counter-guarantor qualify for a 0% risk weight under the Credit Risk: Standardised Approach (CRR) Part ~~and Chapter 2 of Title II of Part Three of *CRR*~~;

   …

…

**Annex G**

**Amendments to the Counterparty Credit Risk (CRR) Part**

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

…

## 3 COUNTERPARTY CREDIT RISK (PART THREE, TITLE TWO, CHAPTER SIX CRR)

…

### SECTION 2 METHODS FOR CALCULATING THE EXPOSURE VALUE

#### ARTICLE 273 METHODS FOR CALCULATING THE EXPOSURE VALUE

…

8. An institution which determines the exposure value of *long settlement transactions* in accordance with this Chapter, shall determine the exposure value for exposures arising from *long settlement transactions* by any of the methods set out in Sections 3 to 6 of this Chapter, regardless of which method the institution has chosen for treating OTC derivatives and repurchase transactions, securities or commodities lending or borrowing transactions, and *margin lending transactions*, provided that if an institution has a *138BA permission* to use the IMM for *long settlement transactions*, it shall determine the exposure value of *long settlement transactions* in accordance with its *138BA permission*. In calculating the own funds requirements for *long settlement transactions*, an institution that uses the approach set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part may assign the risk weights under the approach set out in the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of the *CRR*~~ *OPRR* on a permanent basis and irrespective of the materiality of such positions.

…

#### ARTICLE 291 WRONG-WAY RISK

…

5. Institutions shall calculate the own funds requirements for *CCR* in relation to transactions where Specific Wrong-way Risk has been identified and where there exists a legal connection between the counterparty and the issuer of the underlying of the OTC derivative or the underlying of the transactions referred to in points (b), (c) and (d) of Article 273(2), in accordance with the following principles:

   …

   (d) for an institution using the approach set out in the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR*, the applicable risk weight shall be that of an unsecured transaction;

   …

...

**ARTICLE 311 OWN FUNDS REQUIREMENTS FOR EXPOSURES TO CCPS THAT CEASE TO MEET CERTAIN CONDITIONS**

…

2. Where the condition set out in paragraph 1 is met, institutions shall, within three *months* of becoming aware of the circumstance referred to therein, do the following with respect to their exposures to that CCP:

…

(c) treat their exposures to that CCP, other than the exposures listed in points (a) and (b) of this paragraph, as exposures to a corporate in accordance with the Standardised Approach for credit risk set out in the Credit Risk Standardised Approach (CRR) Part ~~and Chapter 2 of Title II of Part Three of *CRR*~~.

…

**Annex H**

**Amendments to the Large Exposures (CRR) 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:

…

*relevant exposures to Article 119 institutions*

means *exposures* that:

(1) meet the requirement specified in Article 119(A1) of the Credit Risk: Standardised Approach (CRR) Part, including *exposures* that are treated as an 'exposure to an institution' for the purpose of Articles 119 to 121 of the Credit Risk: Standardised Approach (CRR) Part by virtue of regulation 4(2) or 9(2)(a) of *OPRR*, and

(2) are not *exposures* to exchanges.

…

1.3 ~~For the purposes of calculating the value of *exposures* in accordance with this Part the term 'institution' shall include a private or public *undertaking*, including its branches, which, were it established in the *United Kingdom*, would fulfil the definition of the term 'institution' and has been authorised in a *third country* that applies prudential supervisory and regulatory requirements determined by the *Treasury* to be at least equivalent to those applied in the *United Kingdom*.~~[Deleted]

~~[Note: Rule 1.3 corresponds to the first subparagraph of Article 391 of *CRR*. The second subparagraph of Article 391 containing the power for the *Treasury* to determine equivalence remains in *CRR*. The third subparagraph of Article 391 of *CRR* contains transitional provisions]~~

…

**4 LARGE EXPOSURES (PART FOUR CRR)**

…

**ARTICLE 390 CALCULATION OF EXPOSURE VALUE**

…

6. The term *exposures* does not include any of the following:

…

(d) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking, intra-day ~~*exposures* to institutions~~ *relevant exposures to Article 119 institutions* providing those services; and

…

…

**ARTICLE 395 LIMITS TO LARGE EXPOSURES**

1. A *firm* must not incur an *exposure*, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to a client or *group of connected clients* the value of which exceeds 25% of its *Tier 1 capital*. ~~Where that client is an institution or an investment firm or where a *group of connected clients* includes one or more institutions or investment firms,~~ For *relevant exposures to Article 119 institutions* or where a *group of connected clients* includes one or more *relevant exposures to Article 119 institutions* that value must not exceed 25% of the *firm's Tier 1 capital* or GBP 130 million, whichever is higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to all connected clients that are not institutions does not exceed 25% of the *firm's Tier 1 capital*.

   …

4. ~~Assets constituting claims and other *exposures* to third-country investment firms may be subject to the same treatment as set out in paragraph 1.~~[Deleted]

…

**Annex I**

**Amendments to the Market Risk: Advanced Standardised Approach (CRR) Part**

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

…

## 4 ADVANCED STANDARDISED APPROACH (CHAPTER 1A OF TITLE IV OF PART THREE OF CRR)

…

### SECTION 5 OWN FUNDS REQUIREMENTS FOR THE DEFAULT RISK

#### ARTICLE 325V DEFINITIONS AND GENERAL PROVISIONS

1. For the purposes of this Section 5, the following definitions apply:

   (a) 'covered bonds' means ~~CRR covered bonds which meet the requirements set out in Credit Risk: Standardised Approach (CRR) Part Article 129~~ *eligible covered bonds*;

   …

…

**Annex J**

**Amendments to the Market Risk: Simplified Standardised Approach (CRR) Part**

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

…

## 4 OWN FUNDS REQUIREMENTS FOR POSITION RISK (CHAPTER 2 OF TITLE IV OF PART THREE OF CRR)

…

### ARTICLE 332 CREDIT DERIVATIVES

1. When an institution that is the party who assumes the credit risk (the 'protection seller') calculates an own funds requirement for general and specific risk, unless specified differently, that institution shall use the notional amount of the credit derivative contract. Notwithstanding the first sentence, the institution may elect to replace the notional value by the notional value plus the net market value change of the credit derivative since trade inception, a net downward change from the protection seller's perspective carrying a negative sign. For the purpose of calculating the specific risk charge, other than for total return swaps, the institution shall apply the maturity of the credit derivative contract, rather than the maturity of the obligation. An institution shall determine positions as follows:

   (a) a total return swap creates a long position in the general risk of the reference obligation and a short position in the general risk of a government bond with a maturity equivalent to the period until the next interest fixing and which is assigned a 0% risk weight under the ~~Credit Risk: Standardised Approach (CRR) Part~~ *Standardised Approach*. It also creates a long position in the specific risk of the reference obligation;

   …

…

### ARTICLE 336 OWN FUNDS REQUIREMENT FOR NON-SECURITISATION DEBT INSTRUMENTS

1. An institution shall assign its net positions in the trading book in instruments that are not securitisation positions as calculated in accordance with Article 327 to the appropriate categories in Table 1 of this Article on the basis of their issuer or obligor, external or internal credit assessment, and residual maturity, and then multiply them by the weightings shown in that table. It shall sum its weighted positions resulting from the application of this Article regardless of whether they are long or short in order to calculate its own funds requirement against specific risk.

Table 1

| **Categories** | **Specific risk own funds requirement** |
|---|---|
| Debt securities which would receive a 0% risk weight under the ~~Credit Risk: Standardised Approach (CRR) Part~~ *Standardised Approach*. | 0% |

| | |
|---|---|
| Debt securities which would receive a risk weight greater than 0% and less than or equal to 50% under the ~~Credit Risk: Standardised Approach (CRR) Part~~ *Standardised Approach*. | 0.25% (residual term to final maturity six *months* or less)<br>1.00% (residual term to final maturity greater than six *months* and up to and including 24 *months*)<br>1.60% (residual term to maturity exceeding 24 *months*) |
| Debt securities which would receive a risk weight greater than 50% and less than or equal to 100% under the ~~Credit Risk: Standardised Approach (CRR) Part~~ *Standardised Approach*. | 8% |
| Debt securities which would receive risk weight greater than 100% under the ~~Credit Risk: Standardised Approach (CRR) Part~~ *Standardised Approach*. | 12% |

…

**Annex K**

**Amendments to the Settlement Risk (CRR) Part**

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

…

## 3 OWN FUNDS REQUIREMENTS FOR SETTLEMENT RISK (PART THREE, TITLE V, CRR)

…

### ARTICLE 379 FREE DELIVERIES

…

2. In applying a risk weight to free delivery exposures treated according to Column 3 of Table 2, an institution using the *IRB Approach* set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part may assign *PDs* to counterparties, for which it has no other non-trading book exposure, on the basis of the counterparty's external rating. Institutions using the *Advanced IRB Approach* may apply the *LGD* set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part Article 161(1) to free delivery exposures treated according to Column 3 of Table 2 provided that they apply it to all such exposures. Alternatively, an institution using the *IRB Approach* set out in the Credit Risk: Internal Ratings Based Approach (CRR) Part may apply the risk weights of the *Standardised Approach*, as set out in the Credit Risk: Standardised Approach (CRR) Part and ~~Chapter 2 of Title II of Part Three of *CRR*~~ *OPRR* provided that it applies them to all such exposures or may apply a 100% risk weight to all such exposures.

   If the amount of positive exposure resulting from free delivery transactions is not material, institutions may apply a risk weight of 100% to these exposures, except where a risk weight of 1250% in accordance with Column 4 of Table 2 in paragraph 1 is required.

…

**Annex L**

**Amendments to the Reporting Pillar 2 Part**

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

…

## 2 PILLAR 2 REPORTING REQUIREMENTS

…

2.7 A *firm* other than an *SDDT* or an *SDDT consolidation entity* must complete the *data item* FSA076 where they have any of the following exposures:

(1) exposures to central governments or central banks that are assigned a risk weight in accordance with ~~Article 114(7) of *CRR*~~ regulation 6(1) of *OPRR*;

(2) exposures to regional governments or local authorities that are assigned a risk weight in accordance with ~~Article 115(4) of *CRR*~~ regulation 6(3) of *OPRR*; or

(3) off-balance sheet items that are assigned to the exposure class in Credit Risk: Standardised Approach (CRR) Part Article 112(1)(h), that are not exposures to *SMEs*, and that are subject to a conversion factor of 10% in accordance with Table A1 in Credit Risk: Standardised Approach (CRR) Part Article 111.

…

# PRA RULEBOOK: SOLVENCY II FIRMS: REPORTING AMENDMENT INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers); and
(3) section 192J (Rules requiring provision of information by parent undertakings).

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

## PRA Rulebook: Solvency II Firms: Reporting Amendment Instrument 2026

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

## Templates, Annexes and instruction documents

D. The rules in this instrument include any template, Annex or instruction document referred to in the rules. Where indicated by "here", the rules when published electronically will include a hyperlink to the appropriate document.

## Commencement

E. This instrument comes into force on 31 December 2026.

## Citation

F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Reporting Amendment Instrument 2026.

## By order of the Prudential Regulation Committee

2 July 2026

**Annex**

**Amendments to the Reporting Part**

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

...

## 2 REPORTING TO THE PRA

...

2.5A As part of the information referred to in 2.1, a *firm* is required to submit to the *PRA* on a regular basis:

...

(2) the following reports:

...

(c) for *firms* using an *internal model*, the ~~qualitative information~~ supporting narrative documentation for template QMC.01 in accordance with Article 6(3) of Chapter 2A;

(d) for *firms* using an *internal model*, the ~~qualitative analysis~~ supporting narrative documentation for template AoC.01 in accordance with Articles 19 and 35 of Chapter 2A; and

(e) for *firms* with a *matching adjustment permission,* the ~~*matching adjustment* asset and liability information templates MALIR 1 - MALIR 7~~supporting narrative documentation for templates MA.00.01, MA.00.02, MA.01.01, MA.02.01 and MA.03.01 in accordance with Articles 18A, 42A and 47A of Chapter 2A;

...

2.5B

...

(3) A *firm* must submit the quarterly quantitative reporting template QMC.01 ~~(including the supporting qualitative information)~~ and the supporting narrative documentation referred to in Article 6(3) of Chapter 2A no later than 55 *business days* after the end of each quarter of the *firm's* financial year.

...

(8) A *firm* must submit the annual quantitative reporting template AoC.01~~, (including the supporting qualitative analysis),~~ and the supporting narrative documentation referred to in Article 19 of Chapter 2A no later than 70 *business days* after the *firm's* financial year end, commencing with the *firm's* first financial year end on or after 31 December 2025 or, if the *firm* first receives *internal model permission* which takes effect after 31 December 2025, commencing with the *firm's* first financial year end after the date that *internal model permission* took effect.

(9) A *firm* must submit the annual quantitative reporting template AoC.01 ~~(including the supporting qualitative analysis),~~ and the supporting narrative documentation referred to in Article 35 of Chapter 2A no later than 100 *business days* after the ~~group's~~*group's* financial year end, commencing with the *group's* first financial year end on or after 31 December 2025, or, if the *group* first receives *internal model permission* which takes effect after 31 December 2025, commencing with the *group's* first financial year end after the date that *internal model permission* took effect.

...

(11) A *firm* must submit the ~~*matching adjustment* asset and liability information~~annual quantitative reporting templates ~~MALIR 1 - MALIR 7~~MA.00.01, MA.00.02, MA.01.01, MA.02.01 and MA.03.01 and the supporting narrative documentation referred to in Articles 18A, 42A and 47A of Chapter 2A no later than 130 *business days*, after the *firm's* financial year end commencing with (i) the *firm's* first financial year end on or after 31 December 2024; or (ii) if later, the *firm's* first financial year end after the date that the *firm's matching adjustment permission* took effect.

...

## 2A REPORTING TO THE PRA: REPORTS AND TEMPLATES

...

### ARTICLE 6: QUARTERLY TEMPLATES FOR INDIVIDUAL FIRMS

...

3. *Firms* using an *internal model* must submit to the *PRA* quarterly template QMC.01 of Chapter 9, specifying information on model changes ~~and supporting qualitative information~~, and the supporting narrative documentation in accordance with the instructions set out in section QMC.01 of Chapter 10.

...

### ARTICLE 18: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION

1. *Firms* must submit information in relation to each ring-fenced fund, each *matching adjustment portfolio* and the remaining part to the *PRA* annually using the following templates (as applicable):

...

(e) ~~template IRR.22.02.01 of Chapter 9, specifying information on the projection of future cash flows for the *best estimate* calculation by each *matching adjustment portfolio*, following the instructions set out in section IR.22.02 of Chapter 10;~~[deleted]

...

### ARTICLE 18A: ANNUAL TEMPLATES FOR INDIVIDUAL FIRMS – MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION

*Firms* with a *matching adjustment permission* must submit to the *PRA* annually templates ~~MALIR 1 - MALIR 7~~MA.00.01, MA.00.02, MA.01.01, MA.02.01 and MA.03.01 of Chapter 9, setting out portfolio metrics and detailed information on the assets and liabilities held in their *matching adjustment portfolios*, and the supporting narrative documentation in accordance with the instructions set out in section ~~MALIR~~MA.00, section MA.01, section MA.02 and section MA.03 of Chapter 10.

### ARTICLE 19: ANNUAL QUANTITATIVE TEMPLATE AND SUPPORTING ANALYSIS FOR INDIVIDUAL FIRMS - INTERNAL MODEL ANALYSIS OF CHANGE

*Firms* using an *internal model* must submit to the *PRA* annually template AoC.01 ~~setting out~~in relation to the analysis of change referred to in Solvency Capital Requirement – Internal Models 13A~~, including both quantitative information and a supporting qualitative analysis,~~ and the supporting narrative documentation in accordance with the instructions set out in section AoC.01 of Chapter 10.

...

**ARTICLE 35: ANNUAL QUANTITATIVE TEMPLATE AND SUPPORTING ANALYSIS FOR GROUPS - INTERNAL MODEL ANALYSIS OF CHANGE**

*Firms* and, where applicable, *UK holding companies* reporting information on a *group* which includes more than one *firm* using an *internal model* must submit to the *PRA* annually template AoC.01 ~~setting out~~in relation to the analysis of change referred to in Solvency Capital Requirement – Internal Models 13A~~, including both quantitative information and a supporting qualitative analysis,~~ and the supporting narrative documentation in accordance with the instructions set out in section AoC.01 of Chapter 10.

...

**ARTICLE 39: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - BALANCE SHEET AND OTHER GENERAL INFORMATION**

1. *Third country branch undertakings* must, subject to Article 42B, submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of a *third country insurance branch*:

   ...

   (e) template IR.05.04.0~~7~~1 of Chapter 9, specifying information on non-life income, expenditure and business model analysis, following the instructions set out in section IR.05.04 of Chapter 10.

...

**ARTICLE 42A: ANNUAL TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION**

*Third country branch undertakings* with a *matching adjustment permission* must submit to the *PRA* annually templates ~~MALIR 1 - MALIR 7~~MA.00.01, MA.00.02, MA.01.01, MA.02.01 and MA.03.01 of Chapter 9, setting out, in respect of the operations of each *third country insurance branch*, portfolio metrics and detailed information on the assets and liabilities held in their *matching adjustment portfolios*, and the supporting narrative documentation in accordance with the instructions set out in section ~~MALIR~~MA.00, section MA.01, section MA.02 and section MA.03 of Chapter 10.

...

**ARTICLE 44: ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - BALANCE SHEET AND OTHER GENERAL INFORMATION**

1. *Third country branch undertakings* must submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of a *third country pure reinsurance branch*:

   ...

   (d) template IR.05.04.0~~7~~1 of Chapter 9, specifying information on non-life income, expenditure and business model analysis, following the instructions set out in section IR.05.04 of Chapter 10.

...

**ARTICLE 47A: ANNUAL TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION**

*Third country branch undertakings* with a *matching adjustment permission* must submit to the *PRA* annually templates ~~MALIR 1 - MALIR 7~~MA.00.01, MA.00.02, MA.01.01, MA.02.01 and MA.03.01 of Chapter 9, setting out, in respect of the operations of each *third country pure reinsurance branch,* portfolio metrics and detailed information on the assets and liabilities held in their *matching adjustment portfolios*, and the supporting narrative documentation in accordance with the instructions set out in section ~~MALIR~~MA.00, section MA.01, section MA.02 and section MA.03 of Chapter 10.

...

**9 REPORTING AND DISCLOSURE TEMPLATES**

9.1 The following IR.01.01 templates can be found ~~here~~here:

...

9.2 The following IR.01.02 templates can be found ~~here~~here:

...

9.3 The following IR.01.03 templates can be found ~~here~~here:

...

9.4 The following IR.01.04 templates can be found ~~here~~here:

...

9.5 The following IR.02.01 templates can be found ~~here~~here:

...

9.12 The following IR.05.03 templates can be found ~~here~~here:

...

9.13 The following IR.05.04 templates can be found ~~here~~here:

...

(c) ~~template IR.05.04.07, specifying information on non-life income, expenditure and business model analysis.~~[deleted]

...

9.15 The following IR.05.06 templates can be found ~~here~~here:

...

9.16 The following IR.05.07 templates can be found ~~here~~here:

...

9.20 The following IR.06.02 templates can be found ~~here~~here:

...

9.22 The following IR.08.01 templates can be found ~~here~~here:

...

9.25 The following IR.11.01 templates can be found ~~here~~here:

...

9.26 The following IR.12.01 templates can be found ~~here~~here:

...

9.29 The following IR.12.05 templates can be found ~~here~~here:

...

9.30 The following IR.12.06 templates can be found ~~here~~here:

...

9.32 The following IR.16.01 templates can be found ~~here~~here:

...

9.34 The following IR.17.01 templates can be found ~~here~~here:

...

9.36 The following IR.18.01 templates can be found ~~here~~here:

...

9.37 The following IR.18.02 templates can be found ~~here~~here:

...

9.38 The following IR.19.01 templates can be found ~~here~~here:

...

9.39 The following IR.19.02 templates can be found ~~here~~here:

...

9.42 The following IR.21.04 templates can be found ~~here~~here:

...

9.44 ~~The following IR.22.02 templates can be found here:~~

(a) ~~template IRR.22.02.01, specifying information on the projection of future cash flows for the *best estimate* calculation by each *matching adjustment portfolio*.~~[Deleted]

9.45 The following IR.22.03 templates can be found ~~here~~here:

...

9.48 The following IR.23.01 templates can be found ~~here~~here:

...

9.49 The following IR.23.02 templates can be found ~~here~~here:

...

9.50 The following IR.23.03 templates can be found ~~here~~here:

...

9.51 The following IR.23.04 templates can be found ~~here~~here:

...

9.54 The following IR.25.04 templates can be found ~~here~~here:

...

9.55 The following IR.25.05 templates can be found ~~here~~here:

...

9.57 The following IR.26.01 templates can be found ~~here~~here:

...

9.58 The following IR.26.02 templates can be found ~~here~~here:

...

9.59 The following IR.26.03 templates can be found ~~here~~here:

...

9.60 The following IR.26.04 templates can be found ~~here~~here:

...

9.61 The following IR.26.05 templates can be found ~~here~~here:

...

9.62 The following IR.26.06 templates can be found ~~here~~here:

...

9.63 The following IR.26.07 templates can be found ~~here~~here:

...

9.64 The following IR.27.01 templates can be found ~~here~~here:

...

9.65 The following IR.28.01 templates can be found ~~here~~here:

...

9.66 The following IR.28.02 templates can be found ~~here~~here:

...

9.71 The following IR.30.07 templates can be found ~~here~~here:

...

9.72 The following IR.30.08 templates can be found ~~here~~here:

...

9.73 The following IR.31.01 templates can be found ~~here~~here:

...

9.75 The following IR.33.01 templates can be found ~~here~~here:

...

9.81 Template QMC.01, specifying information on model changes ~~and supporting qualitative information~~, can be found here.

9.82 Template AoC.01~~, setting out~~ in relation to the analysis of change referred to in Solvency Capital Requirement - Internal Models 13A~~, including both quantitative and qualitative information and a supporting qualitative analysis,~~ can be found here.

9.83 ~~The following MALIR templates can be found here:~~[Deleted]

~~(a) template MALIR 1, specifying *firm* information; and~~

~~(b) template MALIR 2, specifying asset cash-flows; and~~

~~(c) template MALIR 3, specifying liability cash-flows; and~~

~~(d) template MALIR 4, specifying *matching adjustment portfolio* output; and~~

~~(e) template MALIR 5, specifying matching tests; and~~

~~(f) template MALIR 6, specifying further information on assets; and~~

~~(g) template MALIR 7, specifying the reconciliation with IR.06.02.~~

...

9.89 The following MA.00 templates can be found here:

(a) template MA.00.01, specifying basic information on the *firm*; and

(b) template MA.00.02, specifying information on the *matching adjustment portfolios*.

9.90 Template MA.01.01, specifying information on portfolio assets, can be found here.

9.91 Template MA.02.01, specifying information on portfolio cash flows, can be found here.

9.92 Template MA.03.01, specifying information on portfolio test results, can be found here.

## 10 REPORTING AND DISCLOSURE TEMPLATES DATA ITEM INSTRUCTIONS

10.1 Section IR.01.01 instructions can be found ~~here~~here.

10.2 Section IR.01.02 instructions can be found ~~here~~here.

10.3 Section IR.01.03 instructions can be found ~~here~~here.

10.4 Section IR.01.04 instructions can be found ~~here~~here.

10.5 Section IR.02.01 instructions can be found ~~here~~here.

10.6 Section IR.02.02 instructions can be found ~~here~~here.

...

10.11 Section IR.05.02 instructions can be found ~~here~~here.

10.12 Section IR.05.03 instructions can be found ~~here~~here.

10.13 Section IR.05.04 instructions can be found ~~here~~here.

10.14 Section IR.05.05 instructions can be found ~~here~~here.

10.15 Section IR.05.06 instructions can be found ~~here~~here.

10.16 Section IR.05.07 instructions can be found ~~here~~here.

...

10.20 Section IR.06.02 instructions can be found ~~here~~here.

10.21 Section IR.06.03 instructions can be found ~~here~~here.

10.22 Section IR.08.01 instructions can be found ~~here~~here.

10.23 Section IR.09.01 instructions can be found ~~here~~here.

...

10.25 Section IR.11.01 instructions can be found ~~here~~here.

10.26 Section IR.12.01 instructions can be found ~~here~~here.

...

10.28 Section IR.12.04 instructions can be found ~~here~~here.

10.29 Section IR.12.05 instructions can be found ~~here~~here.

10.30 Section IR.12.06 instructions can be found ~~here~~here.

10.31 Section IR.14.01 instructions can be found ~~here~~here.

10.32 Section IR.16.01 instructions can be found ~~here~~here.

...

10.34 Section IR.17.01 instructions can be found ~~here~~here.

...

10.36 Section IR.18.01 instructions can be found ~~here~~here.

10.37 Section IR.18.02 instructions can be found ~~here~~here.

10.38 Section IR.19.01 instructions can be found ~~here~~here.

10.39 Section IR.19.02 instructions can be found ~~here~~here.

10.40 Section IR.20.01 instructions can be found ~~here~~here.

10.41 Section IR.21.02 instructions can be found ~~here~~here.

10.42 Section IR.21.04 instructions can be found ~~here~~here.

...

10.44 ~~Section IR.22.02 instructions can be found here.~~[Deleted]

10.45 Section IR.22.03 instructions can be found ~~here~~here.

...

10.47 Section IR.22.07 instructions can be found ~~here~~here.

10.48 Section IR.23.01 instructions can be found ~~here~~here.

10.49 Section IR.23.02 instructions can be found ~~here~~here.

10.50 Section IR.23.03 instructions can be found ~~here~~here.

10.51 Section IR.23.04 instructions can be found ~~here~~here.

...

10.54 Section IR.25.04 instructions can be found ~~here~~here.

10.55 Section IR.25.05 instructions can be found ~~here~~here.

10.56 Section IR.25.06 instructions can be found ~~here~~here.

10.57 Section IR.26.01 instructions can be found ~~here~~here.

10.58 Section IR.26.02 instructions can be found ~~here~~here.

10.59 Section IR.26.03 instructions can be found ~~here~~here.

10.60 Section IR.26.04 instructions can be found ~~here~~here.

10.61 Section IR.26.05 instructions can be found ~~here~~here.

10.62 Section IR.26.06 instructions can be found ~~here~~here.

10.63 Section IR.26.07 instructions can be found ~~here~~here.

10.64 Section IR.27.01 instructions can be found ~~here~~here.

10.65 Section IR.28.01 instructions can be found ~~here~~here.

10.66 Section IR.28.02 instructions can be found ~~here~~here.

10.67 Section IR.30.03 instructions can be found ~~here~~here.

...

10.69 Section IR.30.05 instructions can be found ~~here~~here.

10.70 Section IR.30.06 instructions can be found ~~here~~here.

10.71 Section IR.30.07 instructions can be found ~~here~~here.

10.72 Section IR.30.08 instructions can be found ~~here~~here.

10.73 Section IR.31.01 instructions can be found ~~here~~here.

10.74 Section IR.32.01 instructions can be found ~~here~~here.

10.75 Section IR.33.01 instructions can be found ~~here~~here.

...

10.77 Section IR.35.01 instructions can be found ~~here~~here.

10.78 Section IR.36.01 instructions can be found ~~here~~here.

10.79 Section IR.36.02 instructions can be found ~~here~~here.

10.80 Section IR.36.04 instructions can be found ~~here~~here.

...

10.83 ~~Section MALIR instructions can be found here.~~[Deleted]

...

10.88 [Note: Provision left blank]

10.89 Section MA.00 instructions can be found here.

10.90 Section MA.01 instructions can be found here.

10.91 Section MA.02 instructions can be found here.

10.92 Section MA.03 instructions can be found here.

# PRA RULEBOOK: SOLVENCY II FIRMS: OWN FUNDS INSTRUMENT 2026

## 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.

## PRA Rulebook: Solvency II Firms: Own Funds Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Own Funds | A |
| Group Supervision | B |

## Commencement

D. The rules in this instrument come into force on 31 December 2026.

## Citation

E. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Own Funds Instrument 2026.

## By order of the Prudential Regulation Committee

2 July 2026

**Annex A**

**Amendments to the Own Funds 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:

…

*restricted Tier 1 own funds*

means the items referred to in 3A.1.(1)(c), 3A.1.(1)(e), 3A.1(1)(ea), and 3A.1(2).

…

…

## 3A TIER 1 – LIST OF OWN FUNDS ITEMS

3A.1 The following *basic own funds* items shall be deemed to substantially possess the characteristics set out in 3.5, taking into consideration the features set out in 3.6, and a *firm* must classify them as *Tier 1 own funds*, where the following items display all of the features set out in 3B:

(1) the part of excess of assets over liabilities, valued in accordance with 2 of the Valuation Part and Technical Provisions Part, comprising the following items:

…

(e) paid-in *preference shares* and the related share premium account; ~~and~~

(ea) paid-in subordinated liabilities, other than those recognised as liabilities in determining the excess of assets over liabilities; and

…

…

## 3B TIER 1 – FEATURES DETERMINING CLASSIFICATION

3B.1 The features referred to in 3A are the following:

…

(8) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2), is only repayable or redeemable at the option of the *firm* and provides that the repayment or redemption of the *basic own funds* item is subject to the *firm* receiving prior permission from the *PRA*;

(9) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2), does not include any incentives to repay or redeem that item that increase the likelihood that a *firm* will repay or redeem that *basic own funds* item where it has the option to do so;

(10) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2), provides for the suspension of repayment or redemption of that item where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance until:

(a) the *firm* complies with the *SCR*; and

(b) the repayment or redemption would not lead to non-compliance with the *SCR*,

other than in the circumstances set out in 3B.1(11);

…

(14) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2), provides the *firm* with full flexibility over the distributions on the *basic own funds* item in accordance with the conditions set out in 3B.3 or 3B.4; and

…

…

3B.14 A *firm* must not:

(1) redeem or repay a *basic own funds* item referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2);

(2) redeem or repay a *basic own funds* item referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2) when redemption or repayment has been suspended in the circumstances referred to in 3B.1(10);

…

unless, in each case, it has received prior permission from the *PRA* pursuant to section 138BA of *FSMA*.

…

## 3C RECONCILIATION RESERVE

3C.1 The reconciliation reserve referred to in 3A.1(1)(f) equals the total excess of assets over liabilities reduced by all of the following:

…

(3) the *basic own funds* items included in 3A.1(1)(a) to ~~(e)~~(ea), 3D.1(1) and 3F.1(1);

(4) any *basic own funds* item not included in 3A.1(1)(a) to ~~(e)~~(ea), 3D.1(1) 3F.1(1), in respect of which a *firm* has a *classification of own funds permission*;

…

…

## 3D TIER 2 BASIC OWN FUNDS – LIST OF OWN FUNDS ITEMS

3D.1 The following *basic own funds* items shall be deemed to substantially possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a *firm* must classify them as *Tier 2 own funds* where the following items display all of the features set out in 3E:

(1) the part of excess of assets over liabilities, valued in accordance with 2 of the Valuation Part and Technical Provisions Part, comprising the following items:

…

(e) subordinated liabilities, other than those recognised as liabilities in determining the excess of assets over liabilities;

…

**3E TIER 2 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION**

3E.1 The features referred to in 3D must be either those set out in 3E.1(1) to (10) or those set out in 3E.1(11):

…

(8) the *basic own funds* item meets one of the following criteria:

…

(b) in the case of items referred to in 3D.1(1)(c), 3D.1(1)(d), 3D.1(1)(e), and 3D.1(2), the terms of the contractual arrangement governing the *basic own funds* item provide for the distributions in relation to that item to be deferred where there is non-compliance with the *SCR* or the distribution would lead to such non-compliance until:

(i) the *firm* complies with the *SCR*; and

(ii) the distribution would not lead to non-compliance with the *SCR*,

other than in the circumstances set out in 3E.1(9);

…

…

**3F TIER 3 BASIC OWN FUNDS – LIST OF OWN FUNDS ITEMS**

3F.1 The following *basic own funds* items shall be deemed to possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a *firm* must classify them as *Tier 3 own funds* where the following items display all of the features set out in 3G:

(1) the part of excess of assets over liabilities, valued in accordance with the Valuation Part, comprising the following items:

(a) subordinated *mutual* member accounts;

(b) *preference shares* and the related share premium account; ~~and~~

(c) an amount equal to the value of net deferred tax assets; and

(d) subordinated liabilities, other than those recognised as liabilities in determining the excess of assets over liabilities;

…

**3G TIER 3 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION**

3G.1 The features referred to in 3F are the following:

(1) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), ranks after the claims of all *policyholders* and non-subordinated creditors;

…

(3) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), is undated or has an original maturity of at least five years, where the maturity date is the first contractual opportunity to repay or redeem the *basic own funds* item;

(4) the *basic own funds* item, in the case of items referred to in points 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), is only repayable or redeemable at the option of the *firm* and provides that the repayment or redemption of the *basic own funds* item is subject to the *firm* receiving prior permission from the *PRA*;

(5) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), may include limited incentives to repay or redeem that *basic own funds* item;

(6) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), provides for the suspension of repayment or redemption where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance until:

(a) the *firm* complies with the *SCR*; and

(b) the repayment or redemption would not lead to non-compliance with the *SCR*,

other than in the circumstances set out in 3G.1(7);

…

(8) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), provides for the deferral of distributions in relation to that item where there is non-compliance with the *MCR* or the distribution would lead to such non-compliance until:

(a) the *firm* complies with the *MCR*; and

(b) the distribution would not lead to non-compliance with the *MCR*; and

…

…

3G.6 A *firm* must not:

(1) redeem or repay any *basic own funds* items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2);

(2) redeem or repay any *basic own funds* items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2) when redemption or repayment has been suspended in the circumstances referred to in 3G.1(6); or

…

unless, in each case, it is has received prior permission from the *PRA* pursuant to section 138BA of *FSMA*.

…

…

**Annex B**

**Amendments to the Group Supervision Part**

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

…

## 10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS

…

10.3

...

(3) In cases where an *intermediate holding company* holds subordinated ~~debt~~liabilities or other *eligible own funds* subject to limitation in accordance with Own Funds 4 and 4A, they must be recognised as *eligible own funds* up to the amounts calculated by application of the limits in Own Funds 4 and 4A to the total *eligible own funds* outstanding at the level of the *group* as compared to the *group SCR*.

…

## 14 SUPERVISION OF GROUP SOLVENCY FOR SOLVENCY II FIRMS THAT ARE SUBSIDIARIES OF AN INSURANCE HOLDING COMPANY OR A MIXED FINANCIAL HOLDING COMPANY

…

14.2 For the purposes of applying the provisions set out in 14.1, where the parent *insurance holding company* or *mixed financial holding company* has issued subordinated ~~debt~~liabilities or has other *eligible own funds* subject to the limits set out in Own Funds 4 and 4A, Group Supervision 10.3 shall apply.

…

# PRA RULEBOOK: CRR FIRMS: GROUPS INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers);
(3) section 144H (Relationship with the CRR); and
(4) Section 192XA (Rules applying to holding companies).

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

## PRA Rulebook: CRR Firms: Groups Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Groups | A |
| Groups | B |

## Commencement

D. The rules in Annex A come into force on 30 July 2026.

E. The rules in Annex B come into force on 1 January 2027.

## Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms: Groups Instrument 2026.

## By order of the Prudential Regulation Committee

21 July 2026

**Annex A**

**Amendments to the Groups Part**

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

…

## 2 METHODS OF PRUDENTIAL CONSOLIDATION

…

2.3 In applying the requirements of Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *CRR consolidation entity* must carry out a proportional consolidation according to the share of capital or of voting rights held of any undertaking with whom it has an *Article 18(5) relationship*.

[Note: Art 18(5) of the *CRR*]

…

**Annex B**

**Amendments to the Groups Part**

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

…

**5 LEVEL OF APPLICATION OF REQUIREMENTS (TITLE II, PART ONE CRR)**

…

**CHAPTER 2 PRUDENTIAL CONSOLIDATION**

…

**ARTICLE 18 METHODS OF PRUDENTIAL CONSOLIDATION**

…

5. A *CRR consolidation entity* or institution must carry out a proportional consolidation according to the share of capital or of voting rights held of any undertaking with whom it has a relationship linked by participations or capital ties other than those referred to in paragraphs (1) and (4) of this Article.

…

# PRA RULEBOOK: CRR FIRMS: PILLAR 2 (CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2026

**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);
(2) section 137T (General supplementary powers); and
(3) section 192XA (Rules applying to holding companies).

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

**PRA Rulebook: CRR Firms: Pillar 2 (Consequential Amendments) Instrument 2026**

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Glossary | A |
| Capital Buffers | B |
| Disclosure (CRR) | C |
| Own Funds (CRR) | D |
| Credit Risk: Standardised Approach (CRR) | E |

**Commencement**

D. This instrument comes into force on 1 January 2027.

**Citation**

E. This instrument may be cited as the PRA Rulebook: CRR Firms: Pillar 2 (Consequential Amendments) Instrument 2026.

**By order of the Prudential Regulation Committee**
21 July 2026

## Annex A

## Amendments to the Glossary Part

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

…

*own funds*

means

(1) ((A) when used in italics in (i) the definitions of *leverage* and *Pillar 2A requirement* in the *PRA* Rulebook Glossary and (ii) the Capital Buffers Part, the Definition of Capital Part, the Depositor Protection Part, the Internal Capital Adequacy Assessment Part, the Notifications Part, the Recovery Plans Part and the Regulatory Reporting Part and (B) when used without italics in (i) *CRR rules* and (ii) rules made under section 192XA of FSMA) the sum of *Tier 1 capital* and *Tier 2 capital*; or

…

*Pillar 2A requirement*

means the *own funds* (if any) a *person* must at all times hold in excess of the *own funds* requirements under paragraphs 1(a), (b) and (c) of Required Level of Own Funds (CRR) Part Article 92 in accordance with a requirement imposed by the *PRA* under section 55M of *FSMA* or a direction given by the *PRA* under section 192C of *FSMA*.

…

**Annex B**

**Amendments to the Capital Buffers 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:

…

~~*Pillar 2A requirement*~~

~~means the *own funds* (if any) a *person* must at all times hold in excess of its *Pillar 1 requirements* in accordance with a requirement imposed by the *PRA* under section 55M of *FSMA* or a direction given by the *PRA* under section 192C of *FSMA*.~~

…

**Annex C**

**Amendments to the Disclosure (CRR) Part**

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

…

**4 DISCLOSURE (PART EIGHT CRR)**

…

**ARTICLE 438 DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS**

Institutions shall disclose the following information regarding their compliance with Article 92 and rules 3.1(1)(a) and 3.4 of the Internal Capital Adequacy Assessment Part of the *PRA* Rulebook:

(a) a summary of their approach to assessing the adequacy of their internal capital to support current and future activities;

(b) the amount of any *Pillar 2A requirement*~~the additional own funds requirements based on the supervisory review and evaluation process (within the meaning of regulation 34A of the *Capital Requirements Regulations*)~~ and its composition in terms of Common Equity Tier 1, additional Tier 1 and Tier 2 instruments;

…

**ARTICLE 447 DISCLOSURE OF KEY METRICS**

Institutions shall disclose the following key metrics in tabular format:

…

(c) where applicable, the amount and composition of any *Pillar 2A requirement*~~additional own funds which the institutions are required to hold in accordance with regulation 34(1) of the *Capital Requirements Regulations*~~;

…

**Annex D**

**Amendments to the Own Funds (CRR) Part**

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

…

**3 OWN FUNDS (PART TWO CRR)**

---

**…**

**ARTICLE 84 MINORITY INTERESTS INCLUDED IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL**

1. Institutions shall determine the amount of minority interests of a subsidiary that is included in consolidated Common Equity Tier 1 capital by subtracting from the minority interests of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

   (a) the Common Equity Tier 1 capital of the subsidiary minus the lower of the following:

      (i) the amount of Common Equity Tier 1 capital of that subsidiary required to meet the following:

         A the sum of the requirement laid down in point (a) of Article 92(1) of *CRR* the requirements referred to in Articles 458 and 459 of *CRR*, any *Pillar 2A requirement*~~the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013~~, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by Common Equity Tier 1 capital; or

         …

      (ii) the amount of consolidated Common Equity Tier 1 capital that relates to that subsidiary that is required on a *consolidated basis* to meet the sum of the requirement laid down in point (a) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, any *Pillar 2A requirement*~~the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013~~, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by Common Equity Tier 1 capital;

   …

…

**ARTICLE 85 QUALIFYING TIER 1 INSTRUMENTS INCLUDED IN CONSOLIDATED TIER 1 CAPITAL**

1. Institutions shall determine the amount of qualifying *Tier 1 capital* of a subsidiary that is included in consolidated own funds by subtracting from the qualifying *Tier 1 capital* of that

undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

(a) the *Tier 1 capital* of the subsidiary minus the lower of the following:

(i) the amount of *Tier 1 capital* of that subsidiary required to meet the following:

A the sum of the requirement laid down in point (b) of Article 92(1) of *CRR* the requirements referred to in Articles 458 and 459 of *CRR*, any *Pillar 2A requirement*~~the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013~~, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by *Tier 1 capital*; or

…

(ii) the amount of consolidated *Tier 1 capital* that relates to that subsidiary that is required on a *consolidated basis* to meet the sum of the requirement laid down in point (b) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, any *Pillar 2A requirement*~~the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013~~, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and the requirements referred to in any additional local supervisory regulations in *third countries* insofar as those requirements are to be met by *Tier 1 capital*;

…

…

**ARTICLE 87 QUALIFYING OWN FUNDS INCLUDED IN CONSOLIDATED OWN FUNDS**

1. Institutions shall determine the amount of qualifying own funds of a subsidiary that is included in consolidated own funds by subtracting from the qualifying own funds of that undertaking the result of multiplying the amount referred to in point (a) by the percentage referred to in point (b):

(a) the own funds of the subsidiary minus the lower of the following:

(i) the amount of own funds of that subsidiary required to meet the following:

A the sum of the requirement laid down in point (c) of Article 92(1) of *CRR* the requirements referred to in Articles 458 and 459 of *CRR*, any *Pillar 2A requirement*~~the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013~~, the combined buffer defined in the Capital Buffers Part (where applicable to the *firm* concerned), and any additional local supervisory regulations in *third countries*; or

…

(ii) the amount of own funds that relates to that subsidiary that is required on a *consolidated basis* to meet the sum of the requirement laid down in point (c) of Article 92(1) of *CRR*, the requirements referred to in Articles 458 and 459 of *CRR*, any *Pillar 2A requirement*~~the specific own funds requirements referred to in regulation 34 of the Capital Requirements Regulations 2013~~, the combined buffer defined in the Capital

Buffers Part (where applicable to the *firm* concerned), and any additional local supervisory own funds requirement in *third countries*;

…

…

## 4 RULES SUPPLEMENTING THE CRR WITH REGARDS TO OWN FUNDS REQUIREMENTS (PREVIOUSLY REGULATION (EU) NO 241/2014

…

### ARTICLE 10 LIMITATIONS ON REDEMPTION OF CAPITAL INSTRUMENTS ISSUED BY MUTUALS, SAVINGS INSTITUTIONS, CO-OPERATIVES SOCIETIES AND SIMILAR INSTITUTIONS FOR THE PURPOSE OF ARTICLE 29(2)(B) OF CHAPTER 3

…

3. The extent of the limitations on redemption included in the provisions governing the instrument shall be determined by the institution on the basis of the prudential situation of the institution at any time, having regard to in particular, but not limited to:

   …

   (b) the amount of Common Equity Tier 1 capital, Tier 1 and total capital compared to the total risk exposure amount calculated in accordance with the requirements laid down in point (a) of Article 92(1) of the *CRR*, any *Pillar 2A requirement*~~the specific own funds requirements referred to in regulation 34 of the *Capital Requirements Regulations*~~ and the combined buffer as defined in the Capital Buffers Part (where applicable to the *firm* concerned).

…

### ARTICLE 30 CONTENT OF THE APPLICATION TO BE SUBMITTED BY THE INSTITUTION FOR THE PURPOSES OF ARTICLE 77(1) OF THE CRR

1. The application referred to in Article 29 shall be accompanied by the following information:

   …

   (d) present and forward-looking information, that shall cover at least a three year period, on the amounts and percentages corresponding to the following requirements for own funds and eligible liabilities, including the level and composition of own funds before and after the performing of the action and the impact on regulatory requirements:

   ...

   (ii) the additional Common Equity Tier 1 capital, the additional Tier 1 capital, and the additional own funds that the institution is required to hold by the *PRA* pursuant to any *Pillar 2A requirement*~~Regulation 34 of the *Capital Requirement**Regulations*~~,~~where applicable~~;

   …

...

**ARTICLE 34A MINORITY INTERESTS INCLUDED IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL**

…

3. Where the subsidiary complies with the provisions of Part Three of the *CRR* on the basis of its consolidated situation the following treatment shall apply:

...

(b) for the purpose of the sub-consolidation calculation, the amount of Common Equity Tier 1 capital required according to point (i) of Article 84(1)(a) of the *CRR* shall be the amount required to meet the Common Equity Tier 1 requirements of that subsidiary at the level of its consolidated situation calculated in accordance with point (a) of Article 84(1) of the *CRR* including any *Pillar 2A requirement*~~. The specific own funds requirements referred to shall be the ones set by the competent authority~~ of the subsidiary~~under regulation 34 of the *Capital Requirements Regulations*~~;

…

...

**Annex E**

**Amendments to the Credit Risk: Standardised Approach (CRR) Part**

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

...

**4 STANDARDISED APPROACH**

---

…

**Article 121 EXPOSURES TO UNRATED INSTITUTIONS**

…

1A. For the purposes of paragraph 1, where a counterparty is a *CRR firm* the references to minimum financial regulatory requirements include:

(a) the requirements in Required Level of Own Funds (CRR) Part Article 92;

(b) any *Pillar 2A requirement* ~~the additional own funds the counterparty is required to hold in accordance with regulation 34(1) of the *Capital Requirements Regulations*~~; and

…

...

# PRA RULEBOOK: CRR FIRMS: CREDIT RISK (AMENDMENT) INSTRUMENT 2026

## 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 instruments) of the Act.

## PRA Rulebook: CRR Firms: Credit Risk (Amendment) Instrument 2026

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Credit Risk: Standardised Approach (CRR) | A |
| Credit Risk: Internal Ratings Based Approach (CRR) | B |

## Commencement

D. This instrument comes into force on 1 January 2027.

## Citation

E. This instrument may be cited as the PRA Rulebook: CRR Firms: Credit Risk (Amendment) Instrument 2026.

## By order of the Prudential Regulation Committee

21 July 2026

**Annex A**

**Amendments to the Credit Risk: Standardised Approach (CRR) Part**

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

…

## 4 STANDARDISED APPROACH

…

### SECTION 2 RISK WEIGHTS

…

### ARTICLE 120 EXPOSURES TO RATED INSTITUTIONS

…

4. An institution that is not an *SDDT* or *SDDT consolidation entity* shall conduct due diligence to ensure that the external credit assessments ~~s~~ appropriately and prudently reflects the risk of the exposure to which the institution is exposed. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the institution shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

   [Note: This rule corresponds to Article 120 of *CRR* as it applied immediately before revocation by the *Treasury*]

…

### ARTICLE 121 EXPOSURES TO UNRATED INSTITUTIONS

…

2. Subject to paragraphs 4 and 5, e~~E~~*xposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available where the original maturity of the exposure was more than three *months* shall be assigned a risk weight in accordance with Table 5.

…

5. ~~Notwithstanding paragraph 2,~~Subject to paragraph 4, *exposures to Article 119 institutions* for which a credit assessment by a nominated ECAI is not available may be assigned a risk weight of 30% if the original maturity of the exposure was more than three *months*, the exposure is classified as Grade A and the counterparty has:

   (a) a Common Equity Tier 1 ratio which meets or exceeds 14%; and

   (b) a *leverage ratio* which meets or exceeds 5%.

…

**Annex B**

**Amendments to the Credit Risk: Internal Ratings Based Approach (CRR) Part**

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

…

**3 CREDIT RISK: INTERNAL RATINGS BASED APPROACH (CRR) PART**

…

**SECTION 2 CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS**

**SUB-SECTION 1 TREATMENT BY TYPE OF EXPOSURE CLASS OR EXPOSURE SUBCLASS**

**ARTICLE 151 METHODOLOGY FOR EACH IRB APPROACH**

…

5. An institution that is permitted to use the *Slotting Approach* shall, for exposures within the scope of the permission, calculate risk weights in accordance with Article 153(5) and exposure values in accordance with Articles 166A, 166B and 166C.

…

# PRA RULEBOOK: GLOSSARY AMENDMENT INSTRUMENT 2026

## 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);
(2) section 137T (General supplementary powers); and
(3) section 192XA (Rules applying to holding companies).

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

## PRA Rulebook: Glossary Amendment Instrument 2026

C. The PRA makes the rules in the following Annex to this instrument.

## Commencement

D. This instrument comes into force on 1 January 2027.

## Citation

E. This instrument may be cited as the PRA Rulebook: Glossary Amendment Instrument 2026.

## By order of the Prudential Regulation Committee

21 July 2026

**Annex**

**Amendments to the Glossary Part**

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

…

*netting set*

for the purposes of the Counterparty Credit Risk (CRR) Part and the Credit Valuation Adjustment Risk ~~(CRR)~~ Part, means a group of transactions between an *institution* and a single counterparty that is subject to a legally enforceable bilateral netting arrangement that meets the requirements in Section 7 of Chapter 3 of the Counterparty Credit Risk (CRR) Part and the Credit Risk Mitigation (CRR) Part.

Each transaction that is not subject to a legally enforceable bilateral netting arrangement which meets the requirements under Section 7 of Chapter 3 of the Counterparty Credit Risk (CRR) Part shall be treated as its own netting set for the purposes of Chapter 3 of the Counterparty Credit Risk (CRR) Part.

Under the Internal Model Method set out in Section 6 of Chapter 3 of the Counterparty Credit Risk (CRR) Part, all netting sets with a single counterparty may be treated as a single netting set if negative simulated market values of the individual netting sets are set to zero in the estimation of expected exposure.

[Note: This rule corresponds to Article 272(4) of the *CRR* as it applied immediately before its revocation by the *Treasury*]

…

# PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS & NON-SOLVENCY II FIRMS: NOTIFICATION OF THIRD-PARTY ARRANGEMENTS AND OPERATIONAL INCIDENT REPORTING AMENDMENT INSTRUMENT 2026

**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 instruments) of the Act.

**PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms & Non-Solvency II Firms: Notification of Third-Party Arrangements and Operational Incident Reporting Amendment Instrument 2026**

C. The PRA makes the rules in the Annexes to this instrument.

| Part | Annex |
|---|---|
| Notifications | A |
| Regulatory Reporting | B |

**Commencement**

D. This instrument comes into force on 18 March 2027.

**Citation**

E. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms & Non-Solvency II Firms: Notification of Third-Party Arrangements and Operational Incident Reporting Amendment Instrument 2026.

**By order of the Prudential Regulation Committee**
21 July 2026

**Annex A**

**Amendments to the Notifications Part**

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

…

## 2 GENERAL NOTIFICATION REQUIREMENTS

…

2.3B

(1) A *firm* (except in the case of a *credit union* that has *total assets* of less than £50 million, a *third country firm* or a *non-directive firm*) must give the *PRA* notice when entering into, or significantly changing, a *material third-party arrangement*.

…

**Annex B**

**Amendments to the Regulatory Reporting Part**

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

…

**25 OPERATIONAL INCIDENT REPORTING**

25.1 This Chapter applies to:

(1) a *CRR firm*;

(2) a *UK Solvency II firm*;

(3) in accordance with Insurance General Application 3, the *Society*, as modified by Chapter 27; ~~and~~

(4) in accordance with Insurance General Application 3, *managing agents*, as modified by Chapter 27~~.~~; and

(5) a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

…

**PRA RULEBOOK: CRR FIRMS: NON-CRR FIRMS: HOUSING (AMENDMENT) INSTRUMENT 2026**

**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 instruments) of the Act.

**PRA Rulebook: CRR Firms: Non-CRR Firms: Housing (Amendment) Instrument 2026**

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

**Commencement**

D. This Rule Instrument comes into force on 28 October 2026.

**Citation**

E. This instrument may be cited as the PRA Rulebook: CRR Firms: Non-CRR Firms: Housing (Amendment) Instrument 2026.

**By order of the Prudential Regulation Committee**

29 September 2026

**Annex**

**Amendments to the Housing Part**

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

## 1 APPLICATION AND DEFINITIONS

1.1 ~~If either Condition A or Condition B is met, this~~ This Part applies to a *firm* with a *Part 4A permission* that includes entering into a *regulated mortgage contract* as lender, except:

…

1.3 A *firm* that is a *parent undertaking* must ensure that a *subsidiary undertaking*~~, which meets Condition A or Condition B,~~ complies with the requirements of this Part in relation to activities carried on from an establishment in the *UK*, as if it were a *firm* subject to those requirements.

…

1.5 ~~Condition A is that in the set of four consecutive *quarters* ending on 30 June 2014, the *firm* has entered into *regulated mortgage contracts* under which the total *credit* provided is or exceeds £100 million, but Condition A is not met if the *firm* entered into less than 300 *regulated mortgage contracts* in that period.~~[Deleted]

1.6 ~~Where Condition A is met this Part applies from 1 October 2014.~~[Deleted]

1.7 ~~Condition B is that during both of two consecutive sets of four *quarters* the *firm* has entered into *regulated mortgage contracts* under which the total *credit* provided in each set of four *quarters* is or exceeds £150 million, but Condition B is not met if the *firm* entered into less than 300 *regulated mortgage contracts* in each of those sets of four *quarters*.~~[Deleted]

1.8 ~~Where Condition B is met, this Part applies from the start of the second *quarter* following the end of the final *quarter* relevant to the determination that the firm meets Condition B.~~[Deleted]

1.9 ~~This Part ceases to apply (until Condition A or Condition B is met) if during both of two consecutive sets of four *quarters*:~~

~~(1) the *firm* has entered into *regulated mortgage contracts* under which the total *credit* provided is less than £150 million; or~~

~~(2) the *firm* has entered into less than 300 *regulated mortgage contracts* in each of those sets of four *quarters*.~~[Deleted]

1.10 ~~In this chapter two consecutive sets of four quarters means:~~

~~(1) a second set of four *quarters* ending on 30 September 2014 or on the last day of each subsequent *quarter*; and~~

~~(2) a first set of four *quarters* ending on the last day of the immediately preceding *quarter*.~~[Deleted]

1.11 In this Part the following definitions apply:

…

*first charge*

means a *legal mortgage* ranking in priority ahead of all other *legal mortgages* (if any) affecting the land in question.

*further advance*

means a further amount of *credit* provided by a *firm* to an existing borrower and which is secured on the same property, whether under a new mortgage contract, or by variation to an existing mortgage contract.

…

*lifetime mortgage*

has the meaning given in the ~~PRA Handbook~~*FCA Handbook*.

~~*quarter*~~

~~means any of the four calendar quarters of each year, the first quarter beginning on 1 January.~~

*re-mortgage with no change to the principal sum outstanding*

means a ~~*regulated mortgage contract*~~regulated mortgage contract as defined in Article 61(3)(a) of the *Regulated Activities Order* under which the amount of *credit* provided does not exceed that outstanding to the *firm*, or to a different lender, under a previous *regulated mortgage contract*, or any other type of contract under which the obligation to repay the *credit* provided is secured by a *legal mortgage* on *land*. In determining the amount of *credit* provided, no account shall be taken of:

(1) arrangement fees;

(2) professional fees and costs; and

(3) administration costs.

*regulated mortgage contract*

has the meaning given in Article 61(3)(a) of the *Regulated Activities Order*, but:

(1) *re-mortgages with no change to the principal sum outstanding*;

(2) *lifetime mortgages*; ~~and~~

(3) *regulated mortgage contracts* that are not *first charge regulated mortgage contracts*;

(4) *retirement interest-only mortgages*; and

(5) *further advances*

must be disregarded.

~~*relevant period*~~

~~means, in relation to a *quarter*, the *quarter* and the three consecutive *quarters* preceding it.~~

*retirement interest-only mortgages*

has the meaning given in the *FCA Handbook*.

## 2 HIGH LOAN TO INCOME ~~ALLOWANCE~~LENDING

2.1 ~~Unless 2.3 or 2.4 apply, a *firm* must ensure that by the end of each *quarter* in which this Part applies the number of *high loan to income mortgage contracts* it enters into in the *relevant period* does not exceed 15% of all *regulated mortgage contracts* it enters into in that *relevant period*~~A *firm* must conduct its business of entering into *high loan to income mortgage contracts* in a prudent manner.

2.2 A *firm* that is part of a *group* may allocate all or part of its high loan to income allowance to any member of the *group*.[Deleted]

2.3 A *firm* that has allocated any part of its high loan to income allowance to another member of the *group* must ensure that the number of *high loan to income mortgage contracts* it enters into in the *relevant period* does not exceed the amount specified in 2.1, as reduced by the amount of the high loan to income allowance it has allocated under 2.2.[Deleted]

2.4 A *firm* that is part of a *group* must ensure that the number of *high loan to income mortgage contracts* it enters into in the *relevant period* does not exceed the amount specified in 2.1, plus any high loan to income allowance allocated to it under 2.2.[Deleted]

2.5 A *firm* must keep a record of any part of a high loan to income allowance it has allocated or received.[Deleted]

2.6 In this chapter, a high loan to income allowance is the number of *high loan to income mortgage contracts* a *firm* may enter into in the *relevant period* in compliance with 2.1 without the modifications in 2.3 or 2.4 applied.[Deleted]