PRA RULEBOOK: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Forms Amendment Instrument 2021

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 64A (Rules of conduct)
(2) Section 64C (Requirement for relevant authorised persons to notify regulator of disciplinary action)
(3) Section 66 (Disciplinary Powers)
(4) Section 66B (Misconduct: action by the PRA)
(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 instruments) of the Act.

Pre-conditions to making

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

PRA RULEBOOK: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Forms Amendment Instrument 2021

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

Commencement

E. This instrument come into force on 22 January 2021.

Citation

F. This instrument may be cited as the PRA Rulebook**:** CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Forms Amendment Instrument 2021**.**

By order of the Prudential Regulation Committee

14 January 2021

Annex
Amendments to Notifications Part

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

10 FORMS

...

10.3 The Notification Form can be found ~~here~~ here.

11 CONDUCT RULES: NOTIFICATIONS

...

11.9 …

(3) Form L may be found ~~here~~ here.

PRA RULEBOOK: PRA FEES AMENDMENT (NO.1) INSTRUMENT 2021

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 purposes of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

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

PRA Rulebook: PRA Fees Amendment (No.1) Instrument 2021

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

Commencement

E. This instrument comes into force on 19 March 2021

Citation

F. This instrument may be cited as the PRA Rulebook: PRA Fees Amendment (No.1) Instrument 2021.

By order of the Prudential Regulation Committee

23 February 2021

Annex

Amendments to the Fees Part

In this Annex, new text is underlined.

4 REGULATORY TRANSACTION FEES

…

4.5A A parent financial holding company or parent mixed financial holding company (both within the meaning of s192O of *FSMA*) shall pay a *regulatory transaction fee* of £2,500 in respect of an *application* for approval or exemption made under s192Q of *FSMA* (and such a fee shall be in addition to any other *regulatory transaction fee* payable).

…

PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, NON-AUTHORISED PERSONS: DEPOSITOR PROTECTION (IDENTITY VERIFICATION) INSTRUMENT 2021

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 213 (The compensation scheme); and
(4) 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.

Pre-conditions to making

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

PRA Rulebook: CRR Firms, Non-CRR Firms, Non-Authorised Persons: Depositor Protection (Identity Verification) Instrument 2021

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

Commencement

E. This instrument comes into force on 29 March 2021.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms, Non-Authorised Persons: Depositor Protection (Identity Verification) Instrument 2021.

By order of the Prudential Regulation Committee
16 March 2021

Annex

Amendments to the Depositor Protection Part

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

1 APPLICATION AND DEFINITIONS

…

1.4 Unless otherwise stated, in this Part, the following definitions shall apply:

…

MLR means the Money Laundering Regulations, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

…

2 ELIGIBILITY

…

2.2 The provisions in this rule determine whether a *deposit* is an *eligible deposit*:

…

(4) The following are not *eligible deposits*:

…

(f) a *deposit* the holder and any beneficial owner (as defined in regulation 3 of the ~~Money Laundering Regulations, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017~~*MLR*) of which have not~~,~~ ~~at the *compensation date*~~ had their identity verified~~ in accordance with~~:

(i) at any time in the manner set out in regulation ~~30~~28 of the ~~Money Laundering Regulations, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017~~*MLR* by the *DGS member* or by a third party who falls within regulation 39(3) of the *MLR*;

(ii) if their identity was verified prior to 26 June 2017, in accordance with regulation 9 of the Money Laundering Regulations 2007 (in which case, the term beneficial owner in (f) above shall have the meaning given in regulation 6 of the Money Laundering Regulations 2007); or

(iii) in each case, equivalent:

(1) Gibraltar requirements, provided that, if their identity is so verified after *IP completion day*, the *deposit* referred to in (f) is held by a branch of a *DGS member* established in Gibraltar pursuant to *Gibraltar market access rights*; or

(2) *European Economic Area* requirements, provided that their identity was so verified prior to *IP completion day*.

…

6 PAYING COMPENSATION

…

6.2 The *FSCS* must pay any compensation to the *depositor*, with the following exceptions:

...

(5) where the account holder is not absolutely entitled to the *eligible deposit*:

(a) if another *person* (A) is absolutely entitled to the *eligible deposit*, A is the *person* entitled to compensation in respect of the *deposit*, and accordingly the *FSCS* must pay any compensation to A (or, where A (or a *person* who has authority to act on behalf of A) directs that any compensation be paid to another *person*, the *FSCS* may pay the compensation as directed by A (or a *person* who has authority to act on behalf of A), provided that A has been identified or is identifiable~~ before the *compensation date*~~; and

(b) if no *person* is absolutely entitled to the *eligible deposit*, the *FSCS* must pay any compensation in accordance with such of 6.3, 6.4, 6.5 and 6.6 as applies.

…

PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2021

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 instrument) of the Act.

Pre-conditions to making

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

PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2021

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

Commencement

E. This instrument comes into force on 1 April 2021.

Citation

F. This instrument may be cited as the PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2021.

By order of the Prudential Regulation Committee
16 March 2021

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

2.1 The total of all *management expenses levies* attributable to the period 1 April ~~2020~~2021 to 31 March ~~2021~~2022 of the *deposit guarantee scheme*, the *dormant account scheme* or the *policyholder protection scheme* may not exceed ~~£83,167,893~~£105,524,319 less whatever *management expenses levies* the *FSCS* has imposed in accordance with *FCA compensation scheme rules* attributable to that period.

…

PRA RULEBOOK: CRR FIRMS, SOLVENCY II FIRMS: OPERATIONAL RESILIENCE INSTRUMENT 2021

Powers exercised

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

(1) section 137G (The PRA's general rules); and
(2) section 137T (General supplementary powers)

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms, Solvency II Firms: Operational Resilience Instrument 2021

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

Part	Annex
Operational Resilience – CRR Firms	A
Operational Resilience – Solvency II Firms	B
Group Supervision	C

Commencement

E. This instrument comes into force on 31 March 2022.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms, Solvency II Firms: Operational Resilience Instrument 2021.

By order of the Prudential Regulation Committee
24 March 2021

Annex A

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

Part

OPERATIONAL RESILIENCE – CRR FIRMS

Chapter content

1. APPLICATION AND DEFINITIONS
2. OPERATIONAL RESILIENCE REQUIREMENTS
3. STRATEGIES, PROCESSES AND SYSTEMS
4. MAPPING
5. SCENARIO TESTING
6. SELF-ASSESSMENT
7. GOVERNANCE
8. GROUP ARRANGEMENTS

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part, the following definitions shall apply:

Capital Buffers Regulations

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

external group end user

means a person who receives services and who is not a member of the *firm's consolidation group* on the basis of the *consolidated situation* of the *firm's UK parent undertaking*.

impact tolerance

means the maximum tolerable level of disruption to an *important business service* or an *important group business service* as measured by a length of time in addition to any other relevant metrics.

important business service

means a service provided by a *firm*, or by another *person* on behalf of the *firm,* to another *person* which, if disrupted, could pose a risk to:

(1) where the *firm* is an *O-SII*, the stability of the *UK* financial system; or

(2) the *firm's* safety and soundness.

important group business service

means a service provided by a member of the *firm's consolidation group* (other than the *firm*) on the basis of the *consolidated situation* of the *UK parent undertaking* of that *consolidation group*, to an *external group end user* which, if disrupted, could pose a risk to:

(1) where the *firm* is an *O-SII*, the stability of the *UK* financial system; or

(2) the *firm's* safety and soundness.

O-SII

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

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 OPERATIONAL RESILIENCE REQUIREMENTS

2.1 A *firm* must identify its *important business services* and, where 8.2 applies, its *important group business services*.

2.2 A *firm* must set an *impact tolerance* for each of:

(1) its *important business services*; and

(2) where 8.2 applies, its *important group business services*.

2.3 The *impact tolerance* set for each *important business service* or *important group business service* must specify the first point at which a disruption to the *important business service* or *important group business service* would pose a risk to:

(1) where the *firm* is an *O-SII*, the stability of the *UK* financial system; or

(2) the *firm's* safety and soundness.

2.4 The *impact tolerance* set for each *important business service* or *important group business service* must specify the length of or point in time, in addition to any other relevant metrics, for which a disruption to that *important business service or important group business service* can be tolerated.

2.5 A *firm* must ensure it can remain within its *impact tolerance* for each *important business service* in the event of a severe but plausible disruption to its operations.

2.6 A *firm* must comply with 2.5 within a reasonable time of the rule coming into effect and in any event by no later than 31 March 2025.

3 STRATEGIES, PROCESSES AND SYSTEMS

3.1 A *firm* must have in place sound, effective and comprehensive strategies, processes and systems that enable it adequately to:

(1) identify its important business services and, where 8.2 applies, important group business services;

(2) set an impact tolerance for each important business service and, where 8.2 applies, each important group business service; and

(3) identify and address any risks to its ability to comply with the obligation under 2.5.

3.2 The strategies, processes and systems required by 3.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

4 MAPPING

4.1 As part of its obligation under 3.1, a *firm* must identify and document the necessary people, processes, technology, facilities and information required to deliver each of its *important business services*.

5 SCENARIO TESTING

5.1 As part of its obligation under 3.1, a *firm* must carry out regular scenario testing of its ability to remain within its *impact tolerance* for each of its *important business services* in the event of a severe but plausible disruption of its operations.

5.2 In carrying out the scenario testing required by 5.1, a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the risks to delivery of the *firm's important business services* in those circumstances.

5.3 The scenario testing required by 5.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

6 SELF-ASSESSMENT

6.1 A *firm* must prepare and regularly update a written self-assessment of its compliance with this Part.

6.2 The content and level of detail of a *firm's* written self-assessment must be proportionate to the nature, scale and complexity of the *firm's* activities, and where applicable to the activities of the *consolidation group* of which the *firm* is a member.

6.3 A *firm* must maintain, and be able to provide to the *PRA* on request, a current version of its written self-assessment, together with all versions produced during the preceding three years.

7 GOVERNANCE

7.1 A *firm* must ensure that its *management body* approves the *important business services* and *important group business services* identified by the *firm* in compliance with 2.1 and 8.2.

7.2 A *firm* must ensure that its *management body* approves the *impact tolerances* set by the *firm* in compliance with 2.2 and 8.2.

7.3 A *firm* must ensure that its *management body* approves and regularly reviews the self-assessment required by 6.1.

8 GROUP ARRANGEMENTS

8.1 Where a *firm* is a member of a *group*, the *firm* must ensure it accounts for any additional risks arising elsewhere in the *group* that may affect the *firm's* ability to comply with the obligation under 2.5.

8.2 Where a *firm* is a member of a *consolidation group*, the *firm* must also comply with 2.1 and 2.2 in relation to its *important group business services,* on the basis of the *consolidated situation* of the *UK parent undertaking of the consolidation group*.

8.3 With the exception of 3.1(3), where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the strategies, processes and systems at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3 on the basis of the *consolidated situation* of the *UK parent undertaking* of the *consolidation group*.

8.4 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the strategies, processes and systems at the level of its *consolidation group* enable the *firm* to assess on the basis of the *consolidated situation* of the *UK parent undertaking* of the *consolidation group* whether the member of that *consolidation group* providing each *important group business service* could remain within the *impact tolerance* in the event of a severe but plausible disruption to its operations.

8.5 The strategies, processes and systems required by this Chapter must be proportionate to the nature, scale and complexity of the *consolidation group's* activities.

Annex B

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

Part

OPERATIONAL RESILIENCE – SOLVENCY II FIRMS

Chapter content

1. APPLICATION AND DEFINITIONS
2. OPERATIONAL RESILIENCE REQUIREMENTS
3. STRATEGIES, PROCESSES AND SYSTEMS
4. MAPPING
5. SCENARIO TESTING
6. SELF-ASSESSMENT
7. GOVERNANCE
8. GROUP ARRANGEMENTS
9. LLOYDS

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

(1) a *UK Solvency II firm*;

(2) in accordance with Insurance General Application 3, the *Society*, as modified by 9; and

(3) in accordance with Insurance General Application 3, *managing agents*, as modified by 9.

1.2 In this Part, the following definitions shall apply:

external group end user

means a person who receives services and who is outside of the *group* of which the *firm* is a member.

impact tolerance

means the maximum tolerable level of disruption to an *important business service* or an *important group business service* as measured by a length of time in addition to any other relevant metrics.

important business service

means a service provided by a *firm*, or by another *person* on behalf of the *firm,* to another *person* which, if disrupted, could pose a risk to:

(1) where the *firm* is a *relevant Solvency II firm*, the stability of the *UK* financial system;

(2) the *firm's* safety and soundness; or

(3) an appropriate degree of protection for those who are or may become the *firm's policyholders.*

important group business service

means a service provided by a member of a *group* (other than the *firm*) to an *external group end user* which, if disrupted, could pose a risk to:

(1) where a *relevant Solvency II firm* is a member of the *group*, the stability of the *UK* financial system;

(2) the *firm's* safety and soundness; or

(3) an appropriate degree of protection for those who are or may become the *firm's policyholders*.

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*).

2 OPERATIONAL RESILIENCE REQUIREMENTS

2.1 A *firm* must identify its *important business services* and, where Group Supervision 22.2 applies, its *important group business services*.

2.2 A *firm* must set an *impact tolerance* for each of:

(1) its *important business services*; and

(2) (where Group Supervision 22.2 applies) its *important group business services*.

2.3 The *impact tolerance* set for each *important business service* or *important group business service* must specify the first point at which a disruption to the *important business service* or *important group business service* would pose a risk to:

(1) where the *firm* is a *relevant Solvency II firm*, the stability of the *UK* financial system;

(2) the *firm's* safety and soundness; or

(3) an appropriate degree of protection for those who are or may become the *firm's policyholders*.

2.4 The *impact tolerance* set for each *important business service* or *important group business services* must specify the length of or point in time, in addition to any other relevant metrics, for which a disruption to that *important business service* or *important group business service* can be tolerated.

2.5 A *firm* must ensure it can remain within its *impact tolerance* for each *important business service* in the event of a severe but plausible disruption to its operations.

2.6 A *firm* must comply with 2.5 within a reasonable time of the rule coming into effect and in any event by no later than 31 March 2025.

3 STRATEGIES, PROCESSES AND SYSTEMS

3.1 A *firm* must have in place sound, effective and comprehensive strategies, processes and systems that enable it adequately to:

(1) identify its important business services and, where Group Supervision 22.2 applies, its important group business services;

(2) set an impact tolerance for each important business service and, where Group Supervision 22.2 applies, each important group business service; and

(3) identify and address any risks to its ability to comply with the obligation in 2.5.

3.2 The strategies, processes and systems required by 3.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

4 MAPPING

4.1 As part of its obligation under 3.1, a *firm* must identify and document the necessary people, processes, technology, facilities and information required to deliver each of its *important business services*.

5 SCENARIO TESTING

5.1 As part of its obligation under 3.1, a *firm* must carry out regular scenario testing of its ability to remain within its *impact tolerance* for each of its *important business services* in the event of a severe but plausible disruption of its operations.

5.2 In carrying out the scenario testing required by 5.1, a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the risks to delivery of the *firm's important business services* in those circumstances.

5.3 The scenario testing required by 5.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

6 SELF-ASSESSMENT

6.1 A *firm* must prepare and regularly update a written self-assessment of its compliance with this Part and Group Supervision 22.

6.2 The content and level of detail of a *firm's* written self-assessment must be proportionate to the nature, scale and complexity of the *firm's* activities and, where applicable, to the activities of the *group* of which the *firm* is a member.

6.3 A *firm* must maintain, and be able to provide to the *PRA* on request, a current version of its written self-assessment, together with all versions produced during the preceding three years.

7 GOVERNANCE

7.1 A *firm* must ensure that its *management body* approves the *important business services* and *important group business services* identified by the *firm* in compliance with 2.1 and Group Supervision 22.3.

7.2 A *firm* must ensure that its *management body* approves the *impact tolerances* set by the *firm* in compliance with 2.2 and Group Supervision 22.3.

7.3 A *firm* must ensure that its *management body* approves and regularly reviews the self-assessment required by 6.1.

8 GROUP ARRANGMENTS

8.1 Where a *firm* is a member of a *group*, the *firm* must ensure it accounts for any additional risks arising elsewhere in the *group* that may affect the *firm's* ability to comply with 2.5.

9 LLOYDS

9.1 This Part applies to the *Society* and *managing agents* separately.

Annex C

Amendments to the Group Supervision Part

In this Annex new text is underlined.

Part

GROUP SUPERVISION

Chapter content

…

22. GROUP OPERATIONAL RESILIENCE

1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

external group end user

means a person who receives services and who is outside of the *group* of which the *firm* is a member.

…

impact tolerance

means the maximum tolerable level of disruption to an *important business service* or an *important group business service* as measured by a length of time in addition to any other relevant metrics.

important business service

means a service provided by a *firm*, or by another *person* on behalf of the *firm,* to another *person* which, if disrupted, could pose a risk to:

(1) where the *firm* is a *relevant Solvency II firm*, the stability of the *UK* financial system; or

(2) the *firm's* safety and soundness.

important group business service

means a service provided by a member of a *group* (other than the *firm*) to an *external group end user* which, if disrupted, could pose a risk to:

(1) where a *relevant Solvency II firm* is a member of the *group*, the stability of the *UK* financial system;

(2) the *firm's* safety and soundness; or

(3) an appropriate degree of protection for those who are or may become the *firm's policyholders*.

…

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, assessed 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*).

...

22 GROUP OPERATIONAL RESILIENCE

22.1 Rules 22.2 to 22.5 apply to any *UK Solvency II firm* that is a member of a *group* for which the *PRA* is the *group supervisor*.

22.2 Where a *firm* is a member of a *group* covered by 2.1(1), 2.1(2) or, subject to 22.5, 2.1(3), the *firm* must also comply with Operational Resilience – Solvency II Firms 2.1 and 2.2 in relation to its *important group business services*.

22.3 Where a *firm* is a member of a *group* covered by 2.1(1), 2.1(2) or, subject to 22.5, 2.1(3), with the exception of Operational Resilience – Solvency II Firms 3.1(3), the *firm* must ensure that the strategies, processes and systems at the level of the *group* of which it is a member comply with the obligations set out in Operational Resilience – Solvency II Firms 3.

22.4 Where a *firm* is a member of a *group* covered by 2.1(1), 2.1(2) or, subject to 22.5, 2.1(3) the *firm* must ensure that the strategies, processes and systems at the level of the *group* of which it is a member enable the *firm* to assess whether *important group business services* at the level of the *group* could remain within the *impact tolerance* in the event of a severe but plausible disruption to its operations.

22.5 Where a *firm* is a member of a *group* covered by 2.1(3), 22.2, 22.3 and 22.4 do not apply if, subject to 22.6, the third country in which the *group's parent undertaking* has its head office is assessed to be equivalent under Article 260 of the *Solvency II Directive,* Article 380 and 380A of the *delegated act*, or an equivalence determination under paragraph 12 of Schedule 1 of The Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc) (EU Exit) Regulations 2019.

22.6 22.5 does not apply where, in the case of temporary equivalence under Article 260(5) of the *Solvency II Directive*, there is a *Solvency II undertaking* in the *group* that has a balance sheet total that exceeds the balance sheet total of the *parent undertaking* situated outside of the *UK* and Gibraltar.

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

PRA RULEBOOK: CRR FIRMS: RESOLUTION ASSESSMENT AMENDMENT INSTRUMENT 2021

Powers exercised

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

(1) section 137G (The PRA's general rules); and
(2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms: Resolution Assessment Amendment Instrument 2021

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

Commencement

E This instrument comes into force on 2 June 2021.

Citation

F This instrument may be cited as the PRA Rulebook: CRR Firms: Resolution Assessment Amendment Instrument 2021.

By order of the Prudential Regulation Committee

19 May 2021

Annex

Amendments to the Resolution Assessment Part

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

…

3 REPORT

3.1 A *firm* must submit to the *PRA* a report in writing of the assessment in 2.1 by:

(1) the first Friday in October ~~2020~~ <u>2021</u>; and

…

4 DISCLOSURE

4.1 A *firm* must publish by the following dates a summary of the most recent report submitted to the *PRA* under Chapter 3:

(1) the second Friday in June ~~2021~~ <u>2022</u>; and

…

PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS, NON-SOLVENCY II FIRMS: SENIOR MANAGERS REGIME APPLICATIONS AND NOTIFICATIONS - TEMPORARY ABSENCE INSTRUMENT 2021

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 59 (Approval for particular arrangements);
(4) section 60 (Applications for approval);
(5) section 62A (Changes to responsibilities of senior managers);
(6) section 64C (Requirement for authorised person to notify regulator of disciplinary action).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Senior Managers Regime Applications and Notifications - Temporary Absence Instrument 2021

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

Part	Annex
Senior Managers Regime – Applications and Notifications	A
Insurance - Senior Managers Regime – Applications and Notifications	B
Large Non-Solvency II Firms - Senior Managers Regime – Applications and Notifications	C
Non-Solvency II Firms - Senior Managers Regime – Applications and Notifications	D

Commencement

E. This instrument comes into force on 2 June 2021.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Senior Managers Regime Applications and Notifications - Temporary Absence Instrument 2021.

By order of the Prudential Regulation Committee
19 May 2021

Annex A

Amendments to the Senior Managers Regime – Applications and Notifications Part

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

…

5 CEASING TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

5.1 (1) A *firm* must notify the *PRA* no later than ten *business days* after a *person* permanently ceases to perform a *PRA senior management function*, using:

(a) Form E if a *person* permanently ceases to perform a *PRA senior management function* and the *firm* is also making an application for the same *person* to perform another *PRA senior management function*; and

(b) in all other cases, Form C.

…

6 CHANGE IN DETAILS OR RESPONSIBILITIES RELATING TO PRA APPROVED PERSONS

…

6.1A If a *PRA approved person* has been temporarily absent for more than a 12 week period, the *firm* for which the *person* performs a *PRA senior management function* must notify the *PRA* of:

(1) that absence within seven *business days* of the end of the 12 week period; and

(2) the *PRA approved person*'s return from absence within seven *business days* of the date of their return,

in each case, using Form D.

…

8 FORMS

8.1

…

(5) Form D may be found ~~here~~ here.

…

Annex B

Amendments to the Insurance - Senior Managers Regime – Applications and Notifications Part

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

…

4 CEASING TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

4.1 A *firm* must notify the *PRA* no later than seven *business days* after a *person* permanently ceases to perform a *PRA senior management function*, using:

(1) Form E if a *person* permanently ceases to perform a *PRA senior management function* and the *firm* is also making an application for the same *person* to perform another *PRA senior management function*; and

(2) in all other cases, Form C.

…

5 CHANGE IN DETAILS RELATING TO PRA SENIOR MANAGEMENT FUNCTION HOLDERS

…

5.1A If a *PRA senior management function holder* has been temporarily absent for more than a 12 week period, the *firm* for which the *person* performs a *PRA senior management function* must notify the *PRA* of:

(1) that absence within seven *business days* of the end of the 12 week period; and

(2) the *PRA senior management function holder*'s return from absence within seven *business days* of the date of their return,

in each case, using Form D.

…

7 FORMS

7.1

…

(5) Form D may be found ~~here~~ here.

…

Annex C

Amendments to the Large Non-Solvency II Firms - Senior Managers Regime – Applications and Notifications Part

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

…

4 CEASING TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

4.1 A *firm* must notify the *PRA* no later than seven *business days* after a *person* permanently ceases to perform a *PRA senior management function*, using:

(1) Form E if a *person* permanently ceases to perform a *PRA senior management function* and the *firm* is also making an application for the same *person* to perform another *PRA senior management function*; and

(2) in all other cases, Form C.

…

5 CHANGE IN DETAILS RELATING TO PRA SENIOR MANAGEMENT FUNCTION HOLDERS

…

5.1A If a *PRA senior management function holder* has been temporarily absent for more than a 12 week period, the *firm* for which the *person* performs a *PRA senior management function* must notify the *PRA* of:

(1) that absence within seven *business days* of the end of the 12 week period; and

(2) the *PRA senior management function holder*'s return from absence within seven *business days* of the date of their return,

in each case, using Form D.

…

7 FORMS

7.1

…

(5) Form D may be found ~~here~~ here.

…

Annex D

Amendments to the Non-Solvency II Firms - Senior Managers Regime – Applications and Notifications Part

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

…

4 CEASING TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

4.1 (1) A *firm* must notify the *PRA* no later than seven *business days* after a *person* <u>permanently</u> ceases to perform a *PRA senior management function*, using:

(a) Form E if a *person* <u>permanently</u> ceases to perform a *PRA senior management function* and the *firm* is also making an application for the same *person* to perform another *PRA senior management function*; and

(b) in all other cases, Form C.

…

5 CHANGE IN DETAILS RELATING TO PRA SENIOR MANAGEMENT FUNCTION HOLDERS

…

5.1A <u>If a *PRA senior management function holder* has been temporarily absent for more than a 12 week period, the *firm* for which the *person* performs a *PRA senior management function* must notify the *PRA* of:</u>

<u>(1) that absence within seven *business days* of the end of the 12 week period; and</u>

<u>(2) the *PRA senior management function holder*'s return from absence within seven *business days* of the date of their return,</u>

<u>in each case, using Form D.</u>

…

7 FORMS

7.1

…

(5) Form D may be found ~~here~~ <u>here</u>.

…

PRA RULEBOOK: CRR FIRMS: OPERATIONAL CONTINUITY INSTRUMENT 2021

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.

Pre-conditions to making

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

PRA Rulebook: CRR Firms: Operational Continuity Instrument 2021

D. The PRA makes the rules in Annexes A and B to this instrument.

Part	Annex
Glossary	Annex A
Operational Continuity	Annex B

Commencement

E. This instrument comes into force on 1 January 2023.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms: Operational Continuity Instrument 2021.

By order of the Prudential Regulation Committee

19 May 2021

Annex A

Amendments to the Glossary

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

critical functions

has the meaning in section 3(1) and (2) of the Banking Act 2009.

Annex B

Amendments to the Operational Continuity 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 receives *critical services* supporting *critical functions* if it fulfils any of the following conditions on 1 January of any year:

(1) the average of the *firm*'s total assets it was required to report for ~~in~~ the previous 36 months in accordance with Chapters 7 and 9 of the *Regulatory Reporting* Part of the *PRA* Rulebook exceeds £10bn;

(2) the average of the *firm's safe custody assets* it was required to report for ~~in~~ the previous 36 months in accordance with SUP 16.14 of the *FCA Handbook* as amended from time to time exceeds £10bn; or

(3) the average total amount of received sight deposits it was required to report for ~~in~~ the previous 36 months in accordance with the *ITS on supervisory reporting*, or that it would have had to report if the *ITS on supervisory reporting* had been in force, exceeds £350m.

…

1.5 In this Part, the following definitions shall apply:

core business lines

means business lines and associated services which represent material sources of revenue, profit or franchise value for a *firm* or for its *group*.

~~*critical functions*~~

~~has the meaning in section 3(1) and (2) of the Banking Act 2009.~~

critical services

means activities, functions or services performed for one or more business units of the *firm* or for the *firm* and another member of its *group*, whether by the *firm* itself, any other *group* member or a person outside the *firm's group*, the failure of which would lead to the collapse of or present a serious impediment to the performance of the *firm's critical functions* or *core business lines*.

CSD

has the meaning given in Article 2(1)(1) of *CSDR*.

CSDR

means Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

excluded agreement

means a contract or other agreement for the provision of *critical services* to a *firm*:

(1) which is governed by the laws of any part of the *United Kingdom*;

(2) the parties to which are incorporated in, or formed under the law of any part of, the *United Kingdom*; and

(3) the parties to which belong to the same *resolution group*.

excluded person

means a *payment system*, *CSD*, *third-country CSD*, *SSS* or *central counterparty*.

group provider

in relation to a *firm*, means:

(1) a member of its *group* that provides *critical services* to it; or

(2) the *firm* itself if one of its business units provides *critical services* to it.

ITS on supervisory reporting

Commission Implementing Regulation (EU) No 680/2014 as amended by Commission Implementing Regulation (EU) No 2016/313 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

payment system

has the meaning given in section 182 of the Banking Act 2009.

resolution group

has the meaning given in section 3(1) of the Banking Act 2009.

safe custody asset

has the meaning in the *FCA Handbook* as amended from time to time.

~~*ITS on supervisory reporting*~~

~~Commission Implementing Regulation (EU) No 680/2014 as amended by Commission Implementing Regulation (EU) No 2016/313 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.~~

SSS

has the meaning given in Article 2(1)(10A) of *CSDR*.

third-country CSD

has the meaning given in Article 2(1)(2) of *CSDR*.

2 FACILITATION OF EFFECTIVE RECOVERY AND RESOLUTION PLANNING

…

2.3 A *firm's* operational and financial arrangements must ensure the continuity of the *critical services* it receives in the event of:

(1) circumstances in which all or part of the business of any other member of its *group* is likely to fail; or

(2) the failure of all or part of the business of any other member of its *group*.

3 DETAILS OF OPERATIONAL CONTINUITY ARRANGEMENTS

3.1 ~~If a *firm* receives critical services from one of its business units, it must document~~ A *firm* must:

(1) identify and document the details of the *critical services* it receives and details of the *critical services* required to deliver each of its *critical functions* and *core business lines*; and

(2) be able to demonstrate it can put in place ~~the~~ transition arrangements for the continuity of the ~~these~~ *critical services* it receives in the event of the *firm* being restructured or resolved.

3.2 Subject to 3.2A, if ~~If~~ a *firm* receives *critical services* from another party, it must ensure the agreement governing the provision of these services:

(1) does not permit the other party to terminate, suspend or materially alter the services or facilities or the agreement as a result of the deterioration in the financial circumstances or the resolution of the *firm* or any of its *group* members; and

(2) entitles the *firm* to continue to receive those services during the *firm's* resolution or restructuring as long as the *firm* fulfils its payment obligations under the agreement.

3.2A 3.2 does not apply in respect of an *excluded agreement* or an agreement entered into by a *firm* with an *excluded person.*

3.3 ~~A~~ If a *firm* receives *critical services* from another party, it must ensure that the agreement governing the provision of those *critical services* is ~~charging structure for the critical services it receives is predictable, transparent and~~ set on arm's length terms.

3.3A A *firm* must ensure that the charging structure for the *critical services* it receives is predictable and transparent.

…

4 GROUP ARRANGEMENTS FOR OPERATIONAL CONTINUITY

…

4.3 A *firm* must ensure that in the event of the deterioration in the financial circumstances of another *group* member the *group provider* continues to provide ~~the~~ *critical services* to the *firm* in accordance with the agreement governing the *critical services* provision or the documentation and transition required under 3.1.

EXTERNALLY DEFINED TERMS

Term	Definition source
group	Section 421, Financial Services and Markets Act 2000

PRA RULEBOOK: PRA FEES AMENDMENT (No 2) INSTRUMENT 2021

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 purposes of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

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

PRA Rulebook: PRA Fees Amendment (No 2) Instrument 2021

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

Commencement

E. This instrument comes into force on 8 July 2021.

Citation

F. This instrument may be cited as the PRA Rulebook: PRA Fees Amendment (No 2) Instrument 2021.

By order of the Prudential Regulation Committee

29 June 2021

Annex

Amendment to the Fees 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:

…

~~*assets outside expected RFB subgroups*~~

~~means assets of a *ring-fencing fees group* which it has advised the *PRA* are not intended to be held by a *ring-fenced body* (or its *UK* sub-group for *ring-fencing* purposes) from 1 January 2019.~~

…

cross border services

~~means:~~

~~(1) for a *former incoming EEA firm* or a *former incoming Treaty firm*, services provided within the *UK* prior to *IP completion day* under the freedom to provide services and subsequently under any legislative provision which replaces it;~~

~~(2)~~ means for *Gibraltar-based firms*, services provided under an entitlement conferred by the Financial Services and Markets Act 2000 (Gibraltar) Order 2001 in the *United Kingdom* without using a physical presence there to offer or provide those services.

…

~~*EU withdrawal costs*~~

~~means the *PRA*'s costs associated with the *United Kingdom*'s withdrawal from the European Union, as determined by the *PRA*.~~

~~*EU withdrawal costs fee block*~~

~~means the *firms* which are liable to pay *EU withdrawal costs* as shown in Table VI of the *Periodic Fees Schedule*.~~

…

~~*former incoming EEA firm*~~

~~means a *person* who immediately before *IP completion day* was authorised to carry on a *regulated activity* by virtue of section 31(1)(b) of *FSMA*.~~

~~*former incoming Treaty firm*~~

~~means a *person* who immediately before *IP completion day* was authorised to carry on a *regulated activity* by virtue of section 31(1)(c) of *FSMA*.~~

…

~~*ring-fencing fees group*~~

~~means a banking group, or part of a banking group, which does not meet the *core deposit* level condition in Article 12 of the *FSMA* (Ring-fenced Bodies and Core Activities)~~

~~Order 2014 and does not fall within the exemptions set out in Article 11 of the *FSMA* (Ring-fenced Bodies and Core Activities) Order 2014.~~

~~*ring-fenced body or RFB*~~

~~has the meaning in Section 142A of *FSMA*.~~

~~*ring-fencing*~~

~~means the *UK ring-fencing* regime as provided for in the Financial Services (Banking Reform) Act 2013, including statutory instruments and *PRA* rules made pursuant thereto.~~

…

3 PERIODIC FEES

…

Tariff bases, valuation points and the Periodic Fees Schedule

3.3 *Periodic fees* payable by *firms* in any *fee year* will be the sum of the following (so far as applicable to them):

…

(4)[deleted] ~~an *EU withdrawal costs* allocation calculated in accordance with Table VI, subject to any modifications in Table IV and Table V, of the *Periodic Fees Schedule*;~~

(5)[deleted] ~~the *ring-fencing fee*;~~ and

…

Modifications to periodic fees for ~~incoming EEA, Treaty firms~~ *Gibraltar-based firms,* ~~and non-directive~~ *non-directive insurers*~~*firms*~~ and *former freedom of service providers*

3.11 The following modifications to *periodic fees* will apply:

(1) ~~In relation to *former incoming EEA firms* and *former incoming Treaty firms*:~~ [deleted]

~~(a) [deleted.]~~

~~(b) the *tariff rates* set out in Table IIIA of the *Periodic Fees Schedule* only apply to the regulated activities of the *firm* in the *United Kingdom* and the tariffs are modified in accordance with Table IV of the *Periodic Fees Schedule*; and~~

~~(c) the *EU withdrawal costs* allocation in Table VI is modified in accordance with Table IV of the *Periodic Fees Schedule*.~~

~~(d) *firms* having the status of *former incoming EEA firms* and *former incoming Treaty firms* immediately after *IP completion day* shall retain this status for the purposes of this rule (3.11(1)) throughout the 2020-21 *fee year*.~~

…

(3) ~~The *EU withdrawal costs* allocation in Table VI payable by *non-directive firms* in the A1 *deposit acceptors fee block*, A3 *general insurance fee block* and A4 *life insurance fee block* is subject to the modifications in Table V of the *Periodic Fees Schedule*~~ A *former freedom of services provider,* who does not carry on any *PRA regulated activities* from an establishment in the *UK*, shall pay a flat rate *periodic fee* of £600.00.

…

Periodic Fees Schedule - Fee Rates and Modifications ~~for Gibraltar-based Firms and former incoming EEA/Treaty Firms~~ for the Period from 1 March ~~2020~~2021 to 28 February ~~2021~~2022

TABLE IA MINIMUM PERIODIC FEES RATES

Fee payer	Fee payable (£)
Credit unions with *MELs* under £2.0 million:	
With *modified eligible liabilities* of 0 – £0.5 million	80.00
With *modified eligible liabilities* greater than £0.5 million and less than £2.0 million	~~270.00~~ 300.00
Non-directive friendly societies which either: (1) fall within the A3, but not the A4, *fee block* and have, in relation to their A3 activities, *gross written premium for fees purposes* of 0 - £0.5million and *best estimate liabilities for fees purposes* of 0-£1.0million; or (2) fall within the A4, but not the A3, fee block; or (3) fall within both the A3 and A4 *fee blocks* and meet condition (1) above in relation to their A3 activities.	~~215.00~~ 300.00
All other firms	~~500.00~~ 600.00

…

TABLE IIIA – PERIODIC FEE RATES APPLICABLE TO PRA FEE BLOCKS OTHER THAN THE MINIMUM FEE BLOCK FOR THE FEE YEAR ~~2020-21~~ 2021-22

Column 1 ***Fee block***	**Column 2** ***Tariff base***	**Column 3** ***Tariff bands***	**Column 4** ***Tariff rates***
A1 deposit acceptors fee block	***modified eligible liabilities***	**Band width (£million of *MELs*)**	**Fee payable per million or part million of *MELs*(£)**
		>10 - 140	~~33.459~~33.242
		>140 – 630	~~33.459~~33.242
		>630 - 1,580	~~33.459~~33.242
		>1,580 - 13,400	~~41.824~~41.553
		> 13,400	~~55.207~~54.849
A3 general insurers fee block ***gross written premium for fees purposes, best***	***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* (£)**

estimate liabilities for fees purposes		>0.5	~~595.90~~532.32
	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	~~40.97~~29.26
		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 ***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	~~217.84~~288.61
	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	~~15.81~~16.50
A5 managing agents at Lloyd's	***active capacity***	**Band width (£million of active capacity)**	**Fee payable per million of *active capacity* (£)**
		>50	~~50.55~~49.02
A6 Society of Lloyd's	**flat fee**	N/A	General periodic fee (£) ~~1,975,132.27~~ 2,149,488.89
A10 Firms dealing as principal fee block ***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	~~2.48~~ 2.36
	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	~~381.05~~356.23

TABLE IV – MODIFICATIONS TO PERIODIC FEES FOR GIBRALTAR-BASED FIRMS~~, FORMER INCOMING EEA FIRMS AND FORMER INCOMING TREATY FIRMS WITH BRANCHES IN THE UK~~

Fee payer	**Discount applied to *periodic fees***
A1 deposit acceptors fee block	50%
A3 general insurers fee block	90%
A4 life insurers fee block	90%
[deleted.]	[deleted.]
***~~Former incoming EEA firms, former incoming Treaty firms~~* ~~and~~ *Gibraltar-based firms* offering *cross border services* only**	100%

…

TABLE V – MODIFICATIONS TO PERIODIC FEES FOR NON-DIRECTIVE FIRMS IN THE A1 AND A3 FEE BLOCKS

Fee payer	**Discount applied to *periodic fees* in Table IIIA**	**~~Discount applied to *EU withdrawal costs fee block*~~ [deleted]**
A1 deposit acceptors fee block	0%	~~50%~~[deleted]
A3 general insurers fee block	11%	~~50%~~[deleted]
[deleted.]	[deleted.]	[deleted]

TABLE VI – EU WITHDRAWAL COSTS ALLOCATION [deleted]

~~**Fee payer**~~	~~**Tariff base for allocations to firms**~~
~~All *firms*, except those paying only the minimum fee and *insurance special purpose vehicles*~~	~~Total *periodic fees* under 3.3(3) payable by the *firm* multiplied by 0.044588~~

…

4 REGULATORY TRANSACTION FEES

…

Regulatory transaction fees for new authorisations

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	£
Straightforward: A3 or A4 *fee payer* which is a *friendly society* or a *fee payer* which is an A1 *credit union*	~~750.00~~ <u>1,500.00</u>
Moderately complex: A3 *fee payer* seeking permission as a UK *insurance special purpose vehicle* A5 *fee payer* seeking permission as a *managing agent* at Lloyd's	~~2,500.00~~<u>5,000.00</u>
Complex: A1 *fee payer* (other than a *credit union*) seeking permission to accept deposits or operate dormant accounts A3 *fee payer* (other than a *friendly society* or *UK insurance special purpose vehicle*) A4 *fee payer* other than a *friendly society*	~~12,500.00~~ <u>25,000.00</u>

…

Variations of Part 4A permission and FCA authorised firms applying to carry on PRA regulated activity

4.7

…

(3) Subject to paragraph (4), where a fee-payer or *FCA* authorised firm seeks to vary its existing Part 4A permission to:

(a) include a *PRA regulated activity*, or

(b) include, in relation to a *PRA regulated activity*, the activity of providing services to retail clients,

the fee payable shall be £~~12,500~~25,000.00

(4) In a case where the *fee-payer* or *FCA* authorised firm seeks to vary its existing *Part 4A permission* to include a *PRA regulated activity* described in:

(a) *fee block* A1 in respect of a *credit union* or *fee block* A3 in respect of a *friendly society*, it shall be ~~£750~~£1,500.00;

(b) *fee block* A3 in respect of an *ISPV* or *friendly society* or *fee block* A5 in respect of a Lloyd's *managing agent*, it shall be ~~£2,500~~£5,000.00.

PRA RULEBOOK: CRR FIRMS: REMUNERATION INSTRUMENT 2021

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 137H (General rules about remuneration);
(3) section 137T (General supplementary powers);
(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.

Pre-conditions to making

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

D. In accordance with sections 144C(3) and 144E of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C(4) of the Act.

PRA Rulebook: PRA RULEBOOK: CRR FIRMS: REMUNERATION INSTRUMENT 2021

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

Commencement

F. This instrument comes into force on 23 July 2021.

Citation

G. This instrument may be cited as the PRA Rulebook: CRR Firms: Remuneration Instrument 2021.

By order of the Prudential Regulation Committee

20 July 2021

Annex

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:

…

higher paid material risk taker

means a ~~material risk taker~~*material risk taker*:

(a) whose annual variable *remuneration* exceeds 33% of their total *remuneration*, ~~and~~or

(b) whose total *remuneration* exceeds £500,000.

…

2. APPLICATION DATES AND TRANSITIONAL PROVISIONS

…

2.5 ~~A~~Subject to 2.7 and 2.8 a *firm* must apply this Part to *remuneration* awarded in respect of a performance year starting on or after 29 December 2020.

…

2.7 Subject to 2.8, for *remuneration* awarded in respect of a performance year starting on or after 29 December 2020 a *firm* must apply this Part in accordance with the definition of *higher paid material risk taker* in 1.3.

2.8 For *remuneration* awarded in respect of the first performance year starting on or after 29 December 2020, and where:

(1) the *remuneration* has been paid or vested before 23 July 2021, or

(2) the *firm* has before 23 July 2021 created an obligation to pay or vest the *remuneration* before 23 July 2021

a *firm* may instead apply this Part to that *remuneration* on the basis of the definition of *higher paid material risk taker* which was set out in 1.3 on the earlier of:

(a) the date the *remuneration* was paid or vested; or

(b) the date the *firm* has created the obligation to pay the *remuneration* or for the *remuneration* to vest.

…

PRA RULEBOOK: [CRR FIRMS] PRA (RULES APPLYING TO HOLDING COMPANIES) INSTRUMENT 2021

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 192XA (Rules applying to holding companies); and

(4) section 192XB (Procedural provision).

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

Pre-conditions to making

C. In accordance with sections 144C(3) of the Act the PRA has consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C(4) of the Act.

D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority.

E. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

F. No representations were made pursuant to D or E above.

PRA Rulebook: PRA (Rules applying to holding companies) Instrument 2021

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

Annex	Title
A	Amendments to the Glossary Part
B	Amendments to the Capital Buffers Part
C	Amendments to the Counterparty Credit Risk Part
D	Amendments to the Credit Risk Part
E	Amendments to the Definition of Capital Part
F	Amendments to the Groups Part
G	Amendments to the Interpretation Part
H	Amendments to the Large Exposures Part
I	Amendments to the Liquidity Coverage Requirement - UK Designated Investment Firms Part

J	Amendments to the Market Risk Part
K	Amendments to the Notifications Part
L	Amendments to the Permissions Part
M	Amendments to the Record Keeping Part
N	Amendments to the Regulatory Reporting Part
O	Amendments to the Related Party Transaction Risk Part
P	Amendments to the Reporting Pillar 2 Part
Q	Amendments to the Use of Skilled Persons Part

Commencement

H. This instrument comes into force on 17 September 2021 except rule 4.1 in Annex F (Groups) which comes into force on 1 January 2022.

Citation

I. This instrument may be cited as the PRA Rulebook: PRA (Rules applying to holding companies) Instrument 2021.

By order of the Prudential Regulation Committee

6 September 2021

Annex A

Amendments to the Glossary

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

…

C*RR consolidation entity*

means the *PRA approved parent holding company*, the *PRA designated parent holding company* or the *PRA designated institution* or where there is not one for the group concerned, the *UK parent institution* for that group.

…

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

1.1 This Part~~, save for Chapter 4,~~ applies to *Article 109 undertakings* and references to a *firm* in Chapters 2-~~3~~4 should, as appropriate, be read to include all *Article 109 undertakings*.

1.1A [deleted.]~~Chapter 4 applies to every *firm* that is a *CRR firm*.~~

…

Annex C

Amendments to the Counterparty Credit Risk 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) every *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.1A (1) A *firm* must comply with this Part on an individual basis.

(2) A *CRR consolidation entity* must comply with this Part 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*.

…

Annex D

Amendments to the Credit Risk 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) every *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.1A (1) A *firm* must comply with this Part on an individual basis.

(2) A *CRR consolidation entity* must comply with this Part 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*.

…

Annex E

Amendments to the Definition of Capital Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

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

(2) a *CRR consolidation entity*.

1.1A (1) A *CRR firm* must comply with this Part on an 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*.

…

7D. FURTHER NOTIFICATONS ETC.

…

7D.3 (1) The Pre/Post Issuance Notification (PIN) Form can be found **here**.

(2) The CET1 Compliance Template can be found **here**.

(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.

Annex F

Amendments to the Groups Part

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

Part

Groups

Chapter content

…

4. SCOPE OF PRUDENTIAL CONSOLIDATION

1 APPLICATION AND DEFINITIONS

1.1 ~~This~~Unless otherwise stated, this Part applies to:

(1) every *firm* that is a *CRR firm*~~.~~; and

(2) a *CRR consolidation entity*.

2 METHODS OF PRUDENTIAL CONSOLIDATION

2.1 (1) In carrying out the calculations in ~~(~~Part One, Title II, Chapter 2 of the *CRR*~~)~~ for the purposes of prudential consolidation, a *CRR consolidation entity*~~*firm*~~ must include the relevant proportion of an undertaking with whom it has:

(a) a *common management relationship*; or

(b) an *Article 18(6) relationship*.

(2) In 2.1(1), the relevant proportion is such proportion (if any) as stated in a requirement imposed on the *CRR consolidation entity*~~*firm*~~ in accordance with section 55M of *FSMA* or section 192C of *FSMA*, as the case may be.

2.2 In carrying out the calculations in Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *CRR consolidation entity*~~*firm*~~ (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.

2.3 In carrying out the calculations in Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *CRR consolidation entity*~~*firm*~~ 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*.

…

4 SCOPE OF PRUDENTIAL CONSOLIDATION

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*.

Annex G

Amendments to the Interpretation Part

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

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to:

(1) a *firm*;

(2) a ~~qualifying parent undertaking as defined in section 192B of *FSMA*~~<u>*qualifying parent undertaking*</u>; ~~and~~

(3) a ~~body corporate~~<u>*body corporate*</u> falling within section 192JA(2) of *FSMA*<u>;</u>

<u>(4) a *PRA approved parent holding company*; and</u>

<u>(5) a *PRA designated parent holding company*</u>.

…

Annex H

Amendments to the Large Exposures 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) every *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.1A (1) a *firm* must comply with this Part on an individual basis.

(2) a *CRR consolidation entity* must comply with this Part 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*.

…

Annex I

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 APPLICATIONS AND DEFINITIONS

1.1 This Part applies to:

(1) every *firm* that is a *UK designated investment firm*; and

(2) a *CRR consolidation entity*.

...

4 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS

…

4.2 A ~~*firm*~~ *CRR consolidation entity* ~~which is a UK parent institution~~ must comply with this Part on the basis of its *consolidated situation*.

4.3 [deleted]~~A *firm* controlled by a *UK parent financial holding* company or by a *UK parent mixed financial holding company* must comply with this Part 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* that is supervised under the *CRD*; and~~

~~(2) the *PRA* is responsible for the supervision of the *UK designated investment firm* on a *consolidated basis*.~~

4.4 If this Part applies to a *firm* or a *CRR consolidation entity* on a *consolidated basis* or on a *sub-consolidated basis*,~~the *firm*~~ 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.*

Annex J

Amendments to the Market Risk Part

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

1 APPLICATION AND DEFINTIONS

1.1 This Part applies to:

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

(2) a *CRR consolidation entity*.

1.1A (1) a *firm* must comply with this Part on an individual basis.

(2) a *CRR consolidation entity* must comply with this Part 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*.

…

Annex K

Amendments to the Notifications Part

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

1 APPLICATION AND DEFINTIONS

…

1.1A (1) Chapter 5 of this Part shall apply to a *CRR consolidation entity* and for this purpose references to a *firm* in this Part mean a *CRR consolidation entity*.

(2) Chapter 2, rule 2.3(4), shall also apply to a *CRR consolidation entity*.

…

2 GENERAL NOTIFICATION REQUIREMENTS

…

2.3 A *firm* must give the *PRA* notice of:

…

(3) any action which a *firm* proposes to take which would result in a material change in its capital adequacy or solvency, including, but not limited to:

…

(c) [deleted] ~~for *firms* which are subject to consolidated financial supervision, any proposal under which another *group* member may be considering such an action; or~~

…

2.3A A *CRR consolidation entity* must give the *PRA* notice of any action which a *CRR consolidation entity* or other group member proposes to take which would result in a material change in the group's capital adequacy or solvency, including, but not limited to:

(a) any action which would result in a material change in the group's financial resources or financial resources requirement;

(b) a material change resulting from the payment of a special or unusual dividend or the repayment of share capital or a subordinated loan; or

(c) significant trading or non-trading losses of the group (whether recognised or unrecognised).

…

Annex L

Amendments to the Permissions 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) every *firm* that is a *CRR firm*; and

(2) a *CRR consolidation entity*.

1.1A A *CRR consolidation entity* must comply with this Part in respect of a *CRR permission* that applies 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*.

…

Annex M

Amendments to the Record Keeping 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 *CRR firm*, and a *CRR consolidation entity*:

…

1.1B (1) A *firm* must comply with this Part on an 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*.

…

Annex N

Amendments to the Regulatory Reporting Part

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

1 APPLICATIONS AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

(1) every *firm* permitted to carry on the *regulated activities* listed in column (1) of the table in 6.1; and

(2) a *CRR consolidation entity*.

1.1A Where this Part requires a *data item* to be submitted on a *consolidated* or *sub-consolidated basis* the *CRR consolidation entity* must comply with it on that basis and for this purpose, references to a *firm* in this Part, other than in 1.1(1), mean a *CRR consolidation entity*.

…

Annex O

Amendments to the Related Party Transaction Risk 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 *UK bank*;

(2) a *building society*; ~~and~~

(3) an *overseas firm* that:

(a) [deleted.]

(b) has a *Part 4A permission* that includes permission to carry out *accepting deposits*~~.~~; and

(4) a *CRR consolidation entity* as if it were a *firm*.

Annex P

Amendments to the Reporting Pillar 2 Part

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

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

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

(2) a *CRR consolidation entity*.

…

1.4 [deleted.] A *firm* which is a *UK parent institution* must comply with this Part on a *consolidated basis.*

1.5 [deleted.] A *firm* controlled by a *UK parent financial holding company* or a *UK parent mixed financial holding company* must comply with this Part 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.*

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.*

…

Annex Q

Amendments to the Use of Skilled Persons 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) all *firms*; and

(2) a *CRR consolidation entity* as if it were a *firm*.

…

PRA RULEBOOK: CRR FIRMS: CRR 2 REVOCATIONS AND OTHER AMENDMENTS INSTRUMENT 2021

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) and (2) (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.

C. The PRA makes the direction set out in 4.2 of Annex H (Permissions part) under Regulation 40(2)(a) of the Capital Requirements Regulations 2013.

Pre-conditions to making

D. In accordance with sections 144C (3) the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C (4) of the Act.

E. In accordance with section 138J(1)(a) of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.

F. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

G. The PRA had regard to representations made.

PRA Rulebook: CRR Firms: CRR 2 Revocations and Other Amendments Instrument 2021

H. The PRA makes the amendments to PRA rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Interpretation	B
Capital Buffers	C
Counterparty Credit Risk	D
Groups	E
Internal Capital Adequacy Assessment	F

Large Exposures	G
Permissions	H
Regulatory Reporting	I
Further amendments to the Regulatory Reporting Part	J

Commencement

I. This instrument comes into force on 1 January 2022.

Citation

J. This instrument may be cited as the PRA Rulebook: CRR Firms: CRR2 Revocations and Other Amendments Instrument 2021.

By order of the Prudential Regulation Committee

5 October 2021

Annex A

Amendments to the Glossary

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

…

CRR rules

has the same meaning as in section 144A of *FSMA*.

…

G-SII

has the meaning it has in Article 4(1)(133) of the *CRR*.

…

non-UK G-SII

has the meaning it has in Article 4(1)(134) of the *CRR*.

…

O-SII

means a *person* or group identified by the *PRA* in accordance with Part 5 of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894).

…

~~*Supervisory Reporting ITS*~~

~~means Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council, as amended from time to time.~~

…

Tier 1 capital

has the meaning it has in Article 25 of the *CRR*.

Annex B

Amendments to the Interpretation Part

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

…

2 INTERPRETATIVE PROVISIONS

…

2.7 Unless the context otherwise requires, any reference in these rules to:

(1) any provision of *direct EU legislation,* is a reference to it as it has effect as *retained direct EU legislation* on IP completion day;

…

2.9 (1) Unless the contrary intention appears any reference in these rules to any provision of:

(a) *CRR* or an instrument made under *CRR* which took effect as *direct EU legislation* on *IP completion day* shall:

(i) where that provision has been revoked pursuant to section 3 of the Financial Services Act 2021, be a reference to the corresponding provision in the rules, and for this purpose whether a rule corresponds to a revoked provision is to be determined by reference to the document, as that document is updated from time to time, published by the *PRA* under section 5(4) of that Act; and

(ii) where that provision has not been so revoked, be a reference, subject to paragraph (2) below, to that provision as it had effect as *direct EU legislation* on *IP completion day*.

(b) Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, shall, where that provision did not take effect as *direct EU legislation* on *IP completion day*, but has been transposed, with or without modification, into *CRR rules*, be a reference to that transposed provision in the rules.

(2) Unless the contrary intention appears any reference in *CRR rules* or rules made under section 192XA *FSMA* to a provision of *CRR* or an instrument made under *CRR* is a reference to that provision as amended from time to time.

2.10 (1) Subject to paragraph (3), *CRR restatement provisions* shall apply as their corresponding provisions would have applied in accordance with the direction made by the Prudential Regulation Authority on 28 December 2020 under Part 7 of the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 (including any limitation on the duration of the direction).

(2) In this rule the reference to:

(a) a *CRR restatement provision* is a reference to a *CRR restatement provision* within the meaning of section 144E (2) of *FSMA*;

(b) a corresponding provision means the provision revoked under section 3(1) of the Financial Services Act 2021 which corresponds to the provision of the *CRR restatement provision* as determined by reference to the document published under section 5(4) of that Act, as that document is updated from time to time.

(3) This rule shall not apply to *CRR restatement provisions* in the Liquidity (CRR) Part, the Liquidity Coverage Ratio (CRR) Part and, insofar as the provision relates to the reporting or disclosure of liquidity, the Reporting (CRR) Part or Disclosure (CRR) Part of the *PRA* Rulebook.

2.11 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* 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.

2.12 Nothing in the *CRR*, or in an instrument made under the *CRR*, shall prevent or otherwise restrict, expressly or impliedly, the making of:

(1) a *CRR rule* to the extent it makes provision about a matter described in section 144A(3) *FSMA*; or

(2) a rule under section 192XA *FSMA*,

or the exercise of any other power by the *PRA* in relation to any matter on which such a rule may be made, and the *CRR* and the instrument shall be modified accordingly.

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).

Annex C

Amendments to the Capital Buffers Part

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

5 APPLICATION ON AN INDIVIDUAL AND CONSOLIDATION BASIS

…

~~Sub-consolidation in cases of entities in third countries~~

5.5 [deleted.]~~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* responsible for meeting *CRR* requirements on a *sub-consolidated basis* that is a *subsidiary* must apply this Part on a *sub-consolidated basis* if the *firm*, or the parent undertaking where it is a financial holding company or mixed financial holding company, has an *institution* or *financial institution* as a *subsidiary* in a *third country* or holds a *participation* in such an *institution* or *financial institution.*~~

...

Annex D

Amendments to the Counterparty Credit Risk Part

This Part is deleted.

Part

COUNTERPARTY CREDIT RISK [deleted]

Annex E

Amendments to the Groups Part as amended by the Groups Part of the PRA Rulebook: PRA (Rules applying to holding companies) Instrument 2021.

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

…

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.*

2.1 (1) In applying the requirements of~~carrying out the calculations in~~ 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*; or

(b) an *Article 18(6) relationship*.

…

2.2 In applying the requirements of~~carrying out the calculations in~~ 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.

2.3 In applying the requirements of~~carrying out the calculations in~~ 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*.

…

Annex F

Amendments to the Internal Capital Adequacy Assessment Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

…

1.2 In this Part the following definitions shall apply:

…

~~*third country sub-group*~~

~~means a group of *undertakings* identified in Article 22 of the *CRR* which are required to be supervised on a consolidated basis as a result of a requirement under Article 22 of the *CRR*.~~

…

14 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS, A CONSOLIDATED BASIS AND A SUB-CONSOLIDATED BASIS

…

14.5 [deleted.]~~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* responsible for meeting *CRR* requirements on a *sub-consolidated basis* that is a *subsidiary* must apply the *ICAAP rules* on a *sub-consolidated basis* if the *firm*, or the *parent undertaking* where it is a *financial holding company* or *mixed financial holding company*, have an *institution* or *financial institution* or an *asset management company* as a *subsidiary* in a *third country* or holds a *participation* in such an *undertaking*.~~

~~[Note: Art 108(4) of the *CRD*]~~

…

15 REVERSE STRESS TESTING

…

15.3 Where the *firm* is a member of~~:~~

~~(1)~~ a *UK consolidation group*~~; or~~

~~(2) a *third country sub-group*;~~

it must conduct the reverse stress test on an individual basis as well as on a *consolidated basis* in relation to the *UK consolidation group* ~~or *the third country sub-group*, as the case may be~~.

…

Annex G

Amendments to the Large Exposures Part

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

1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

exposure

~~has the meaning given to it in Article 389 of the *CRR*.~~ has the meaning it has in the Large Exposures (CRR) Part.

...

~~*G-SII*~~

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

…

NCLEG non-trading book permission

means a permission given by the *PRA* ~~in respect of Article 400(2)(c) of the *CRR*~~ to apply the *NCLEG non-trading book exemption* under one of the following:

(a) prior to *IP completion day*, Article 400(2)(c) of Regulation of the European Parliament and of the Council (575/2013/EU) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;

(b) from *IP completion day* to 31 December 2021, Article 400(2)(c) of the *CRR*; or

(c) on or after 1 January 2022, Article 400(2)(c) of the Large Exposures (CRR) Part.

NCLEG trading book permission

means a permission given by the *PRA* ~~in respect of Article 400(2)(c) of the *CRR*~~ to apply the *NCLEG trading book exemption* under one of the following:

(a) prior to *IP completion day*, Article 400(2)(c) of Regulation of the European Parliament and of the Council (575/2013/EU) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;

(b) from *IP completion day* to 31 December 2021, Article 400(2)(c) of the *CRR*; or

(c) on or after 1 January 2022, Article 400(2)(c) of the Large Exposures (CRR) Part.

…

~~*O-SII*~~

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

…

sovereign large exposures permission

means a permission given by the *PRA* ~~in respect of Article 400(2)(g) or (h) of the *CRR*~~ to apply the *sovereign large exposures exemption* <u>under one of the following:</u>

<u>(a)</u> <u>prior to *IP completion day*, Article 400(2)(g) or (h) of Regulation of the European Parliament and of the Council (575/2013/EU) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;</u>

<u>(b)</u> <u>from *IP completion day* to 31 December 2021, Article 400(2)(g) or (h) of the *CRR*; or</u>

<u>(c)</u> <u>on or after 1 January 2022, Article 400(2)(g) or (h) of the Large Exposures (CRR) Part</u>.

…

2 INTRA-GROUP EXPOSURES: NON-CORE LARGE EXPOSURES GROUP AND RESOLUTION EXEMPTIONS

2.1 …

(2) A *firm* may only use the *NCLEG non-trading book exemption* where the total amount of non-trading book exposures (whether or not exempted from Article 395(1) of the *CRR*) from the *firm* to its *NCLEG* does not exceed 100% of the *firm's* ~~eligible capital~~<u>*Tier 1 capital*</u>.

2.2 …

(2) The *trading book exposure allocation* for a *firm* is 100% of the *firm's* ~~eligible capital~~<u>*Tier 1 capital*</u> less the total amount of non-*trading book exposures* (whether or not exempted from Article 396(1) of the *CRR*) from the *firm* to its *NCLEG*.

…

2.3 (1) A *firm* with a *core UK group permission* and an *NCLEG trading book permission* and/or an *NCLEG non-trading book permission* must give the *PRA* written notice whenever the *firm*:

(a) …;

(b) becomes aware that the total amount of *exposures* from the *core UK group* (including the *firm*) to a particular member of the *firm's NCLEG* are likely to exceed, or have exceeded, 25% of the ~~eligible capital~~<u>*Tier 1 capital*</u> of the ~~PRA-regulated~~<u>*PRA*-regulated</u> *firm* with the largest ~~eligible capital~~<u>*Tier 1 capital*</u> base in the *core UK group*;

(c) becomes aware that the total exposures from members of its *core UK group* (which are not *firms*) to the *firm's NCLEG* are likely to exceed, or have exceeded<u>,</u> 25% of the ~~*eligible capital*~~<u>*Tier 1 capital*</u> of the ~~PRA-~~

~~regulated~~*PRA*-regulated *firm* with the largest ~~*eligible capital*~~*Tier 1 capital* base in the *core UK group*.

3 SOVEREIGN LARGE EXPOSURES EXEMPTION

3.1 (1) If a *firm* has a *sovereign large exposures permission*, the *exposures* specified in that permission are exempt from Article 395(1) of the *CRR* to the extent specified in that permission.

(2) For the purposes of the *sovereign large exposures permission*, and in relation to a *firm*, the *exposures* referred to in (1) are limited to the following:

(a) asset items constituting claims on *central banks* in the form of required minimum reserves held at those *central banks* which are denominated in their national currencies; and

(b) asset items constituting claims on central governments in the form of statutory liquidity requirements held in government securities which are denominated and funded in their national currencies provided that~~, at the discretion of the *PRA*,~~ the credit assessment of those central governments assigned by a *nominated ECAI* is investment grade.

…

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

…

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

…

(3) The *firm* has an *exposure* meeting the condition in (2) which is greater than 5% of its ~~eligible capital~~*Tier 1 capital*, after taking into account the effect of the credit risk mitigation techniques and exemptions in accordance with Article 399 to 403 of the *CRR*.

Reduced limit on exposures

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

Annex H

Amendments to the Permissions Part

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

Part

Permissions

Chapter content

4. PERMISSIONS PURSUANT TO SECTION 144G OR SECTION 192XC OF FSMA

…

4. PERMISSIONS PURSUANT TO SECTION 144G OR SECTION 192XC OF FSMA

4.1 Chapter 4 of this Part applies to the giving of a permission by the *PRA* pursuant to section 144G or section 192XC of *FSMA*.

4.2 The *PRA* directs that an application for a permission referred to in 4.1 must be made in writing to the *PRA*.

4.3 The application must be accompanied by such information and documents as are necessary to demonstrate how the conditions contained in the relevant rule have been satisfied.

4.4 Where a person has applied for or has been granted a permission, the person must notify the *PRA* immediately on becoming aware of any matter which could affect the continuing relevance or appropriateness of the application, the permission or any condition to which the permission is subject.

Annex I

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*							
…							
~~IRB Portfolio Risk~~ [deleted]	~~FSA045((2), and (11))~~ [deleted]	~~FSA045 ((2), (11)) and (28))~~ [deleted]	~~FSA045 ((2) and (11))~~ [deleted]	-	-	-	-

…

(11) ~~Only applicable to *firms* that have an *CRR permission* to use the *IRB Approach*.~~ [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
...				
~~FSA045~~[deleted]	~~Quarterly~~[deleted]		~~Half yearly~~[deleted]	-

...				

…

(9) A firm which has an *individual consolidation permission* must submit *data items* FSA005, FSA011, FSA015, FSA017, FSA045, Templates 1.1, 1.2, 1.3, 2, 3, 4.3.1, 4.4.1, 5.1, 7.1, 9.1.1, 12.1, 12.2, 13.1, 18, 19, 20.4, 20.7, 23.1, 23.2, 23.3, 23.4, 23.5, 23.6, 24.1, 24.2, 24.3, 25.1, 25.2, 25.3, 26 and 47 at Annex III or IV of the *Supervisory Reporting ITS*, 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
...						
FSA045[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)
…	
IRB portfolio risk [deleted]	FSA045 (15) [deleted]
…	

…

(15) Only applicable to *firms* that have a *CRR permission* to use the *IRB Approach*. [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.

***RAG* 3**	
Data item	Reporting frequency

…	
~~FSA045~~ [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
…						
~~FSA045~~ [deleted]	~~-~~	~~-~~	~~-~~	~~20 *business days*~~ [deleted]	~~30 *business days* (1); 45 *business days* (2)~~ [deleted]	
…						

16 DATA ITEMS AND OTHER FORMS

…

16.14 ~~FSA045 can be found *here*.~~ [deleted]

…

16.26 PRA101 can be found ~~here~~here.

16.27 PRA102 can be found ~~here~~here.

16.28 PRA103 can be found ~~here~~here.

16.29 PRA104 can be found ~~here~~here.

16.30 PRA105 can be found ~~here~~here.

16.31 PRA106 can be found ~~here~~here.

16.32 PRA107 can be found ~~here~~here.

16.33 PRA108 can be found ~~here~~here.

…

16.35 RFB001 can be found ~~here~~here.

…

16.37 RFB003 can be found ~~here~~here.

16.38 RFB004 can be found ~~here~~here.

…

ANNEX K

Further amendments to the Regulatory Reporting Part

In the Regulatory Reporting Part for each reference to "*Supervisory Reporting ITS*" substitute "Chapters 5 and 6 of the Reporting (CRR) Part".

EXTERNALLY DEFINED TERMS

Term	Definition source
CRR rules	Section 144A FSMA
CRR restatement provision	Section 144E(2) FSMA

PRA RULEBOOK (CRR) INSTRUMENT 2021

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);

(4) section 144H(1) and (2) (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.

Pre-conditions to making

C. In accordance with sections 144C(3) and 144E of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C (4) of the Act.

D. In accordance with section 138J(1)(a) of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.

E. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

F. The PRA had regard to representations made.

PRA RULEBOOK (CRR) INSTRUMENT 2021

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

Part	Annex
Own Funds and Eligible Liabilities (CRR)	A
Trading Book (CRR)	B
Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR)	C

Counterparty Credit Risk (CRR)	D
Operational Risk (CRR)	E
Credit Valuation Adjustment Risk (CRR)	F
Large Exposures (CRR)	G
Liquidity (CRR)	H
Liquidity Coverage Ratio (CRR)	I
Reporting (CRR)	J
Disclosure (CRR)	K

Notes

H. 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

I. This instrument comes into force on 1 January 2022.

Citation

J. This instrument may be cited as the PRA Rulebook (CRR) Instrument 2021.

By order of the Prudential Regulation Committee

5 October 2021

ANNEX A

Own Funds and Eligible Liabilities (CRR) Part

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

Part

OWN FUNDS AND ELIGIBLE LIABILITIES (CRR)

Content

1. APPLICATION
2. LEVEL OF APPLICATION
3. OWN FUNDS AND ELIGIBLE LIABILITIES (PART TWO CRR)
   Article 36 DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS
4. RULES SUPPLEMENTING THE CRR WITH REGARDS TO OWN FUNDS REQUIREMENTS (PREVIOUSLY REGULATION (EU) No 241/2014)
   Article 1 SUBJECT MATTER
   Article 13 DEDUCTION OF LOSSES FOR THE CURRENT FINANCIAL YEAR FOR THE PURPOSES OF ARTICLE 36(1)(A) OF 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
   Article 15 DEDUCTION OF DEFINED BENEFIT PENSION FUND ASSETS FOR THE PURPOSES OF ARTICLE 36(1)(E) OF THE CRR AND ARTICLE 41(1)(B) OF THE CRR
   Article 15a INDIRECT HOLDINGS FOR THE PURPOSES OF ARTICLE 36(1)(F), (H) AND (I) OF THE CRR
   Article 15b SYNTHETIC HOLDINGS FOR THE PURPOSES OF ARTICLE 36(1)(F), (H) AND (I) OF THE CRR
   Article 15c CALCULATION OF INDIRECT HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR
   Article 15d DEFAULT APPROACH FOR THE CALCULATION OF INDIRECT HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR

Article 15e	STRUCTURE-BASED APPROACH FOR THE CALCULATION OF INDIRECT HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR
Article 15f	CALCULATION OF SYNTHETIC HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR
Article 15g	CALCULATION OF SIGNIFICANT INVESTMENTS FOR THE PURPOSES OF ARTICLE 36(1)(I) OF THE CRR
Article 15h	HOLDINGS OF ADDITIONAL TIER 1 AND TIER 2
Article 15i	ORDER AND MAXIMUM AMOUNT OF DEDUCTIONS OF INDIRECT HOLDINGS OF OWN FUNDS INSTRUMENTS OF FINANCIAL SECTOR ENTITIES
Article 15j	GOODWILL
Article 16	DEDUCTIONS OF FORESEEABLE TAX CHARGES FOR THE PURPOSES OF ARTICLE 36(1)(L) AND ARTICLE 56(F) OF THE CRR
Article 17	OTHER DEDUCTIONS FOR CAPITAL INSTRUMENTS OF FINANCIAL INSTITUTIONS FOR THE PURPOSES OF ARTICLE 36(3) OF THE CRR
Article 18	CAPITAL INSTRUMENTS OF THIRD COUNTRY INSURANCE AND REINSURANCE UNDERTAKINGS FOR THE PURPOSES OF ARTICLE 36(3) OF THE CRR
Article 19	CAPITAL INSTRUMENTS OF UNDERTAKINGS EXCLUDED FROM THE SCOPE OF DIRECTIVE 2009/138/EC FOR THE PURPOSES OF ARTICLE 36(3) OF THE CRR

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 Title II of Part One (Level of application) of the *CRR* applies to Chapter 3 and 4 of this Part as that Title applies to Part Two (Own funds and eligible liabilities) of the *CRR*.

3 OWN FUNDS AND ELIGIBLE LIABILITIES (PART TWO CRR)

[Note: Articles 25 to 35 remain in the *CRR*]

Article 36 DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS

1. Institutions shall deduct the following from Common Equity Tier 1 items:

(a) losses for the current financial year;

(b) intangible assets;

(c) deferred tax assets that rely on future profitability;

(d) for institutions calculating risk-weighted exposure amounts using the Internal Ratings Based Approach (the IRB Approach), negative amounts resulting from the calculation of expected loss amounts laid down in Articles 158 and 159;

(e) defined benefit pension fund assets on the balance sheet of the institution;

(f) direct, indirect and synthetic holdings by an institution of own Common Equity Tier 1 instruments, including own Common Equity Tier 1 instruments that an institution is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation;

(g) direct, indirect and synthetic holdings of the Common Equity Tier 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the institution that have been designed to inflate artificially the own funds of the institution;

(h) the applicable amount of direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 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 of financial sector entities where the institution has a significant investment in those entities;

(j) the amount of items required to be deducted from Additional Tier 1 items pursuant to Article 56 that exceeds the Additional Tier 1 items of the institution;

(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%:

(i) qualifying holdings outside the financial sector;

(ii) securitisation positions, in accordance with point (b) of Article 244(1), point (b) of Article 245(1) and Article 253;

(iii) free deliveries, in accordance with Article 379(3);

(iv) positions in a basket for which an institution cannot determine the risk weight under the IRB Approach, in accordance with Article 153(8);

(v) equity exposures under an internal models approach, in accordance with Article 155(4);

(l) any tax charge relating to Common Equity Tier 1 items foreseeable at the moment of its calculation, except where the institution suitably adjusts the amount of Common Equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses;

(m) the applicable amount of insufficient coverage for non-performing exposures.

2. [Note: Provision left blank]

3. [Note: Provision left blank]

4. [Note: Provision left blank]

[Note: This rule corresponds to Article 36 of the *CRR* as it applied immediately before revocation by the *Treasury*]

[Note: Articles 37 to 91 remain in the *CRR*]

4. RULES SUPPLEMENTING THE CRR WITH REGARDS TO OWN FUNDS REQUIREMENTS (PREVIOUSLY REGULATION (EU) NO 241/2014)

[Note: Articles A1 and B1 of Part 2 of Regulation (EU) No 241/2014 remain in that regulation]

Article 1 SUBJECT MATTER

This Chapter 4 of the Own Funds and Eligible Liabilities (CRR) Part of the *PRA* Rulebook lays down rules concerning the application of the deductions from Common Equity Tier 1 items and other deductions for Common Equity Tier 1, Additional Tier 1 and Tier 2 items.

[Note: This rule corresponds to Article 1(f) of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*. Article 1(a) to (e) and (h) to (p) of Part 2 of Regulation (EU) No 241/2014 remain in that regulation]

[Note: Articles 2 to 12 of Part 2 of Regulation (EU) No 241/2014 remain in that regulation]

SECTION 3 DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS

Article 13 DEDUCTION OF LOSSES FOR THE CURRENT FINANCIAL YEAR FOR THE PURPOSES OF ARTICLE 36(1)(A) OF THE CRR

1. For the purpose of calculating its Common Equity Tier 1 capital during the year, and irrespective of whether the institution closes its financial accounts at the end of each interim period, the institution shall determine its profit and loss accounts and deduct any resulting losses from Common Equity Tier 1 items as they arise.
2. For the purpose of determining an institution's profit and loss accounts in accordance with paragraph 1, income and expenses shall be determined under the same process and on the basis of the same accounting standards as the one followed for the year-end financial report. Income and expenses shall be prudently estimated and shall be assigned to the interim period in which they incurred so that each interim period bears a reasonable amount of the anticipated annual income and expenses. Material or non-recurrent events shall be considered in full and without delay in the interim period during which they arise.
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*).
4. Paragraphs 1 to 3 shall apply in the same manner to gains and losses included in accumulated other comprehensive income.

[Note: This rule corresponds to Article 13 of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 14 DEDUCTIONS OF DEFERRED TAX ASSETS THAT RELY ON FUTURE PROFITABILITY FOR THE PURPOSES OF ARTICLE 36(1)(C) OF THE CRR

1. The deductions of deferred tax assets that rely on future profitability under Article 36(1)(c) of the *CRR* shall be made according to paragraphs 2 and 3.

2. The offsetting between deferred tax assets and associated deferred tax liabilities shall be done separately for each taxable entity. Associated deferred tax liabilities shall be limited to those that arise from the tax law of the same jurisdiction as the deferred tax assets. For the calculation of deferred tax assets and liabilities at consolidated level, a taxable entity includes any number of entities which are members of the same tax group, fiscal consolidation, fiscal unity or consolidated tax return under applicable law of the *United Kingdom* or of a third country.

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):

   (a) the amount of deferred tax liabilities as recognised under the applicable accounting framework;

   (b) the amount of associated deferred tax liabilities arising from intangible assets and from defined benefit pension fund assets.

[Note: This rule corresponds to Article 14 of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15 DEDUCTION OF DEFINED BENEFIT PENSION FUND 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 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 or the pension beneficiaries each time it would access excess funds in the plan.

[Note: This rule corresponds to Article 15 of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15a INDIRECT HOLDINGS FOR THE PURPOSES OF ARTICLE 36(1)(F), (H) AND (I) OF THE CRR

1. For the purposes of Articles 15c, 15d, 15e and 15i of this Chapter 4 of the Own Funds and Eligible Liabilities (CRR) Part of the *PRA* Rulebook, 'intermediate entity' as referred to in Article 4(1)(114) of the *CRR* comprises any of the following entities that hold capital instruments of financial sector entities:

   (a) a collective investment undertaking;

   (b) a pension fund other than a defined benefit pension fund;

   (c) a defined benefit pension fund, where the institution is supporting the investment risk and where the defined benefit pension fund is not independent from its sponsoring institution;

   (d) entities that are directly or indirectly under the control or under significant influence of one of the following:

   (1) the institution or its subsidiaries;

   (2) the parent undertaking of the institution or the subsidiaries of that parent undertaking;

   (3) the parent financial holding company of the institution or the subsidiaries of that parent financial holding company;

   (4) the parent mixed activity holding company of the institution or the subsidiaries of the parent mixed activity holding company;

   (5) the parent mixed financial holding company of the institution or the subsidiaries of the parent mixed financial holding company;

   (e) entities that are jointly, directly or indirectly, under the control or under significant influence of one institution, several institutions, or a network of institutions, which are members of the same institutional protection scheme, or of the institutional protection scheme or the network of institutions affiliated to a central body that are not organised as a group to which the institution belongs;

   (f) special purpose entities;

   (g) entities whose activity is to hold financial instruments of financial sector entities;

   (h) any other entity that is used with the intention of circumventing the rules relating to the deduction of indirect and synthetic holdings.

2. Without prejudice to point (h) of paragraph 1, an 'intermediate entity' as referred to in Article 4(1)(114) of the *CRR* does not comprise:

   (a) mixed activity holding companies, institutions, insurance undertakings, reinsurance undertakings;

(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;

(c) financial sector entities other than the ones mentioned in point (a), which are supervised and required to deduct direct and indirect holdings of their own capital instruments and holdings of capital instruments of financial sector entities from their regulatory capital.

3. For the purposes of point (c) of paragraph 1, a defined benefit pension fund shall be deemed to be independent from its sponsoring institution where all of the following conditions are met:

(a) the defined benefit pension fund 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, as applicable, have been approved by an independent regulator; or the rules governing the incorporation and functioning of the defined benefit pension fund, as applicable, are established in the applicable law of the relevant country;

(c) the trustees or administrators of the defined pension fund 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 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, 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 referred to in point (b) include restrictions on investments that the defined pension scheme can make in own funds instruments issued by the sponsoring institution.

4. Where a defined benefit pension fund 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.

[Note: This rule corresponds to Article 15a of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15b SYNTHETIC HOLDINGS FOR THE PURPOSES OF ARTICLE 36(1)(F), (H) AND (I) OF THE CRR

1. The following financial products shall be considered synthetic holdings of capital instruments pursuant to points (f), (h) and (i) of Article 36(1) of the *CRR*:

(a) derivative instruments that have capital instruments of a financial sector entity as their underlying or have the financial sector entity as their reference entity;

(b) guarantees or credit protection provided to a third party in respect of the third party's investments in a capital instrument of a financial sector entity.

2. The financial products provided for in paragraph 1 shall include the following:

(a) investments in total return swaps on a capital instrument of a financial sector entity;

(b) call options purchased by the institution on a capital instrument of a financial sector entity;

(c) put options sold by the institution on a capital instrument of a financial sector entity or any other actual or contingent contractual obligation of the institution to purchase its own own funds instruments;

(d) investments in forward purchase agreements on a capital instrument of a financial sector entity.

[Note: This rule corresponds to Article 15b of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15c CALCULATION OF INDIRECT HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR

The amount of indirect holdings to be deducted from Common Equity Tier 1 items as required in points (f), (h) and (i) of Article 36(1) of the *CRR* shall be calculated in one of the following ways:

(a) according to the default approach set out in Article 15d;

(b) with the permission of the competent authority, and subject to the institution demonstrating that the approach used in Article 15d is excessively burdensome, according to the structure-based approach described in Article 15e. The structure-based approach described in Article 15e shall not be used by institutions for calculating the amount of those deductions in relation to investments in intermediate entities referred to in Article 15a(1)(d) and (e).

[Note: This rule corresponds to Article 15c of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

[Note: Article 15c(b) is a permission under section 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

Article 15d DEFAULT APPROACH FOR THE CALCULATION OF INDIRECT HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR

1. The amount of indirect holdings of Common Equity Tier 1 instruments to be deducted as required by points (f), (h) and (i) of Article 36(1) of the *CRR* shall be calculated as follows:

(a) where the exposures of all investors to the intermediate entity rank pari passu, the amount shall be equal to the percentage of funding multiplied by the amount of Common Equity Tier 1 instruments of the financial sector entity held by the intermediate entity;

(b) where the exposures of all investors to the intermediate entity do not rank pari passu, the amount shall be equal to the percentage of funding multiplied with the lower of the following amounts:

(i) the amount of Common Equity Tier 1 instruments of the financial sector entity held by the intermediate entity;

(ii) the institution's exposure to the intermediate entity together with all other funding provided to the intermediate entity that rank pari passu with the institution's exposure.

2. The calculation method set out in point (b) of paragraph 1 shall be made for each tranche of funding that ranks pari passu with the funding provided by the institution.

3. The percentage of funding for the purposes of paragraph 1 shall be the institution's exposure to the intermediate entity divided by the sum of the institution's exposure to the intermediate entity and of all other exposures to this intermediate entity that rank pari passu with the institution's exposure.

4. The calculation laid down in paragraph 1 shall be made separately for each holding in a financial sector entity held by each intermediate entity.

5. Where investments in Common Equity Tier 1 instruments of a financial sector entity are held indirectly through subsequent or several intermediate entities, the percentage of funding set out in paragraph 1 shall be determined by dividing the amount referred to in point (a) of this paragraph by the amount referred to in point (b) of this paragraph:

(a) the result of the multiplication of amounts of funding provided by the institution to intermediate entities, by the amounts of funding provided by these intermediate entities to subsequent intermediate entities, and by amounts of funding provided by these subsequent intermediate entities to the financial sector entity;

(b) the result of the multiplication of amounts of capital instruments or other instruments as relevant, issued by each intermediate entity.

6. The percentage of funding referred to in paragraph 5 shall be calculated separately for each holding in a financial sector entity held by intermediate entities and for each tranche of funding that ranks pari passu with the funding provided by the institution and the subsequent intermediate entities.

[Note: This rule corresponds to Article 15d of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15e STRUCTURE-BASED APPROACH FOR THE CALCULATION OF INDIRECT HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR

1. The amount to be deducted from Common Equity Tier 1 items referred to in point (f) of Article 36(1) of the *CRR* shall be equal to the percentage of funding, as defined in Article 15d(3) of this Chapter 4 of the Own Funds and Eligible Liabilities (CRR) Part of the *PRA* Rulebook, multiplied by the amount of Common Equity Tier 1 instruments of the institution held by the intermediate entity.

2. The amount to be deducted from Common Equity Tier 1 items referred to in points (h) and (i) of Article 36(1) of the *CRR* shall be equal to the percentage of funding, as defined in Article 15d(3) of this Chapter 4 of the Own Funds and Eligible Liabilities (CRR) Part of the *PRA* Rulebook, multiplied by the aggregate amount of Common Equity Tier 1 instruments of financial sector entities held by the intermediate entity.

3. For the purposes of paragraphs 1 and 2, an institution shall calculate separately per intermediate entity the aggregate amount of Common Equity Tier 1 instruments of the institution that the intermediate entity holds and the aggregate amount of Common Equity Tier 1 instruments of other financial sector entities that the intermediate entity holds.

4. The institution shall consider the amount of holdings in Common Equity Tier 1 instruments of financial sector entities calculated in accordance with paragraph 2 of this Article as a significant investment referred to in Article 43 of the *CRR* and shall deduct the amount in accordance with point (i) of Article 36(1) of the *CRR*.

5. Where investments in Common Equity Tier 1 instruments are held indirectly through subsequent or several intermediate entities, paragraphs 5 and 6 of Article 15d shall apply.

6. Where an institution is not able to identify the aggregate amounts that the intermediate entity holds in Common Equity Tier 1 instruments of the institution or in Common Equity Tier 1 instruments of financial sector entities, the institution shall estimate the amounts it cannot identify by using the maximum amounts that the intermediate entity is able to hold on the basis of its investment mandates.

7. Where the institution is not able to determine, on the basis of the investment mandate, the maximum amount that the intermediate entity holds in Common Equity Tier 1 instruments of the institution or in Common Equity Tier 1 instruments of financial sector entities, the institution shall treat the amount of funding that it holds in the intermediate entity as an investment in its own Common Equity Tier 1 instruments and shall deduct them in accordance with point (f) of Article 36(1) of the *CRR*.

8. By way of derogation from paragraph 7 of this Article, the institution shall treat the amount of funding that it holds in the intermediate entity as a non-significant investment and shall deduct

them in accordance with point (h) of Article 36(1) of the *CRR*, where all of the following conditions are met:

(a) the amounts of funding are less than 0.25% of the institution's Common Equity Tier 1 capital;

(b) the amounts of funding are less than GBP 8.8 million;

(c) the institution cannot reasonably determine the amounts of its own Common Equity Tier 1 instruments that the intermediate entity holds.

9. Where funding to the intermediate entity is in the form of units or shares of a CIU, the institution may rely on the third parties referred to in Article 132(5) of the *CRR*, and under the conditions set by that Article, to calculate and report the aggregate amounts referred to in paragraph 6 of this Article.

[Note: This rule corresponds to Article 15e of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15f CALCULATION OF SYNTHETIC HOLDINGS FOR THE PURPOSES OF POINTS (F), (H) AND (I) OF ARTICLE 36(1) OF THE CRR

1. The amount of synthetic holdings to be deducted from Common Equity Tier 1 items as required by points (f), (h) and (i) of Article 36(1) of the *CRR* shall be as follows:

(a) for holdings in the trading book:

(i) for options, the delta equivalent amount of the relevant instruments calculated in accordance with Title IV of Part III of the *CRR*;

(ii) for any other synthetic holdings, the nominal or notional amount, as applicable;

(b) for holdings in the non-trading book:

(i) for call options, the current market value;

(ii) for any other synthetic holdings, the nominal or notional amount, as applicable.

2. An institution shall deduct the synthetic holdings referred to in paragraph 1 from the date of signature of the contract between the institution and the counterparty.

[Note: This rule corresponds to Article 15f of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15g CALCULATION OF SIGNIFICANT INVESTMENTS FOR THE PURPOSES OF ARTICLE 36(1)(I) OF THE CRR

1. For the purposes of Article 36(1)(i) of the *CRR*, in order to assess whether an institution owns more than 10% of the Common Equity Tier 1 instruments issued by a financial sector entity, in accordance with point (a) of Article 43 of the *CRR*, institutions shall add the amounts of their

gross long positions in direct holdings, as well as indirect holdings of Common Equity Tier 1 instruments of this financial sector entity referred to in points (d) to (h) of Article 15a(1) of this Chapter 4 of the Own Funds and Eligible Liabilities (CRR) Part of the *PRA* Rulebook.

2. Indirect and synthetic holdings shall be taken into account in order to assess whether the conditions in points (b) and (c) of Article 43 of the *CRR* are met.

[Note: This rule corresponds to Article 15g of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15h HOLDINGS OF ADDITIONAL TIER 1 AND TIER 2

The methodology referred to in Articles 15a to 15f of this Chapter 4 of the Own Funds and Eligible Liabilities (CRR) Part of the *PRA* Rulebook shall apply mutatis mutandis to Additional Tier 1 holdings for the purposes of points (a), (c) and (d) of Article 56 of the *CRR*, and to Tier 2 holdings for the purposes of points (a), (c) and (d) of Article 66 of the *CRR*, where references to Common Equity Tier 1 shall be read as references to Additional Tier 1 or Tier 2, as applicable.

[Note: This rule corresponds to Article 15h of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15i ORDER AND MAXIMUM AMOUNT OF DEDUCTIONS OF INDIRECT HOLDINGS OF OWN FUNDS INSTRUMENTS OF FINANCIAL SECTOR ENTITIES

1. Subject to the limits laid down in paragraphs 2 or 3, as applicable, where the intermediate entity holds Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments of financial sector entities, the Common Equity Tier 1 instruments shall be deducted first, the Additional Tier 1 instruments shall be deducted second, and the Tier 2 instruments last.

2. Where the intermediate entity holds own funds instruments of institutions, when applying paragraph 1 to each type of holding institutions shall deduct the holdings of their own funds instruments first.

3. Where an institution holds capital instruments of financial sector entities indirectly, the amount to be deducted from the institution's own funds shall not be higher than the lower of the following amounts:

   (a) the total funding provided by the institution to the intermediate entity;

   (b) the amount of own funds instruments held by the intermediate entity in the financial sector entity.

[Note: This rule corresponds to Article 15i of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 15j GOODWILL

For the application of deductions referred to in point (h) of Article 36(1) of the *CRR*, institutions may choose not to identify goodwill separately when determining the applicable amount to be deducted according to Article 46 of the *CRR*.

[Note: This rule corresponds to Article 15j of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 16 DEDUCTIONS OF FORESEEABLE TAX CHARGES FOR THE PURPOSES OF ARTICLE 36(1)(L) AND ARTICLE 56(F) OF THE CRR

1. On the condition that the institution applies accounting framework and accounting policies that provide for the full recognition of current and deferred tax liabilities related to transactions and other events recognised in the balance sheet or the profit and loss account, the institution may consider that foreseeable tax charges have been already taken into account.

2. When the institution is calculating its Common Equity Tier 1 capital on the basis of financial statements prepared in accordance with *UK*-adopted international accounting standards, the condition of paragraph 1 is deemed to be fulfilled.

3. Where the condition of paragraph 1 is not fulfilled, the institution shall decrease its Common Equity Tier 1 items by the estimated amount of current and deferred tax charges not yet recognised in the balance sheet and profit and loss account related to transactions and other events recognised in the balance sheet or the profit and loss account. The estimated amount of current and deferred tax charges shall be determined using an approach equivalent to the one provided by *UK*-adopted international accounting standards. The estimated amount of deferred tax charges may not be netted against deferred tax assets that are not recognised in the financial statements.

[Note: This rule corresponds to Article 16 of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

SECTION 4 OTHER DEDUCTIONS FOR COMMON EQUITY TIER 1, ADDITIONAL TIER 1 AND TIER 2 ITEMS

Article 17 OTHER DEDUCTIONS FOR CAPITAL INSTRUMENTS OF FINANCIAL INSTITUTIONS FOR THE PURPOSES OF ARTICLE 36(3) OF THE CRR

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:

    (a) all instruments qualifying as capital under the company law applicable to the financial institution that issued them and, where the financial institution is subject to solvency requirements, which are included in the highest quality Tier of regulatory own funds without any limits shall be deducted from Common Equity Tier 1 items;

(b) all instruments which qualify as capital under the company law applicable to the issuer and, where the financial institution is not subject to solvency requirements, which are perpetual, absorb the first and proportionately greatest share of losses as they occur, rank below all other claims in the event of insolvency and liquidation and have no preferential or predetermined distributions shall be deducted from Common Equity Tier 1 items;

(c) any subordinated instruments absorbing losses on a going-concern basis, including the discretion to cancel coupon payments, shall be deducted from Additional Tier 1 items. Where the amount of these subordinated instruments exceeds the amount of Additional Tier 1 capital, the excess amount shall be deducted from Common Equity Tier 1 capital;

(d) any other subordinated instruments shall be deducted from Tier 2 items. If the amount of these subordinated instruments exceeds the amount of Tier 2 capital, the excess amount shall be deducted from Additional Tier 1 items. Where the amount of Additional Tier 1 capital is insufficient, the remaining excess amount shall be deducted from Common Equity Tier 1 items;

(e) any other instruments included in the financial institution's own funds pursuant to the relevant applicable prudential framework or any other instruments for which the institution is not able to demonstrate that the conditions in points (a), (b), (c) or (d) apply shall be deducted from Common Equity Tier 1 items.

2. In the cases foreseen in paragraph 3, institutions shall apply the deductions as foreseen by the *CRR* for holdings of capital instruments based on a corresponding deduction approach. For the purposes of this paragraph, corresponding deduction approach shall mean an approach that applies the deduction to the same component of capital for which the capital would qualify if it was issued by the institution itself.

3. The deductions referred to in paragraph 1 shall not apply in the following cases:

(a) where the financial institution is authorised and supervised by a competent authority and subject to prudential requirements equivalent to those applied to institutions under the *CRR*. This approach shall be applied to third country financial institutions only where an equivalence assessment of the prudential regime of the third country concerned has been performed under the *CRR* and where it has been concluded that the prudential regime of the third country concerned is at least equivalent to that applied in the *United Kingdom*;

(b) where the financial institution is an authorised electronic money institution as defined in regulation 2(1) of the Electronic Money Regulations 2011;

(c) where the financial institution is an authorised payment institution as defined in regulation 2(1) of the Payment Services Regulations 2017;

(d) where the financial institution is a *UK AIFM* as defined in regulation 2(1) of the Alternative Investment Fund Managers Regulations 2013 or a management company as defined in section 237(2) of *FSMA*.

[Note: This rule corresponds to Article 17 of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 18 CAPITAL INSTRUMENTS OF THIRD COUNTRY INSURANCE AND REINSURANCE UNDERTAKINGS FOR THE PURPOSES OF ARTICLE 36(3) OF THE CRR

1. Holdings of capital instruments of third country insurance and reinsurance undertakings that are subject to a solvency regime that either before *IP completion day*, has been assessed as non-equivalent to that laid down in Title I, Chapter VI of Directive 2009/138/EC according to the procedure set out in Article 227 of that Directive and there has not, in respect of the supervisory regime of that third country, been a later determination of equivalence by the Treasury under Article 379A of the Solvency II Delegated Regulation (EU) 2015/35 or by the *PRA* under regulation 19 of the Solvency 2 Regulations 2015, or that has not been assessed, shall be deducted as follows:

   (a) all instruments which qualify as capital under the company law applicable to the third country insurance and reinsurance undertakings that issued them, and which are included in the highest quality Tier of regulatory own funds without any limits under the third-country regime shall be deducted from Common Equity Tier 1 items;

   (b) any subordinated instruments absorbing losses on a going-concern basis, including the discretion to cancel coupon payments, shall be deducted from Additional Tier 1 items. Where the amount of these subordinated instruments exceeds the amount of Additional Tier 1 capital, the excess amount shall be deducted from Common Equity Tier 1 items;

   (c) any other subordinated instruments shall be deducted from Tier 2 items. Where the amount of these subordinated instruments exceeds the amount of Tier 2 capital, the excess amount shall be deducted from Additional Tier 1 items. Where this excess amount exceeds the amount of Additional Tier 1 capital, the remaining excess amount shall be deducted from Common Equity Tier 1 items;

   (d) for third country insurance and reinsurance undertakings that are subject to prudential solvency requirements, any other instruments included in the third country insurance and reinsurance undertakings' own funds pursuant to the relevant applicable solvency regime or any other instruments for which the institution is not able to demonstrate that conditions (a), (b) or (c) apply shall be deducted from Common Equity Tier 1 items.

2. Where the solvency regime of the third country including rules on own funds, has:

   (a) before *IP completion day*, been assessed as equivalent to that laid down in Title I, Chapter VI of Directive 2009/138/EC according to the procedure set out in Article 227 of that Directive and that assessment has not, on or after *IP completion day*, been revoked by the *Treasury*; or

(b) on or after *IP completion day*, been assessed as equivalent to that laid down in the laws of the *United Kingdom* that implemented Title I, Chapter VI of Directive 2009/138/EC according to the procedure set out in Article 379A of the Solvency II Delegated Regulation (EU) 2015/35, or, where assessed as equivalent by the *PRA* according to the procedure in regulation 19 of the Solvency 2 Regulations 2015,

holdings of capital instruments of the third-country insurance or reinsurance undertakings shall be treated as holdings of capital instruments of insurance or reinsurance undertakings within the meaning of 'insurance undertaking' and 'reinsurance undertaking' in section 417(1) of *FSMA*.

3. In the cases foreseen in paragraph 2 of this Article, institutions shall apply the deductions as foreseen by point (b) of Article 44, point (b) of Article 58 and point (b) of Article 68 of the *CRR*, as applicable, for holdings of own funds insurance items.

[Note: This rule corresponds to Article 18 of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

Article 19 CAPITAL INSTRUMENTS OF UNDERTAKINGS EXCLUDED FROM THE SCOPE OF DIRECTIVE 2009/138/EC FOR THE PURPOSES OF ARTICLE 36(3) OF THE CRR

Holdings of capital instruments of undertakings within Article 4(1)(27)(k) of the *CRR* shall be deducted as follows:

(a) all instruments qualifying as capital under the company law applicable to the undertaking that issued them and that are included in the highest quality Tier of regulatory own funds without any limits shall be deducted from Common Equity Tier 1 capital;

(b) any subordinated instruments absorbing losses on a going-concern basis, including the discretion to cancel coupon payments, shall be deducted from Additional Tier 1 items. Where the amount of these subordinated instruments exceeds the amount of Additional Tier 1 capital, the excess amount shall be deducted from Common Equity Tier 1 items;

(c) any other subordinated instruments shall be deducted from Tier 2 items. If the amount of these subordinated instruments exceeds the amount of Tier 2 capital, the excess amount shall be deducted from Additional Tier 1 items. Where this amount exceeds the amount of Additional Tier 1 capital, the remaining excess amount shall be deducted from Common Equity Tier 1 items;

(d) any other instruments included in the undertaking's own funds pursuant to the relevant applicable solvency regime or any other instruments for which the institution is not able to demonstrate that conditions (a), (b) or (c) apply shall be deducted from Common Equity Tier 1 capital.

[Note: This rule corresponds to Article 19 of Part 2 of Regulation (EU) No 241/2014 as it applied immediately before revocation by the *Treasury*]

[Note: Articles 20 to 37 of Part 2 of Regulation (EU) No 241/2014 remain in that regulation]

ANNEX B

Trading Book (CRR) Part

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

Part

TRADING BOOK (CRR)

Content

1. **APPLICATION**
2. **LEVEL OF APPLICATION**
3. **TRADING BOOK (PART THREE TITLE I CHAPTER 1, AND ARTICLE 94, CRR)**

Article 94	**DEROGATION FOR SMALL TRADING BOOK**
Article 102	**REQUIREMENTS FOR THE TRADING BOOK**
Article 103	**MANAGEMENT OF THE TRADING BOOK**
Article 104	**INCLUSION IN THE TRADING BOOK**
Article 105	**REQUIREMENTS FOR PRUDENT VALUATION**
Article 106	**INTERNAL HEDGES**

4. **RULES SUPPLEMENTING ARTICLE 105 ON STANDARDS FOR PRUDENTIAL VALUATION (PREVIOUSLY REGULATION (EU) NO 2016/101)**

Article 1	**METHODOLOGY FOR CALCULATING ADDITIONAL VALUATION ADJUSTMENTS (AVAs)**
Article 2	**DEFINITIONS**
Article 3	**SOURCES OF MARKET DATA**
Article 4	**CONDITIONS FOR USE OF THE SIMPLIFIED APPROACH**
Article 5	**DETERMINATION OF AVA UNDER THE SIMPLIFIED APPROACH**
Article 6	**DETERMINATION OF TOTAL AVAs CALCULATED UNDER THE SIMPLIFIED APPROACH**
Article 7	**OVERVIEW OF THE CORE APPROACH**
Article 8	**GENERAL PROVISIONS FOR THE CALCULATIONS OF AVAs UNDER THE CORE APPROACH**
Article 9	**CALCULATION OF MARKET PRICE UNCERTAINTY AVA**
Article 10	**CALCULATION OF CLOSE-OUT COSTS AVA**

Article 11	**CALCULATION OF MODEL RISK AVA**
Article 12	**CALCULATION OF UNEARNED CREDIT SPREADS AVA**
Article 13	**CALCULATION OF INVESTING AND FUNDING COSTS AVA**
Article 14	**CALCULATION OF CONCENTRATED POSITIONS AVA**
Article 15	**CALCULATION OF FUTURE ADMINISTRATIVE COSTS AVA**
Article 16	**CALCULATION OF EARLY TERMINATION AVA**
Article 17	**CALCULATION OF OPERATIONAL RISK AVA**
Article 18	**DOCUMENTATION REQUIREMENTS**
Article 19	**SYSTEMS AND CONTROLS REQUIREMENTS**
Article 20	**ENTRY INTO FORCE**
ANNEX	**FORMULAE TO BE USED FOR THE PURPOSE OF AGGREGATING AVAs UNDER ARTICLE 9(6), ARTICLE 10(7) AND ARTICLE 11(7)**

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 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*.

3 TRADING BOOK (PART THREE TITLE I CHAPTER 1, AND ARTICLE 94, CRR)

[Note: Articles 92 to 93 remain in the *CRR*]

Article 94 DEROGATION FOR SMALL TRADING BOOK

1. By way of derogation from point (b) of Article 92(3), institutions 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 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*, 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).

3. Institutions shall calculate the size of their on- and off-balance-sheet trading book business on the basis of data as of the last day of each month for the purposes of paragraph 1 in accordance with the following requirements:

(a) all the positions assigned to the trading book in accordance with Article 104 shall be included in the calculation except for the following:

  (i) positions concerning foreign exchange and commodities;

  (ii) positions in credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures or counterparty risk exposures and the credit derivative transactions that perfectly offset the market risk of those internal hedges as referred to in Article 106(3);

(b) all positions included in the calculation in accordance with point (a) shall be valued at their market value on that given date; where the market value of a position is not available on a given date, institutions shall take a fair value for the position on that date; where the market value and fair value of a position are not available on a given date, institutions shall take the most recent of the market value or fair value for that position;

(c) the absolute value of long positions shall be summed with the absolute value of short positions.

4. Where both conditions set out in points (a) and (b) of paragraph 1 of this Article are met, irrespective of the obligations set out in provisions implementing Articles 74 and 83 of Directive 2013/36/EU, Article 102(3) and Article 103 of this Chapter 3 of the Trading Book (CRR) Part of the *PRA* Rulebook shall not apply to an institution.

5. Institutions 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 no longer meets one or more of the conditions set out in paragraph 1 shall immediately notify the competent authority thereof.

7. An institution 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 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.

[Note: This rule corresponds to Article 94 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 102 REQUIREMENTS FOR THE TRADING BOOK

1 Institutions shall ensure that positions in the trading book shall be either free of restrictions on their tradability or able to be hedged.

2. Institutions shall ensure that trading intent shall be evidenced on the basis of the strategies, policies and procedures set up by the institution to manage the position or portfolio in accordance with Articles 103, and 104.

3. Institutions shall establish and maintain systems and controls to manage their trading book in accordance with Article 103.

4. [Note: Provision left blank]

5. Institutions shall ensure that positions in the trading book shall be subject to the requirements for prudent valuation specified in Article 105.

6. Institutions shall treat internal hedges in accordance with Article 106.

[Note: This rule corresponds to Article 102 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 103 MANAGEMENT OF THE TRADING BOOK

1. Institutions 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:

   (a) the activities which the institution considers to be trading business and as constituting part of the trading book for own funds requirement purposes;

   (b) the extent to which a position can be marked-to-market daily by reference to an active, liquid two-way market;

   (c) for positions that are marked-to-model, the extent to which the institution can:

      (i) identify all material risks of the position;

      (ii) hedge all material risks of the position with instruments for which an active, liquid two-way market exists;

      (iii) derive reliable estimates for the key assumptions and parameters used in the model;

   (d) the extent to which the institution can, and is required to, generate valuations for the position that can be validated externally in a consistent manner;

   (e) the extent to which legal restrictions or other operational requirements would impede the institution's ability to effect a liquidation or hedge of the position in the short term;

(f) the extent to which the institution can, and is required to, actively manage the risks of positions within its trading operation.

(g) [Note: Provision left blank]

2. In managing its positions or portfolios of positions in the trading book, the institution shall comply with all the following requirements:

(a) the institution shall have in place a clearly documented trading strategy for the position or portfolios in the trading book, which shall be approved by senior management and include the expected holding period;

(b) the institution shall have in place clearly defined policies and procedures for the active management of positions or portfolios in the trading book; those policies and procedures shall include the following:

(i) which positions or portfolios of positions may be entered into by each trading desk or, as the case may be, by designated dealers;

(ii) the setting of position limits and monitoring them for appropriateness;

(iii) ensuring that dealers have the autonomy to enter into and manage the position within agreed limits and according to the approved strategy;

(iv) ensuring that positions are reported to senior management as an integral part of the institution's risk management process;

(v) ensuring that positions are actively monitored with reference to market information sources and an assessment is made of the marketability or hedgeability of the position or its component risks, including the assessment, the quality and availability of market inputs to the valuation process, level of market turnover, sizes of positions traded in the market;

(vi) active anti-fraud procedures and controls;

(c) the institution shall have in place clearly defined policies and procedures to monitor the positions against the institution's trading strategy, including the monitoring of turnover and positions for which the originally intended holding period has been exceeded.

[Note: This rule corresponds to Article 103 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 104 INCLUSION IN THE TRADING BOOK

1. Institutions 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), 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 internal audit.

2. [Note: Provision left blank]

[Note: This rule corresponds to Article 104 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 105 REQUIREMENTS FOR PRUDENT VALUATION

1. Institutions shall ensure that all trading book positions and non-trading book positions measured at fair value shall be subject to the standards for prudent valuation specified in this Article and in Chapter 4 of the Trading Book (CRR) Part of the *PRA* Rulebook. Institutions shall in particular ensure that the prudent valuation of their trading book positions achieves an appropriate degree of certainty having regard to the dynamic nature of trading book positions and non-trading book positions measured at fair value, the demands of prudential soundness and the mode of operation and purpose of capital requirements in respect of trading book positions and non-trading book positions measured at fair value.

2. Institutions shall establish and maintain systems and controls sufficient to provide prudent and reliable valuation estimates. Institutions shall ensure that those systems and controls shall include at least the following elements:

   (a) documented policies and procedures for the process of valuation, including clearly defined responsibilities of the various areas involved in the determination of the valuation, sources of market information and review of their appropriateness, guidelines for the use of unobservable inputs reflecting the institution's assumptions of what market participants would use in pricing the position, frequency of independent valuation, timing of closing prices, procedures for adjusting valuations, month end and ad-hoc verification procedures;

   (b) reporting lines for the department accountable for the valuation process that are clear and independent of the front office, which shall ultimately be to the management body.

3. Institutions shall revalue trading book positions at fair value at least on a daily basis. Institutions shall report changes in the value of those positions in the profit and loss account of the institution.

4. Institutions shall mark their trading book positions and non-trading book positions measured at fair value to market whenever possible, including when applying the relevant capital treatment to those positions.

5. When marking to market, an institution shall use the more prudent side of bid and offer unless the institution can close out at mid-market. Where institutions make use of this derogation, they shall every six months inform their competent authorities of the positions concerned and furnish evidence that they can close out at mid-market.

6. Where marking to market is not possible, institutions shall conservatively mark to model their positions and portfolios, including when calculating own funds requirements for positions in the trading book and positions measured at fair value in the non-trading book.

7. Institutions shall comply with the following requirements when marking to model:

   (a) senior management shall be aware of the elements of the trading book or of other fair-valued positions which are subject to mark to model and shall understand the materiality of the uncertainty thereby created in the reporting of the risk/performance of the business;

   (b) institutions shall source market inputs, where possible, in line with market prices, and shall assess the appropriateness of the market inputs of the particular position being valued and the parameters of the model on a frequent basis;

   (c) where available, institutions shall use valuation methodologies which are accepted market practice for particular financial instruments or commodities;

   (d) where the model is developed by the institution itself, the institution shall ensure that it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;

   (e) institutions shall have in place formal change control procedures and shall hold a secure copy of the model and use it periodically to check valuations;

   (f) risk management shall be aware of the weaknesses of the models used and how best to reflect those in the valuation output; and

   (g) institutions shall subject their models to periodic review to determine the accuracy of their performance, which shall include assessing the continued appropriateness of assumptions, analysis of profit and loss versus risk factors, and comparison of actual close out values to model outputs.

   For the purposes of point (d) of the first subparagraph, institutions shall ensure that the model is developed or approved independently of the trading desks and is independently tested, including validation of the mathematics, assumptions and software implementation.

8. Institutions shall perform independent price verification in addition to daily marking to market or marking to model. Institutions shall ensure that verification of market prices and model inputs shall be performed by a person or unit independent from persons or units that benefit from the trading book, at least monthly, or more frequently depending on the nature of the market or trading activity. Where independent pricing sources are not available or pricing sources are more subjective, institutions shall take into account that prudent measures such as valuation adjustments may be appropriate.

9. Institutions shall establish and maintain procedures for considering valuation adjustments.

10. Institutions shall formally consider the following valuation adjustments: unearned credit spreads, close-out costs, operational risks, market price uncertainty, early termination, investing and funding costs, future administrative costs and, where relevant, model risk.

11. Institutions shall establish and maintain procedures for calculating an adjustment to the current valuation of any less liquid positions, which can in particular arise from market events or institution-related situations such as concentrated positions and/or positions for which the originally intended holding period has been exceeded. Institutions shall, where necessary, make such adjustments in addition to any changes to the value of the position required for financial reporting purposes and shall design such adjustments to reflect the illiquidity of the position. Under those procedures, institutions shall consider several factors when determining whether a valuation adjustment is necessary for less liquid positions. Those factors include the following:

    (a) the amount of time it would take to hedge out the position or the risks within the position beyond the liquidity horizons;

    (b) the volatility and average of bid/offer spreads;

    (c) the availability of market quotes (number and identity of market makers) and the volatility and average of trading volumes including trading volumes during periods of market stress;

    (d) market concentrations;

    (e) the ageing of positions;

    (f) the extent to which valuation relies on marking-to-model;

    (g) the impact of other model risks.

12. When using third party valuations or marking to model, institutions shall consider whether to apply a valuation adjustment. In addition, institutions shall consider the need to establish adjustments for less liquid positions and on an ongoing basis review their continued suitability. Institutions shall also explicitly assess the need for valuation adjustments relating to the uncertainty of parameter inputs used by models.

13. With regard to complex products, including securitisation exposures and n-th-to-default credit derivatives, institutions shall explicitly assess the need for valuation adjustments to reflect the model risk associated with using a possibly incorrect valuation methodology and the model risk associated with using unobservable (and possibly incorrect) calibration parameters in the valuation model.

14. [Note: Provision left blank]

[Note: This rule corresponds to Article 105 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 106 INTERNAL HEDGES

1. Institutions shall ensure that an internal hedge shall in particular meet the following requirements:

   (a) it shall not be primarily intended to avoid or reduce own funds requirements;

   (b) it shall be properly documented and subject to particular internal approval and audit procedures;

   (c) it shall be dealt with at market conditions;

   (d) the market risk that is generated by the internal hedge shall be dynamically managed in the trading book within the authorised limits;

   (e) it shall be carefully monitored in accordance with adequate procedures.

2. The requirements of paragraph 1 apply without prejudice to the requirements applicable to the hedged position in the non-trading book.

3. By way of derogation from paragraphs 1 and 2, when an institution hedges a non-trading book credit risk exposure or counterparty risk exposure using a credit derivative 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.

[Note: This rule corresponds to Article 106 of the *CRR* as it applied immediately before revocation by the *Treasury*]

4 RULES SUPPLEMENTING ARTICLE 105 ON STANDARDS FOR PRUDENTIAL VALUATION (PREVIOUSLY REGULATION (EU) NO 2016/101)

CHAPTER I GENERAL PROVISIONS

Article 1 METHODOLOGY FOR CALCULATING ADDITIONAL VALUATION ADJUSTMENTS (AVAS)

Institutions shall calculate the total additional valuation adjustments ('AVAs') necessary to adjust the fair values to the prudent value and shall calculate those AVAs quarterly according to the method provided in Chapter 3 of this Chapter 4 of the Trading Book (CRR) Part of the *PRA* Rulebook, unless

they meet the conditions for applying the method provided in Chapter 2 of this Chapter 4 of the Trading Book (CRR) Part of the *PRA* Rulebook.

[Note: This rule corresponds to Article 1 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 2 DEFINITIONS

For the purpose of this Chapter 4 of the Trading Book (CRR) Part of the *PRA* Rulebook the following definitions shall apply:

(a) '*valuation position*' means a financial instrument or commodity or portfolio of financial instruments or commodities held in both trading and non-trading books, which are measured at fair value;

(b) '*valuation input'* means a market observable or non-observable parameter or matrix of parameters that influences the fair value of a *valuation position*;

(c) '*valuation exposure'* means the amount of a *valuation position* which is sensitive to the movement in a *valuation input*.

[Note: This rule corresponds to Article 2 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 3 SOURCES OF MARKET DATA

1. Where institutions calculate AVAs based on market data, they shall consider the same range of market data as the data used in the independent price verification ('IPV') process referred to in Article 105(8) of the *CRR*, as relevant, subject to the adjustments described in this Article.

2. Institutions shall consider a full range of available and reliable market data sources to determine a prudent value including each of the following, where relevant:

   (a) exchange prices in a liquid market;

   (b) trades in the exact same or very similar instrument, either from the institution's own records or, where available, trades from across the market;

   (c) tradable quotes from brokers and other market participants;

   (d) consensus service data;

   (e) indicative broker quotes;

   (f) counterparty collateral valuations.

3. For cases where an expert-based approach is applied for the purpose of Articles 9, 10 and 11, alternative methods and sources of information shall be considered, including each of the following, where relevant:

   (a) the use of proxy data based on similar instruments for which sufficient data is available;

(b) the application of prudent shifts to *valuation inputs*;

(c) the identification of natural bounds to the value of an instrument.

[Note: This rule corresponds to Article 3 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

CHAPTER II SIMPLIFIED APPROACH FOR THE DETERMINATION OF AVAs

Article 4 CONDITIONS FOR USE OF THE SIMPLIFIED APPROACH

1. Institutions may apply the simplified approach described in this Chapter 2 of this Chapter 4 of the Trading Book (CRR) Part of the *PRA* Rulebook only if the sum of the absolute value of fair-valued assets and liabilities, as stated in the institution's financial statements under the applicable accounting framework, is less than GBP 13 billion.
2. Exactly matching, offsetting fair-valued assets and liabilities shall be excluded from the calculation of paragraph 1. For fair-valued assets and liabilities for which a change in accounting valuation has a partial or zero impact on Common Equity Tier 1 ('CET1') capital, their values shall only be included in proportion to the impact of the relevant valuation change on CET1 capital.
3. The threshold referred to in paragraph 1 shall apply on an individual and consolidated basis. Where the threshold is breached on a consolidated basis, the core approach shall be applied to all entities included in the consolidation.
4. Where institutions applying the simplified approach fail to meet the condition of paragraph 1 for two consecutive quarters, they shall immediately notify the relevant competent authority and shall agree on a plan to implement the approach referred to in Chapter 3 of this Chapter 4 of the Trading Book (CRR) Part of the *PRA* Rulebook within the following two quarters.

[Note: This rule corresponds to Article 4 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 5 DETERMINATION OF AVAS UNDER THE SIMPLIFIED APPROACH

Institutions shall calculate AVAs under the simplified approach as 0.1% of the sum of the absolute value of fair-valued assets and liabilities which are included within the threshold calculation laid down in Article 4.

[Note: This rule corresponds to Article 5 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 6 DETERMINATION OF TOTAL AVAS CALCULATED UNDER THE SIMPLIFIED APPROACH

For institutions applying the simplified approach, the total AVAs for the purpose of Article 1 shall be the AVA resulting from the calculation of Article 5.

[Note: This rule corresponds to Article 6 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

CHAPTER III CORE APPROACH FOR THE DETERMINATION OF AVAs

Article 7 OVERVIEW OF THE CORE APPROACH

1. Institutions shall calculate AVAs under the core approach, by applying the following two-step approach:

   (a) they shall calculate AVAs for each of the categories described in paragraphs 10 and 11 of Article 105 of the *CRR* ('category level AVAs') according to paragraph 2 of this Article;

   (b) they shall sum the amounts resulting from point (a) for each of the category level AVAs to provide the total AVAs for the purposes of Article 1.

2. For the purposes of point (a) of paragraph 1, institutions shall calculate category level AVAs in one of the following ways:

   (a) according to Articles 9 to 17;

   (b) where the application of Articles 9 to 17 is not possible for certain positions, according to a 'fall-back approach', whereby they shall identify the related financial instruments and calculate an AVA as the sum of the following:

      (i) 100% of the net unrealised profit on the related financial instruments;

      (ii) 10% of the notional value of the related financial instruments in the case of derivatives;

      (iii) 25% of the absolute value of the difference between the fair value and the unrealised profit, as determined in point (i), of the related financial instruments in the case of non-derivatives.

   For the purposes of point (b)(i) of the first paragraph, 'unrealised profit' shall mean the change, where positive, in fair value since trade inception, determined on a first-in-first-out basis.

[Note: This rule corresponds to Article 7 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 8 GENERAL PROVISIONS FOR THE CALCULATIONS OF AVAS UNDER THE CORE APPROACH

1. For fair-valued assets and liabilities for which a change in accounting valuation has a partial or zero impact on CET1 capital, AVAs shall only be calculated based on the proportion of the accounting valuation change that impacts CET1 capital.

2. In relation to the category level AVAs described in Articles 14 to 17, institutions shall aim to achieve a level of certainty in the prudent value that is equivalent to that set out in Articles 9 to 13.

3. AVAs shall be considered to be the excess of valuation adjustments required to achieve the identified prudent value, over any adjustment applied in the institution's fair value that can be identified as addressing the same source of valuation uncertainty as the AVA. Where an adjustment applied in the institution's fair value cannot be identified as addressing a specific AVA category at the level at which the relevant AVAs are calculated, that adjustment shall not be included in the calculation of AVAs.
4. AVAs shall always be positive, including at *valuation exposure* level, category level, both pre and post aggregation.

[Note: This rule corresponds to Article 8 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 9 CALCULATION OF MARKET PRICE UNCERTAINTY AVA

1. Market price uncertainty AVAs shall be calculated at *valuation exposure* level ('individual market price uncertainty AVAs').
2. The market price uncertainty AVA shall only be assessed to have zero value where both of the following conditions are met:
   (a) the institution has firm evidence of a tradable price for a *valuation exposure* or a price can be determined from reliable data based on a liquid two-way market as described in the second subparagraph of Article 338(1) of the CRR;
   (b) the sources of market data set out in Article 3(2) do not indicate any material valuation uncertainty.
3. Where a *valuation exposure* cannot be shown to have a zero AVA, when assessing the market price uncertainty AVA institutions shall use the data sources defined in Article 3. In this case the calculation of the market price uncertainty AVA shall be performed as described in paragraphs 4 and 5.
4. Institutions shall calculate AVAs on *valuation exposures* related to each *valuation input* used in the relevant valuation model.
   (a) The granularity at which those AVAs shall be assessed shall be one of the following:
      (i) where decomposed, all the *valuation inputs* required to calculate an exit price for the *valuation position*;
      (ii) the price of the instrument.
   (b) Each of the *valuation inputs* referred to in point (a)(i) shall be treated separately. Where a *valuation input* consists of a matrix of parameters, AVAs shall be calculated based on the *valuation exposures* related to each parameter within that matrix. Where a *valuation input* does not refer to tradable instruments, institutions shall map the *valuation input* and the related *valuation exposure* to a set of market tradable instruments. Institutions may reduce

the number of parameters of the *valuation input* for the purpose of calculating AVAs using any appropriate methodology provided the reduced parameters satisfy all of the following requirements:

(i) the total value of the reduced *valuation exposure* is the same as the total value of the original *valuation exposure*;

(ii) the reduced set of parameters can be mapped to a set of market tradable instruments;

(iii) the ratio of variance measure 2 defined below over variance measure 1 defined below, based on historical data from the most recent 100 trading days, is less than 0.1. For the purposes of this paragraph, "variance measure 1" shall mean profit and loss variance of the *valuation exposure* based on the unreduced *valuation input* and "variance measure 2" shall mean profit and loss variance of the *valuation exposure* based on the unreduced *valuation input* minus the *valuation exposure* based on the reduced *valuation input*.

(c) Where a reduced number of parameters is used for the purpose of calculating AVAs, the determination that the criteria set out in point (b) are met shall be subject to independent control function review of the netting methodology and internal validation on at least an annual basis.

5. Market price uncertainty AVAs shall be determined as follows:

(a) where sufficient data exists to construct a range of plausible values for a *valuation input*:

(i) for a *valuation input* where the range of plausible values is based on exit prices, institutions shall estimate a point within the range where they are 90% confident they could exit the *valuation exposure* at that price or better;

(ii) for a *valuation input* where the range of plausible values is created from mid prices, institutions shall estimate a point within the range where they are 90% confident that the mid value they could achieve in exiting the *valuation exposure* would be at that price or better;

(b) where insufficient data exists to construct a plausible range of values for a *valuation input*, institutions shall use an expert-based approach using qualitative and quantitative information available to achieve a level of certainty in the prudent value of the *valuation input* that is equivalent to that targeted under point (a). Institutions shall notify competent authorities of the *valuation exposures* for which this approach is applied, and the methodology used to determine the AVA;

(c) institutions shall calculate the market price uncertainty AVA based on one of the following approaches:

(i) they shall apply the difference between the *valuation input* values estimated according to either point (a) or point (b), and the *valuation input* values used for calculating fair value to the *valuation exposure* of each *valuation position*;

(ii) they shall combine the *valuation input* values estimated according to either point (a) or point (b) and they shall revalue *valuation positions* based on those values. Institutions shall then take the difference between the revalued positions and fair-valued positions.

6. Institutions shall calculate the total category level AVA for market price uncertainty by applying to individual market price uncertainty AVAs the formulae for either Method 1 or Method 2 laid down in, "Formulae to be used for the purpose of aggregating AVAs under Article 9(6), Article 10(7) and Article 11(7) in the Annex to this Part".

[Note: This rule corresponds to Article 9 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 10 CALCULATION OF CLOSE-OUT COSTS AVA

1. Close-out costs AVAs shall be calculated at *valuation exposure* level ('individual close-out costs AVAs').

2. When an institution has calculated a market price uncertainty AVA for a *valuation exposure* based on an exit price, the close-out cost AVA may be assessed to have zero value.

3. Where an institution applies the derogation referred to in paragraph 5 of Article 105 of the *CRR*, the close-out costs AVA may be assessed to have zero value, on the condition that the institution provides evidence that it is 90% confident that sufficient liquidity exists to support the exit of the related *valuation exposures* at mid-price.

4. Where a *valuation exposure* cannot be shown to have a zero close-out costs AVA, institutions shall use the data sources defined in Article 3. In this case the calculation of the close-out costs AVA shall be performed as described in paragraphs 5 and 6 of this Article.

5. Institutions shall calculate close-out costs AVAs on *valuation exposures* related to each *valuation input* used in the relevant valuation model.

(a) The granularity at which those close-out costs AVAs shall be assessed shall be one of the following:

(i) where decomposed, all *valuation inputs* required to calculate an exit price for the *valuation position*;

(ii) the price of the instrument.

(b) Each of the *valuation inputs* referred to in point (a)(i) shall be treated separately. Where a *valuation input* consists of a matrix of parameters, institutions shall assess the close-out cost AVA based on the *valuation exposures* related to each parameter within that matrix.

Where a *valuation input* does not refer to tradable instruments, institutions shall explicitly map the *valuation input* and the related *valuation exposure* to a set of market tradable instruments. Institutions may reduce the number of parameters of the *valuation input* for the purpose of calculating AVAs using any appropriate methodology provided the reduced parameters satisfy all of the following requirements:

(i) the total value of the reduced *valuation exposure* is the same as the total value of the original *valuation exposure*;

(ii) the reduced set of parameters can be mapped to a set of market tradable instruments;

(iii) the ratio of variance measure 2 over variance measure 1, based on historical data from the most recent 100 trading days, is less than 0.1.

For the purposes of this paragraph, “variance measure 1” shall mean profit and loss variance of the *valuation exposure* based on the unreduced *valuation input* and “variance measure 2” shall mean profit and loss variance of the *valuation exposure* based on the unreduced *valuation input* minus the *valuation exposure* based on the reduced *valuation input*.

(c) Where a reduced number of parameters is used for the purpose of calculating AVAs, the determination that the criteria set out in point (b) are met shall be subject to independent control function review and internal validation on at least an annual basis.

6. Close-out costs AVAs shall be determined as follows:

(a) where sufficient data exists to construct a range of plausible bid-offer spreads for a *valuation input*, institutions shall estimate a point within the range where they are 90% confident that the spread they could achieve in exiting the *valuation exposure* would be at that price or better;

(b) where insufficient data exists to construct a plausible range of bid-offer spreads, institutions shall use an expert-based approach using qualitative and quantitative information available to achieve a level of certainty in the prudent value that is equivalent to that targeted where a range of plausible values is available. Institutions shall notify competent authorities of the *valuation exposures* for which this approach is applied, and the methodology used to determine the AVA;

(c) institutions shall calculate the close-out costs AVA by applying 50% of the estimated bid-offer spread calculated in accordance with either point (a) or point (b) to the *valuation exposures* related to the *valuation inputs* defined in paragraph 5.

7. Institutions shall calculate the total category level AVA for close-out costs by applying to the individual close-out costs AVAs the formulae for either Method 1 or Method 2 laid down in the “Formulae to be used for the purpose of aggregating AVAs under Article 9(6), Article 10(7) and Article 11(7)” in the Annex to this Part.

[Note: This rule corresponds to Article 10 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 11 CALCULATION OF MODEL RISK AVA

1. Institutions shall estimate a model risk AVA for each valuation model ('individual model risk AVA') by considering valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued. Institutions shall not consider valuation model risk which arises due to calibrations from market derived parameters, which shall be captured according to Article 9.

2. The model risk AVA shall be calculated using one of the approaches defined in paragraphs 3 and 4.

3. Where possible, institutions shall calculate the model risk AVA by determining a range of plausible valuations produced from alternative appropriate modelling and calibration approaches. In this case, institutions shall estimate a point within the resulting range of valuations where they are 90% confident they could exit the *valuation exposure* at that price or better.

4. Where institutions are unable to use the approach defined in paragraph 3, they shall apply an expert-based approach to estimate the model risk AVA.

5. The expert-based approach shall consider all of the following:

   (a) complexity of products relevant to the model;

   (b) diversity of possible mathematical approaches and model parameters, where those model parameters are not related to market variables;

   (c) the degree to which the market for relevant products is 'one way';

   (d) the existence of unhedgeable risks in relevant products;

   (e) the adequacy of the model in capturing the behaviour of the pay-off of the products in the portfolio.

   Institutions shall notify competent authorities of the models for which this approach is applied, and the methodology used to determine the AVA.

6. Where institutions use the method described in paragraph 4, the prudence of the method shall be confirmed annually by comparing the following:

   (a) the AVAs calculated using the method described in paragraph 4, if it were applied to a material sample of the valuation models for which the institution applies the method in paragraph 3; and

   (b) the AVAs produced by the method in paragraph 3 for the same sample of valuation models.

7. Institutions shall calculate the total category level AVA for model risk by applying to individual model risk AVAs the formulae for either Method 1 or Method 2 laid down in "Formulae to be used for the purpose of aggregating AVAs under Article 9(6), Article 10(7) and Article 11(7)" in the Annex to this Part.

[Note: This rule corresponds to Article 11 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 12 CALCULATION OF UNEARNED CREDIT SPREADS AVA

1. Institutions shall calculate the unearned credit spreads AVA to reflect the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
2. Institutions shall include the element of the AVA relating to market price uncertainty within the market price uncertainty AVA category. The element of the AVA relating to close-out cost uncertainty shall be included within the close-out costs AVA category. The element of the AVA relating to model risk shall be included within the model risk AVA category.

[Note: This rule corresponds to Article 12 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 13 CALCULATION OF INVESTING AND FUNDING COSTS AVA

1. Institutions shall calculate the investing and funding costs AVA to reflect the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
2. Institutions shall include the element of the AVA relating to market price uncertainty within the market price uncertainty AVA category. The element of the AVA relating to close-out cost uncertainty shall be included within the close-out costs AVA category. The element of the AVA relating to model risk shall be included within the model risk AVA category.

[Note: This rule corresponds to Article 13 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 14 CALCULATION OF CONCENTRATED POSITIONS AVA

1. Institutions shall estimate a concentrated position AVA for concentrated *valuation positions* ('individual concentrated positions AVA') by applying the following three-step approach:

   (a) they shall identify concentrated *valuation positions*;

   (b) for each identified concentrated *valuation position*, where a market price applicable for the size of the *valuation position* is unavailable, they shall estimate a prudent exit period;

(c) where the prudent exit period exceeds 10 days, they shall estimate an AVA taking into account the volatility of the *valuation input,* the volatility of the bid offer spread and the impact of the hypothetical exit strategy on market prices.

2. For the purposes of point (a) of paragraph 1, the identification of concentrated *valuation positions* shall consider all of the following:

(a) the size of all *valuation positions* relative to the liquidity of the related market;

(b) the institution's ability to trade in that market;

(c) the average daily market volume and typical daily trading volume of the institution.

Institutions shall establish and document the methodology applied to determine concentrated *valuation positions* for which a concentrated positions AVA shall be calculated.

3. Institutions shall calculate the total category level AVA for concentrated positions AVA as the sum of individual concentrated positions AVAs.

[Note: This rule corresponds to Article 14 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 15 CALCULATION OF FUTURE ADMINISTRATIVE COSTS AVA

1. Where an institution calculates market price uncertainty and close-out cost AVAs for a *valuation exposure*, which imply fully exiting the exposure, the institution may assess a zero AVA for future administrative costs.

2. Where a *valuation exposure* cannot be shown to have a zero AVA according to paragraph 1, institutions shall calculate the future administrative cost AVA (‘individual future administrative costs AVA’) considering the administrative costs and future hedging costs over the expected life of the *valuation exposures* for which a direct exit price is not applied for the close-out costs AVA, discounted using a rate which approximates the risk free rate.

3. For the purposes of paragraph 2, future administrative costs shall include all incremental staffing and fixed costs that are likely to be incurred in managing the portfolio but a reduction in these costs may be assumed as the size of the portfolio reduces.

4. Institutions shall calculate the total category level AVA for future administrative costs AVA as the sum of individual future administrative costs AVAs.

[Note: This rule corresponds to Article 15 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 16 CALCULATION OF EARLY TERMINATION AVA

Institutions shall estimate an early termination AVA considering the potential losses arising from non-contractual early terminations of client trades. The early termination AVA shall be calculated taking

into account the percentage of client trades that have historically terminated early and the losses that arise in those cases.

[Note: This rule corresponds to Article 16 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 17 CALCULATION OF OPERATIONAL RISK AVA

1. Institutions shall estimate an operational risk AVA by assessing the potential losses that may be incurred as a result of operational risk related to valuation processes. This estimate shall include an assessment of *valuation positions* judged to be at-risk during the balance sheet substantiation process, including those due to legal disputes.
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.
3. In other cases than those referred to in paragraph 2, the 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.

[Note: This rule corresponds to Article 17 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 18 DOCUMENTATION REQUIREMENTS

1. Institutions shall document appropriately the prudent valuation methodology. This documentation shall include internal policies providing guidance on all of the following points:
   (a) the range of methodologies for quantifying AVAs for each *valuation position*;
   (b) the hierarchy of methodologies for each asset class, product, or *valuation position;*
   (c) the hierarchy of market data sources used in the AVA methodology;
   (d) the required characteristics of market data to justify a zero AVA for each asset class, product, or *valuation position*;
   (e) the methodology applied where an expert based approach is used to determine an AVA;
   (f) the methodology for determining whether a *valuation position* requires a concentrated position AVA;
   (g) the assumed exit horizon for the purpose of calculating AVAs for concentrated positions, where relevant;
   (h) the fair-valued assets and liabilities for which a change in accounting valuation has a partial or zero impact on CET1 capital according to Article 4(2) and Article 8(1).

2. Institutions shall also maintain records to allow the calculation of AVAs at *valuation exposure* level to be analysed, and information from the AVA calculation process shall be provided to senior management to allow an understanding of the level of valuation uncertainty on the institution's portfolio of fair-valued positions.

3. The documentation specified in paragraph 1 shall be reviewed at least annually and approved by senior management.

[Note: This rule corresponds to Article 18 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

Article 19 SYSTEMS AND CONTROLS REQUIREMENTS

1. AVAs shall be authorised initially, and monitored subsequently, by an independent control unit.

2. Institutions shall have effective controls related to the governance of all fair-valued positions, and adequate resources to implement those controls and ensure robust valuation processes even during a stressed period. These shall include all of the following:

   (a) at least an annual review of valuation model performance;

   (b) management sign-off on all significant changes to valuation policies;

   (c) a clear statement of the institution's risk appetite for exposure to positions subject to valuation uncertainty which is monitored at an aggregate institution-wide level;

   (d) independence in the valuation process between risk taking and control units;

   (e) a comprehensive internal audit process related to valuation processes and controls.

3. Institutions shall ensure there are effective and consistently applied controls related to the valuation process for fair-valued positions. These controls shall be subject to regular internal audit review. The controls shall include all of the following:

   (a) a precisely defined institution-wide product inventory, ensuring that every *valuation position* is uniquely mapped to a product definition;

   (b) valuation methodologies, for each product in the inventory covering choice and calibration of model, fair value adjustments, AVAs, independent price verification methodologies applicable to the product, and the measurement of valuation uncertainty;

   (c) validation process ensuring that, for each product, both the risk-taking and relevant control departments approve the product-level methodologies described in point (b) and certify that they reflect the actual practice for every *valuation position* mapped to the product;

   (d) defined thresholds based on observed market data for determining when valuation models are no longer sufficiently robust;

   (e) a formal IPV process based on prices independent from the relevant trading desk;

(f) a new product approval processes referencing the product inventory and involving all internal stakeholders relevant to risk measurement, risk control, financial reporting and the assignment and verification of valuations of financial instruments;

(g) a new deal review process to ensure that pricing data from new trades are used to assess whether valuations of similar *valuation exposures* remain appropriately prudent.

[Note: This rule corresponds to Article 19 of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

CHAPTER IV FINAL PROVISIONS

ARTICLE 20 ENTRY INTO FORCE

[Note: Provision left blank]

ANNEX FORMULAE TO BE USED FOR THE PURPOSE OF AGGREGATING AVAS UNDER ARTICLE 9(6), ARTICLE 10(7) AND ARTICLE 11(7)

Formula for Method 1

APVA	=	$(FV - PV) - \alpha \cdot (FV - PV)$ $= (1 - \alpha) \cdot (FV - PV)$
AVA	=	Σ APVA

Formula for Method 2

APVA	=	$\max\{0, (FV - PV) - \alpha \cdot (EV - PV)\}$ $= \max\{0, FV - \alpha \cdot EV - (1 - \alpha) \cdot PV\}$
AVA	=	Σ APVA

Where:

FV=The *valuation exposure*-level fair value after any accounting adjustment applied in the institution’s fair value that can be identified as addressing the same source of valuation uncertainty as the relevant AVA,

PV=The *valuation exposure*-level prudent value determined in accordance with this Chapter 4 of the Trading Book (CRR) Part of the *PRA* Rulebook,

EV =The expected value at a *valuation exposure* level taken from a range of possible values,

α = The aggregation factor,

APVA = The *valuation exposure*-level AVA after adjusting for aggregation,

AVA = The total category-level AVA after adjusting for aggregation.

Institutions shall set the aggregation factor ‘α’ at 50%.

[Note: This rule corresponds to the annex of Part 2 of Regulation (EU) No 2016/101 as it applied immediately before revocation by the *Treasury*]

ANNEX C

Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part

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

Part

STANDARDISED APPROACH AND INTERNAL RATINGS BASED APPROACH TO CREDIT RISK (CRR)

Content

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. CREDIT RISK (PART THREE, TITLE TWO, CHAPTERS TWO AND THREE, CRR)

Article 128 ITEMS ASSOCIATED WITH PARTICULAR HIGH RISK

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

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

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

Article 132c TREATMENT OF OFF-BALANCE-SHEET EXPOSURES TO CIUS

Article 152 TREATMENT OF EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS

Article 158 TREATMENT BY EXPOSURE TYPE

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

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

(b) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

relevant CIU

means a CIU:

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

(b) 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.

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*.

3 CREDIT RISK (PART THREE TITLE TWO CHAPTERS TWO AND THREE CRR)

[Note: Articles 111 to 127 remain in the *CRR*]

Article 128 ITEMS ASSOCIATED WITH PARTICULAR HIGH RISK

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

2. For the purposes of this Article, institutions shall treat any of the following exposures as exposures associated with particularly high risks:

   (a) investments in venture capital firms, except where those investments are treated in accordance with Article 132;

   (b) investments in private equity, except where those investments are treated in accordance with Article 132;

   (c) speculative immovable property financing.

3. When assessing whether an exposure other than exposures referred to in paragraph 2 is associated with particularly high risks, institutions 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: This rule corresponds to Article 128 of the *CRR* as it applied immediately before revocation by the *Treasury*]

[Note: Articles 129 to 131 remain in the *CRR*]

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

1. Institutions 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 subparagraph of paragraph 2, with the percentage of units or shares held by those institutions.

2. Where the conditions set out in paragraph 3 of this Article are met, institutions 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), institutions that do 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.

   Institutions 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. Institutions 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;

   (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;

(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 subparagraph, 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. Institutions that do 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 (i) of this point, 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;

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

Institutions that rely 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.

By way of derogation from the second subparagraph, 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 provide those calculations to its competent authority upon request.

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 of this Article. 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 of this Article, institutions that apply 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 institutions measure the value of their holdings of units or shares in a CIU at historical cost but measure the value of the underlying assets of the CIU at fair value if they apply the look-through approach;

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

8. (a) An institution must notify the competent authority 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 the CRR; or

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

   in each case calculated on an individual or consolidated basis.

   (b) Institutions must make the notification in (a) promptly if:

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

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

   (c) Institutions which have made or are required to have made a notification under (a) must also notify the competent authority promptly when both the total risk weighted exposure amounts and total exposure values are below the relevant thresholds set out in (a) (i) and (ii).

   (d) Institutions must include in the notification made under (a):

      (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 the *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, institutions that have 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 those institutions.

2. Where the conditions set out in Article 132(3) are met, institutions that do 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.

   Institutions shall carry out the calculations referred to in the first subparagraph 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.

   Institutions shall carry out the calculations referred to in the first subparagraph in accordance with the methods set out in Chapter 2, in Chapter 5, and in Section 3, 4 or 5 of Chapter 6 of Title Three.

3. By way of derogation from point (d) of Article 92(3), institutions that calculate the risk-weighted exposure amount of a CIU's exposures in accordance with paragraph 1 or 2 of this Article 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 Section 3, 4 or 5 of Chapter 6 of Title Two, as applicable.

   By way of derogation from the first subparagraph, 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 institutions calculate the risk-weighted exposure amount of a CIU's exposures in accordance with paragraph 2 of this Article, and where one or more of the inputs required for the calculation in Section 3, 4 or 5 of Chapter 6 of Title Two is not available, institutions shall carry out the calculation as follows:

Where the replacement cost is unknown, institutions shall set the replacement cost as referred to in Articles 274(2) and 282(2) equal to the sum of the notional amounts of the derivatives in the netting set, and where relevant the multiplier referred to in Article 278(1) shall be set equal to 1.

Where the potential future exposure is unknown, institutions shall set the potential future exposure as referred to in Articles 274(2) and 282(2) 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. Institutions may exclude from the calculations referred to in Article 132 Common Equity Tier 1, Additional Tier 1, Tier 2 instruments and eligible liabilities instruments held by a CIU which institutions shall deduct in accordance with Article 36(1) and Articles 56, 66 and 72e respectively.
2. Institutions may exclude from the calculations referred to in Article 132 exposures in the form of units or shares in CIUs referred to in points (g) and (h) of Article 150(1) and instead apply the treatment set out in Article 133 to those exposures.

Article 132c TREATMENT OF OFF-BALANCE-SHEET EXPOSURES TO CIUS

1. Institutions 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 institutions use one of the approaches set out in Article 132a:

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

where:

RW_i^*	=	the risk weight;
i	=	the index denoting the CIU:
$RWAE_i$	=	the 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%.

[Note: Articles 133 to 151 remain in the *CRR*]

Article 152 TREATMENT OF EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS

1. Institutions shall calculate the risk-weighted exposure amounts for their 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 those institutions.

2. Where the conditions set out in Article 132(3) are met, institutions that have sufficient information about the individual underlying exposures of a CIU shall 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 institutions.

3. By way of derogation from point (d) of Article 92(3), institutions that calculate the risk-weighted exposure amount of the CIU in accordance with paragraph 1 or 2 of this Article may calculate the own funds requirement for 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 Section 3, 4 or 5 of Chapter 6 of Title Two, as applicable.

   By way of derogation from the first subparagraph, 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. Institutions that apply the look-through approach in accordance with paragraphs 2 and 3 of this Article and that meet the conditions for permanent partial use in accordance with Article 150, or that do not meet the conditions for using the methods set out in Chapter 2 or one or more of the methods set out in Chapter 5 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) for exposures assigned to the equity exposure class referred to in point (e) of Article 147(2), institutions shall apply the simple risk-weight approach set out in Article 155(2);

   (b) for exposures assigned to the items representing securitisation positions referred to in point (f) of Article 147(2), institutions shall apply the treatment set out in Article 254 as if those exposures were directly held by those institutions;

   (c) for all other underlying exposures, institutions shall apply the Standardised Approach laid down in Chapter 2 of Title Two.

   For the purposes of point (a) of the first subparagraph, where the institution is unable to differentiate between private equity exposures, exchange-traded exposures and other equity exposures, it shall treat the exposures concerned as other equity exposures.

5. Where the conditions set out in Article 132(3) are met, institutions that do not have sufficient information about the individual underlying exposures of a CIU may calculate the risk-weighted exposure amount for those exposures in accordance with the mandate-based approach set out

in Article 132a(2). However, for the exposures listed in points (a), (b) and (c) of paragraph 4 of this Article, institutions shall apply the approaches set out therein.

6. Subject to Article 132b(2), institutions that do not apply the look-through approach in accordance with paragraphs 2 and 3 of this Article or the mandate-based approach in accordance with paragraph 5 of this Article shall apply the fall-back approach referred to in Article 132(2).

7. Institutions 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 rule, provided that the conditions for using those approaches are met.

8. Institutions that do not have adequate data or information to calculate the risk-weighted amount of a CIU in accordance with the approaches set out in paragraphs 2, 3, 4 and 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 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 (i) of this point, the CIU management company;

   (b) for exposures other than those listed in points (a), (b) and (c) of paragraph 4 of this rule, the third party carries out the calculation in accordance with the look-through approach set out in Article 132a(1);

   (c) for exposures listed in points (a), (b) and (c) of paragraph 4, the third party carries out the calculation in accordance with the approaches set out therein;

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

   Institutions that rely 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.

   By way of derogation from the second subparagraph, where the institution has unrestricted access to the detailed calculations carried out by the third party, the 1.2 factor shall not apply. The institution shall provide those calculations to its competent authority upon request.

9. For the purposes of this rule, Article 132(5) and (6) and Article 132b shall apply. For the purposes of this Article, Article 132c shall apply, using the risk weights calculated in accordance with Chapter 3 of Title Two.

[Note: This rule corresponds to Article 152 of the *CRR* as it applied immediately before revocation by the *Treasury*]

[Note: Articles 153 to 157 remain in the *CRR*]

Article 158 TREATMENT BY EXPOSURE TYPE

1. Institutions shall 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. Institutions shall calculate the expected loss amounts for securitised exposures in accordance with Chapter 5.

3. For exposures belonging to the 'other non credit obligations assets' exposure class referred to in point (g) of Article 147(2) institutions shall apply an expected loss amount of zero.

4. Institutions 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 rule.

5. Institutions shall calculate the expected loss (EL) and expected loss amounts for exposures to corporates, institutions, central governments and central banks and retail exposures in accordance with the following formulae:

   Expected loss (EL) = PD * LGD

   Expected loss amount = EL [multiplied by] exposure value.

   For defaulted exposures (PD = 100%) where institutions use own estimates of LGDs, EL shall be ELBE, the institution's best estimate of expected loss for the defaulted exposure in accordance with Article 181(1)(h).

   For exposures subject to the treatment set out in Article 153(3), EL shall be 0%.

6. Institutions shall assign the EL values for specialised lending exposures where institutions use the methods set out in Article 153(5) for assigning risk weights in accordance with Table 2.

Table 2:

Remaining Maturity	Category 1	Category 2	Category 3	Category 4	Category 5
Less than 2.5 years	0%	0.4%	2.8%	8%	50%
Equal to or more than 2.5 years	0.4%	0.8%	2.8%	8%	50%

7. Institutions shall calculate the expected loss amounts for equity exposures where the risk-weighted exposure amounts are calculated in accordance with the simple risk weight approach in accordance with the following formula:

   Expected loss amount = EL · exposure value

The EL values shall be the following:

Expected loss (EL) = 0.8% for private equity exposures in sufficiently diversified portfolios

Expected loss (EL) = 0.8% for exchange traded equity exposures

Expected loss (EL) = 2.4% for all other equity exposures.

8. Institutions shall calculate the expected loss and expected loss amounts for equity exposures where the risk-weighted exposure amounts are calculated in accordance with the PD/LGD approach in accordance with the following formula:

Expected loss (EL) = PD · LGD

Expected loss amount = EL · exposure value

9. For equity exposures where the risk-weighted exposure amounts are calculated in accordance with the internal models approach institutions shall apply an expected loss amount of zero.

10. Institutions shall calculate expected loss amounts for dilution risk of purchased receivables in accordance with the following formula:

Expected loss (EL) = PD · LGD

Expected loss amount = EL · exposure value

[Note: This rule corresponds to Article 158 of the *CRR* as it applied immediately before revocation by the *Treasury*]

[Note: Articles 159 to 191 remain in the *CRR*]

ANNEX D

Counterparty Credit Risk (CRR) Part

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

Part

COUNTERPARTY CREDIT RISK (CRR)

Content

1. **APPLICATION AND DEFINITIONS**
2. **LEVEL OF APPLICATION**
3. **COUNTERPARTY CREDIT RISK (PART THREE, TITLE TWO, CHAPTER SIX CRR)**

Article 271 **DETERMINATION OF THE EXPOSURE VALUE**

Article 272 **DEFINITIONS**

Article 273 **METHODS FOR CALCULATING THE EXPOSURE VALUE**

Article 273a **CONDITIONS FOR USING SIMPLIFIED METHODS FOR CALCULATING THE EXPOSURE VALUE**

Article 273b **NON-COMPLIANCE WITH THE CONDITIONS FOR USING SIMPLIFIED METHODS FOR CALCULATING THE EXPOSURE VALUE OF DERIVATIVES**

Article 274 **EXPOSURE VALUE**

Article 275 **REPLACEMENT COST**

Article 276 **RECOGNITION AND TREATMENT OF COLLATERAL**

Article 277 **MAPPING OF TRANSACTIONS TO RISK CATEGORIES**

Article 277a **HEDGING SETS**

Article 278 **POTENTIAL FUTURE EXPOSURE**

Article 279 **CALCULATION OF THE RISK POSITION**

Article 279a **SUPERVISORY DELTA**

Article 279b **ADJUSTED NOTIONAL AMOUNT**

Article 279c **MATURITY FACTOR**

Article 280 **HEDGING SET SUPERVISORY FACTOR COEFFICIENT**

Article 280a **INTEREST RATE RISK CATEGORY ADD-ON**

Article 280b **FOREIGN EXCHANGE RISK CATEGORY ADD-ON**

Article 280c CREDIT RISK CATEGORY ADD-ON

Article 280d EQUITY RISK CATEGORY ADD-ON

Article 280e COMMODITY RISK CATEGORY ADD-ON

Article 280f OTHER RISKS CATEGORY ADD-ON

Article 281 CALCULATION OF THE EXPOSURE VALUE

Article 282 CALCULATION OF THE EXPOSURE VALUE

Article 300 DEFINITIONS

Article 301 MATERIAL SCOPE

Article 302 MONITORING OF EXPOSURES TO CCPs

Article 303 TREATMENT OF CLEARING MEMBERS' EXPOSURES TO CCPs

Article 304 TREATMENT OF CLEARING MEMBERS' EXPOSURES TO CLIENTS

Article 305 TREATMENT OF CLIENTS' EXPOSURES

Article 306 OWN FUNDS REQUIREMENTS FOR TRADE EXPOSURES

Article 307 OWN FUNDS REQUIREMENTS FOR CONTRIBUTIONS TO THE DEFAULT FUND OF A CCP

Article 308 OWN FUNDS REQUIREMENTS FOR PRE-FUNDED CONTRIBUTIONS TO THE DEFAULT FUND OF A QCCP

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

Article 310 OWN FUNDS REQUIREMENTS FOR UNFUNDED CONTRIBUTIONS TO THE DEFAULT FUND OF A QCCP

Article 311 OWN FUNDS REQUIREMENTS FOR EXPOSURES TO CCPS THAT CEASE TO MEET CERTAIN CONDITIONS

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

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

(b) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

current market value or *CMV*

means the net market value of all the transactions within a 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*]

hedging set

means a group of transactions within a single 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.

[Note: This rule corresponds to Article 272(6) of the *CRR* as it applied immediately before revocation by the *Treasury*]

margin threshold

means the largest amount of an exposure that remains outstanding before one party has the right to call for collateral.

[Note: This rule corresponds to Article 272(8) of the *CRR* as it applied immediately before 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 other than variation margin.

one way margin agreement

means a 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.

OneBusinessYear

means one year expressed in *business days*.

payment leg

means the payment agreed in an OTC derivative transaction with a linear risk profile which stipulates the exchange of a financial instrument for a payment.

In the case of transactions that stipulate the exchange of payment against payment, those two *payment legs* shall consist of the contractually agreed gross payments, including the notional amount of the transaction.

[Note: This rule corresponds to Article 272(26) of the *CRR* as it applied immediately before revocation by the *Treasury*]

1.3 For the purposes of Section 9 of this Part, the following definitions apply:

bankruptcy remote

in relation to *client* assets, means that effective arrangements exist which ensure that those assets will not be available to the creditors of a CCP or of a *clearing member* in the event of the insolvency of that CCP or *clearing member* respectively, or that the assets will not be available to the *clearing member* to cover losses it incurred following the default of a *client* or *clients* other than those that provided those assets.

cash transaction

means a transaction in cash, debt instruments or equities, a spot foreign exchange transaction or a spot commodities transaction; however, repurchase transactions, securities or commodities lending transactions, and securities or commodities borrowing transactions, are not *cash transactions*.

CCP-related transaction

means a contract or a transaction listed in Article 301(1) between a *client* and a *clearing member* that is directly related to a contract or a transaction listed in that paragraph between that *clearing member* and a CCP.

clearing member

means a *clearing member* as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.

client

means a *client* as defined in point (15) of Article 2 of Regulation (EU) No 648/2012 or an undertaking that has established *indirect clearing arrangements* with a *clearing member* in accordance with Article 4(3) of that Regulation.

fully guaranteed deposit lending or borrowing transaction

means a fully collateralised money market transaction in which two counterparties exchange deposits and a CCP interposes itself between them to ensure the performance of those counterparties' payment obligations.

higher-level client

means an entity providing clearing services to a *lower-level client*.

indirect clearing arrangement

means an arrangement that meets the conditions set out in the second subparagraph of Article 4(3) of Regulation (EU) No 648/2012.

lower-level client

means an entity accessing the services of a CCP through a *higher-level client*.

multi-level client structure

means an *indirect clearing arrangement* under which clearing services are provided to an institution by an entity which is not a *clearing member*, but is itself a *client* of a *clearing member* or of a *higher-level client*.

unfunded contribution to a default fund

means a contribution that an institution that acts as a *clearing member* has contractually committed to provide to a CCP after the CCP has depleted its default fund to cover the losses it incurred following the default of one or more of its *clearing members*.

[Note: This rule corresponds to Article 300 of the *CRR* as it applied immediately before 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*.

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*]

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) are set out above at rule 1.2. Article 272 (5) has been deleted]

SECTION 2 METHODS FOR CALCULATING THE EXPOSURE VALUE

Article 273 METHODS FOR CALCULATING THE EXPOSURE VALUE

1. Institutions shall calculate the exposure value for the contracts listed in Annex II of the *CRR* on the basis of one of the methods set out in Sections 3 to 6 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 may use in combination the methods set out in Sections 3 to 6 on a permanent basis within a group. A single institution shall not use in combination the methods set out in Sections 3 to 6 on a permanent basis.

2. Where permitted by the competent authorities in accordance with Article 283(1) and (2), an institution may determine the exposure value for the following items using the Internal Model Method set out in Section 6:

   (a) the contracts listed in Annex II of the *CRR*;

   (b) repurchase transactions;

   (c) securities or commodities lending or borrowing transactions;

   (d) margin lending transactions;

   (e) long settlement transactions.

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:

   (a) Articles 233 to 236;

   (b) in accordance with Article 153(3), or Article 183, where permission has been granted in accordance with Article 143.

   The exposure value for CCR for those credit derivatives shall be zero, unless an institution applies the approach in point (h)(ii) of Article 299(2).

4. Notwithstanding paragraph 3, an institution may choose consistently to include for the purposes of calculating own funds requirements for 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 exposure where the credit protection is recognised under the *CRR*.

5. Where credit default swaps sold by an institution are treated by an institution as credit protection provided by that institution and are subject to own funds requirement for credit risk of the underlying for the full notional amount, their exposure value for the purposes of CCR in the non-trading book shall be zero.

6. Under the methods set out in Sections 3 to 6, the exposure value for a given counterparty shall be equal to the sum of the exposure values calculated for each netting set with that counterparty.

By way of derogation from the first subparagraph, where one margin agreement applies to multiple 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, the exposure value shall be calculated in accordance with the relevant Section.

For a given counterparty, the exposure value for a given netting set of OTC derivative instruments listed in Annex II of the *CRR* 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 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).

7. In calculating the exposure value in accordance with the methods set out in Sections 3, 4 and 5, institutions may treat two OTC derivative contracts included in the same netting agreement that are perfectly matching as if they were a single contract with a notional principal equal to zero.

   For the purposes of the first subparagraph, two OTC derivative contracts are perfectly matching when they meet all the following conditions:

   (a) their risk positions are opposite;

   (b) their features, with the exception of the trade date, are identical;

   (c) their cash flows fully offset each other.

8. Institutions 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. In calculating the own funds requirements for long settlement transactions, an institution that uses the approach set out in Chapter 3 may assign the risk weights under the approach set out in Chapter 2 on a permanent basis and irrespective of the materiality of such positions.

9. For the methods set out in Sections 3 to 6 of this Chapter, institutions shall treat transactions where Specific Wrong-Way risk has been identified in accordance with Article 291(2), (4), (5) and (6).

[Note: This rule corresponds to Article 273 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 273a CONDITIONS FOR USING SIMPLIFIED METHODS FOR CALCULATING THE EXPOSURE VALUE

1. Subject to the restriction set out in Article 237b(2), an institution may calculate the exposure value of its derivative positions in accordance with the method set out in Section 4, provided that the size of its on- and off-balance-sheet derivative 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) 10% of the institution's total assets;

   (b) GBP 260 million.

2. Subject to the restriction set out in Article 237b(2), an institution may calculate the exposure value of its derivative positions in accordance with the method set out in Section 5, provided that the size of its on- and off-balance-sheet derivative 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 88 million.

3. For the purposes of paragraphs 1 and 2, institutions shall calculate the size of their on- and off-balance-sheet derivative business on the basis of data as of the last day of each *month* in accordance with the following requirements:

   (a) derivative positions shall be valued at their market values on that given date; where the market value of a position is not available on a given date, institutions shall take a fair value for the position on that date; where the market value and fair value of a position are not available on a given date, institutions shall take the most recent of the market value or fair value for that position;

   (b) the absolute value of long derivative positions shall be summed with the absolute value of short derivative positions;

   (c) all derivative positions shall be included, except credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures.

4. By way of derogation from paragraph 1 or 2, as applicable, where the derivative business on a 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, may, subject to the approval of competent authorities, instead choose to apply the method that would apply on a consolidated basis.

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

5. Institutions shall notify the competent authorities of the methods set out in Section 4 or 5 that they use, or cease to use, as applicable, to calculate the exposure value of their derivative positions.

6. Institutions shall not enter into a derivative transaction or buy or sell a derivative instrument for the sole purpose of complying with any of the conditions set out in paragraphs 1 and 2 during the monthly assessment.

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 thereof.

2. An institution shall cease to calculate the exposure values of its derivative positions in accordance with Section 4 or 5, as applicable, within six *months* of one of the following occurring:

   (a) the institution does not meet the conditions set out in point (a) of Article 273a(1) or (2), as applicable, or the conditions set out in point (b) of Article 273a(1) or (2), as applicable, for three consecutive *months*;

   (b) the institution does not meet the conditions set out in point (a) of Article 273a(1) or (2), as applicable, or the conditions set out in point (b) of Article 273a(1) or (2), as applicable, for more than six of the preceding 12 *months*.

3. Where an institution has ceased to calculate the exposure values of its derivative positions in accordance with Section 4 or 5, 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 where it demonstrates to the competent authority 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 level for all the transactions covered by a contractual netting agreement where all the following conditions are met:

   (a) the netting agreement belongs to one of the types of contractual netting agreements referred to in Article 295;

   (b) the netting agreement has been recognised by competent authorities in accordance with Article 296;

(c) the institution has fulfilled the obligations laid down in Article 297 in respect of the netting agreement.

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.

2. Institutions shall calculate the exposure value of a netting set under the standardised approach for counterparty credit risk as follows:

$$\text{Exposure value} = \alpha \cdot (\text{RC} + \text{PFE})$$

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.

3. The exposure value of a netting set that is subject to a contractual margin agreement shall be capped at the exposure value of the same netting set not subject to any form of margin agreement.

4. Where multiple margin agreements apply to the same netting set, institutions shall calculate the replacement cost of the netting set in accordance with Article 275(2) for margined transactions. The potential future exposure of the 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 form a single sub-netting set;

(b) all margined transactions within the netting set that share the same margin period of risk form a single sub-netting set.

5. Institutions may set to zero the exposure value of a netting set that satisfies all the following conditions:

(a) the netting set is solely composed of sold options;

(b) the *current market value* of the netting set is at all times negative;

(c) the premium of all the options included in the netting set has been received upfront by the institution to guarantee the performance of the contracts;

(d) the netting set is not subject to any margin agreement.

6. In a 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 in accordance with this Section. Each such combination of options shall be treated as an individual transaction in the 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 that is not subject to a margin agreement.

Article 275 REPLACEMENT COST

1. Institutions shall calculate the replacement cost RC for netting sets that are not subject to a 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 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 that are subject to margin agreements (other than those subject to the treatment under Article 275(1)) in accordance with the following formula:

   $RC = \max\{CMV - VM - NICA, TH + MTA - NICA, 0\}$

   where:

   RC = the replacement cost;

   VM = the volatility-adjusted value of the net variation margin received or posted, as applicable, to the netting set on a regular basis to mitigate changes in the netting set's *CMV*;

   TH = the *margin threshold* applicable to the netting set under the margin agreements below which the institution cannot call for collateral; and

   MTA = the minimum transfer amount applicable to the netting set under the margin agreements.

3. Institutions shall calculate the replacement cost for multiple netting sets that are subject to the same margin agreement in accordance with the following formula:

$$RC = \max\left\{\sum_i \max\{CMV_i, 0\} - \max\{VM_{MA} + NICA_{MA,} 0\}, 0\right\} + \max\left\{\sum_i \min\{CMV_i, 0\} - \min\{VM_{MA} + NICA_{MA,} 0\}, 0\right\}$$

where:

RC = the replacement cost;

i = the index that denotes the netting sets that are subject to the single margin agreement;

CMV_i = the *CMV* of netting set i;

VM_{MA} = the sum of the volatility-adjusted value of collateral received or posted, as applicable, to multiple 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 other than VM_{MA}.

For the purposes of the first subparagraph, $NICA_{MA}$ may be calculated at trade level, at netting set level or at the level of all the netting sets to which the margin agreement applies depending on the level at which the margin agreement applies.

Article 276 RECOGNITION AND TREATMENT OF COLLATERAL

1. For the purposes of this Section, institutions shall calculate the collateral amounts of VM, VM_{MA}, *NICA* and $NICA_{MA}$, by applying all the following requirements:

   (a) where all the transactions included in a 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 contains at least one transaction that belongs to the non-trading book, only collateral that is eligible under Article 197 shall be recognised;

   (c) collateral received from a counterparty shall be recognised with a positive sign and collateral posted to a counterparty shall be recognised with a negative sign;

   (d) the volatility-adjusted value of any type of collateral received or posted shall be calculated in accordance with Article 223; for the purposes of that calculation, institutions shall not use the method set out in Article 225;

   (e) the same collateral item shall not be included in both VM and *NICA* at the same time;

   (f) the same collateral item shall not be included in both VM_{MA} and $NICA_{MA}$ at the same time;

   (g) any collateral posted to the counterparty that is segregated from the assets of that counterparty and, as a result of that segregation, is bankruptcy remote in the event of the default or insolvency of that counterparty shall not be recognised in the calculation of *NICA* and $NICA_{MA}$.

2. For the calculation of the volatility-adjusted value of collateral posted referred to in point (d) of paragraph 1 of this Article, institutions shall replace the formula set out in Article 223(2) with the following formula:

$$C_{VA} = C \cdot (1 + H_C + H_{fx})$$

where:

C_{VA} = the volatility-adjusted value of collateral posted; and

C = the collateral;

H_C and H_{fx} are defined in accordance with Article 223(2).

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, capped at *OneBusinessYear*, for the netting sets referred to in Article 275(1);

(b) the margin period of risk determined in accordance with point (b) of Article 279c(1) for the 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 to one of the following risk categories to determine the potential future exposure of the netting set referred to in Article 278:

(a) interest rate risk;

(b) foreign exchange risk;

(c) credit risk;

(d) equity risk;

(e) commodity risk;

(f) other risks.

2. Institutions shall conduct the mapping referred to in paragraph 1 on the basis of the primary risk driver of a derivative transaction. The primary risk driver shall be the only material risk driver of a derivative transaction.

3. By way of derogation from paragraph 2, institutions shall map derivative transactions that have more than one material risk driver to more than one risk category. Where all the material risk drivers of one of those transactions belong to the same risk category, institutions shall only be required to map that transaction once to that risk category on the basis of the most material of those risk drivers. Where the material risk drivers of one of those transactions belong to different risk categories, institutions shall map that transaction once to each risk category for which the transaction has at least one material risk driver, on the basis of the most material of the risk drivers in that risk category.

4. Notwithstanding paragraphs 1, 2 and 3, when mapping transactions to the risk categories listed in paragraph 1, institutions shall apply the following requirements:

(a) where the primary risk driver of a transaction, or the most material risk driver in a given risk category for transactions referred to in paragraph 3, is an inflation variable, institutions shall map the transaction to the interest rate risk category;

(b) where the primary risk driver of a transaction, or the most material risk driver in a given risk category for transactions referred to in paragraph 3, is a climatic conditions variable, institutions shall map the transaction to the commodity risk category.

5. [Note: Provision left blank]

Article 277a HEDGING SETS

1. Institutions shall establish the relevant *hedging set*s for each risk category of a netting set and assign each transaction to those *hedging set*s as follows:

(a) transactions mapped to the interest rate risk category shall be assigned to the same *hedging set* only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), is denominated in the same currency;

(b) transactions mapped to the foreign exchange risk category shall be assigned to the same *hedging set* only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), is based on the same currency pair;

(c) all the transactions mapped to the credit risk category shall be assigned to the same *hedging set*;

(d) all the transactions mapped to the equity risk category shall be assigned to the same *hedging set*;

(e) transactions mapped to the commodity risk category shall be assigned to one of the following *hedging set*s on the basis of the nature of their primary risk driver or the most material risk driver in the given risk category for transactions referred to in Article 277(3):

(i) energy;

(ii) metals;

(iii) agricultural goods;

(iv) other commodities;

(v) climatic conditions;

(f) transactions mapped to the other risks category shall be assigned to the same *hedging set* only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), is identical.

For the purposes of point (a) of the first subparagraph of this paragraph, transactions mapped to the interest rate risk category that have an inflation variable as the primary risk driver shall be assigned to separate *hedging set*s, other than the *hedging set*s established for transactions mapped to the interest rate risk category that do not have an inflation variable as the primary risk driver. Those transactions shall be assigned to the same *hedging set* only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), is denominated in the same currency.

2. By way of derogation from paragraph 1 of this Article, institutions shall establish separate individual *hedging set*s in each risk category for the following transactions:

   (a) transactions for which the primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), is either the market implied volatility or the realised volatility of a risk driver or the correlation between two risk drivers;

   (b) transactions for which the primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), is the difference between two risk drivers mapped to the same risk category or transactions that consist of two *payment legs* denominated in the same currency and for which a risk driver from the same risk category of the primary risk driver is contained in the other *payment leg* than the one containing the primary risk driver.

   For the purposes of point (a) of the first subparagraph of this paragraph, institutions shall assign transactions to the same *hedging set* of the relevant risk category only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in Article 277(3), is identical.

   For the purposes of point (b) of the first subparagraph, institutions shall assign transactions to the same *hedging set* of the relevant risk category only where the pair of risk drivers in those transactions as referred to therein is identical and the two risk drivers contained in this pair are positively correlated. Otherwise, institutions shall assign transactions referred to in point (b) of the first subparagraph to one of the *hedging set*s established in accordance with paragraph 1, on the basis of only one of the two risk drivers referred to in point (b) of the first subparagraph.

3. Institutions shall make available upon request by the competent authorities the number of *hedging set*s 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 set*s and with the number of transactions in each of those *hedging set*s.

Article 278 POTENTIAL FUTURE EXPOSURE

1. Institutions shall calculate the potential future exposure of a netting set as follows:

$$\mathrm{PFE} = \mathrm{multiplier} \cdot \mathrm{AggAddOn}$$

where:

PFE = the potential future exposure;

multiplier = the multiplication factor calculated in accordance with the formula referred to in paragraph 3;

AggAddOn = $\sum_a \text{AddOn}^{(a)}$;

where:

a = the index that denotes the risk categories included in the calculation of the potential future exposure of the netting set;

$\text{AddOn}^{(a)}$ = the add-on for risk category a calculated in accordance with Articles 280a to 280f, as applicable.

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 where at least one transaction of the netting set has been mapped to that risk category.

2. The potential future exposure of multiple netting sets that are subject to one 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 as if they were not subject to any form of a margin agreement.

3. For the purposes of paragraph 1, the multiplier shall be calculated as follows:

$$\text{multiplier} = \begin{cases} 1 \text{ if } z \geq 0 \\ \min\left\{1, \text{Floor}_m + (1 - \text{Floor}_m) \cdot \exp\left(\frac{z}{y}\right)\right\} \text{ if } z < 0 \end{cases}$$

where:

Floor_m = 5%;

$y = 2 \cdot (1 - \text{Floor}_m) \cdot \text{AggAddOn}$

$$z = \begin{cases} CMV - NICA \text{ for the netting sets referred to in Article 275(1)} \\ CMV - VM - NICA \text{ for the netting sets referred to in Article 275(2)} \\ CMV_i - NICA_i \text{ for the netting sets referred to in Article 275(3)} \end{cases}$$

$NICA_i$ = the *net independent collateral amount* calculated only for transactions that are included in netting set i. $NICA_i$ shall be calculated at trade level or at netting set level depending on the 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 as follows:

$$\text{RiskPosition} = \delta \cdot \text{AdjNot} \cdot \text{MF}$$

where:

δ = the supervisory delta of the transaction calculated in accordance with the formula laid down in Article 279a;

AdjNot = the adjusted notional amount of the transaction calculated in accordance with Article 279b; and

MF = the maturity factor of the transaction calculated in accordance with the formula laid down in Article 279c.

Article 279a SUPERVISORY DELTA

1. Institutions shall calculate the supervisory delta as follows:

(a) for call and put options that entitle the option buyer to purchase or sell an underlying instrument at a positive price on a single or multiple dates in the future, except where those options are mapped to the interest rate risk category, institutions shall use the following formula:

$$\delta = \text{sign} \cdot N\left(\text{type} \cdot \frac{(\ln((P+\lambda)/(K+\lambda)) + 0.5 \cdot \sigma^2 \cdot T}{\sigma \cdot \sqrt{T}}\right)$$

where:

δ = the supervisory delta;

sign = – 1 where the transaction is a sold call option or a bought put option;

sign = + 1 where the transaction is a bought call option or sold put option;

type = – 1 where the transaction is a put option;

type = + 1 where the transaction is a call option;

N(x) = the cumulative distribution function for a standard normal random variable meaning the probability that a normal random variable with mean zero and variance of one is less than or equal to x;

P = the spot or forward price of the underlying instrument of the option; for options the cash flows of which depend on an average value of the price of the underlying instrument, P shall be equal to the average value at the calculation date;

K = the strike price of the option;

T = the period between the expiry date of the option (T_{exp}) and the calculation date; for options which can be exercised at one future date only, T_{exp} is equal to that date; for options which can be exercised at multiple future dates, T_{exp}

is equal to the latest of those dates; T shall be expressed in years using *business days*;

σ = the supervisory volatility of the option determined in accordance with Table 1 on the basis of the risk category of the transaction and the nature of the underlying instrument of the option; and

λ = the presumed lowest possible extent to which prices of the underlying instrument of the option can become negative. The same parameter must be used consistently for all options in the same underlying instrument. For options on interest rates, the same parameter must be used consistently for all options in the same currency.

Table 1

Risk category	**Underlying instrument**	**Supervisory volatility**
Interest rate	All	50%
Foreign exchange	All	15%
Credit	Single-name instrument	100%
	Multiple-names instrument	80%
Equity	Single-name instrument	120%
	Multiple-names instrument	75%
Commodity	Electricity	150%
	Other commodities (excluding electricity)	70%
Others	All	150%

Institutions using the forward price of the underlying instrument of an option shall ensure that:

(i) the forward price is consistent with the characteristics of the option;

(ii) the forward price is calculated using a relevant interest rate prevailing at the calculation date;

(iii) the forward price integrates the expected cash flows of the underlying instrument before the expiry of the option;

(b) for tranches of a synthetic securitisation and a nth-to-default credit derivative, institutions shall use the following formula:

$$\delta = \text{sign} \cdot \frac{15}{(1 + 14 \cdot \text{A}) \cdot (1 + 14 \cdot \text{D})}$$

where:

$$\text{sign} = \begin{cases} +1 \text{ where credit protection has been obtained through the transaction} \\ -1 \text{ where credit protection has been provided through the transaction} \end{cases}$$

A = the attachment point of the tranche; for a nth-to-default credit derivative transaction based on reference entities k, A = (n – 1)/k; and

D = the detachment point of the tranche; for a nth-to-default credit derivative transaction based on reference entities k, D = n/k;

(c) for transactions not referred to in point (a) or (b), institutions shall use the following supervisory delta:

$$\delta = \begin{cases} +1 \text{ if the transaction is a long position in the primary risk driver} \\ \quad \text{or in the most material risk driver in the given risk category} \\ \\ -1 \text{ if the transaction is a short position in the primary risk driver} \\ \quad \text{or in the most material risk driver in the given risk category} \end{cases}$$

2. For the purposes of this Section, a long position in the primary risk driver or in the most material risk driver in the given risk category for transactions referred to in Article 277(3) means that the market value of the transaction increases when the value of that risk driver increases and a short position in the primary risk driver or in the most material risk driver in the given risk category for transactions referred to in Article 277(3) means that the market value of the transaction decreases when the value of that risk driver increases.

3. [Note: Provision left blank]

Article 279b ADJUSTED NOTIONAL AMOUNT

1. Institutions shall calculate the adjusted notional amount as follows:

(a) for transactions mapped to the interest rate risk category or the credit risk category, institutions shall calculate the adjusted notional amount as the product of the notional amount of the derivative contract and the supervisory duration factor, which shall be calculated as follows:

$$\text{supervisory duration factor} = \max\left\{\frac{\exp(-\mathrm{R}\cdot\mathrm{S}) - \exp(-\mathrm{R}\ \cdot\mathrm{E})}{\mathrm{R}}\ ; 10/OneBusinessYear\right\}$$

where:

R = the supervisory discount rate; R = 5%;

S = the period between the start date of a transaction and the calculation date, which shall be expressed in years using *business days*;

E = the period between the end date of a transaction and the calculation date, which shall be expressed in years using *business days.*

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. 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.

Where a transaction has a financial instrument as the underlying instrument that may give rise to contractual obligations additional to those of the transaction, the start date of a transaction shall be determined on the basis of the earliest date at which the underlying instrument starts fixing or making payments.

The end date of a transaction is the latest date at which a contractual payment under the transaction, to or from the institution, is or may be exchanged.

Where a transaction has a financial instrument as an underlying instrument that may give rise to contractual obligations additional to those of the transaction, the end date of a transaction shall be determined on the basis of the last contractual payment of the underlying instrument of the transaction.

Where a transaction is structured to settle an outstanding exposure following specified payment dates and where the terms are reset so that the market value of the transaction is zero on those specified dates, the settlement of the outstanding exposure at those specified dates is considered a contractual payment under the same transaction;

(b) for transactions mapped to the foreign exchange risk category, institutions shall calculate the adjusted notional amount as follows:

 (i) where the transaction consists of one *payment leg*, the adjusted notional amount shall be the notional amount of the derivative contract;

 (ii) where the transaction consists of two *payment legs* and the notional amount of one *payment leg* is denominated in the institution's reporting currency, the adjusted notional amount shall be the notional amount of the other *payment leg*;

 (iii) where the transaction consists of two *payment legs* and the notional amount of each *payment leg* is denominated in a currency other than the institution's reporting currency, the adjusted notional amount shall be the largest of the notional amounts of the two *payment legs* after those amounts have been converted into the institution's reporting currency at the prevailing spot exchange rate;

(c) for transactions mapped to the equity risk category or commodity risk category, institutions shall calculate the adjusted notional amount as the product of the market price of one unit of the underlying instrument of the transaction and the number of units in the underlying instrument referenced by the transaction;

 where a transaction mapped to the equity risk category or commodity risk category is contractually expressed as a notional amount, institutions shall use the notional amount of the transaction rather than the number of units in the underlying instrument as the adjusted notional amount;

(d) for transactions mapped to the other risks category, institutions shall calculate the adjusted notional amount on the basis of the most appropriate method among the methods set out in points (a), (b) and (c), depending on the nature and characteristics of the underlying instrument of the transaction.

2. Institutions shall determine the notional amount or number of units of the underlying instrument for the purpose of calculating the adjusted notional amount of a transaction referred to in paragraph 1 as follows:

(a) where the notional amount or the number of units of the underlying instrument of a transaction is not fixed until its contractual maturity:

 (i) for deterministic notional amounts and numbers of units of the underlying instrument, the notional amount shall be the weighted average of all the deterministic values of notional amounts or number of units of the underlying instrument, as applicable, until the contractual maturity of the transaction, where the weights are the proportion of the time period during which each value of notional amount applies;

 (ii) for stochastic notional amounts and numbers of units of the underlying instrument, the notional amount shall be the amount determined by fixing *current market value*s within the formula for calculating the future market values;

(b) for contracts with multiple exchanges of the notional amount, the notional amount shall be multiplied by the number of remaining payments still to be made in accordance with the contracts;

(c) for contracts that provide for a multiplication of the cash-flow payments or a multiplication of the underlying of the derivative contract, the notional amount shall be adjusted by an institution to take into account the effects of the multiplication on the risk structure of those contracts.

3. Institutions shall convert the adjusted notional amount of a transaction into their reporting currency at the prevailing spot exchange rate where the adjusted notional amount is calculated under this Article from a contractual notional amount or a market price of the number of units of the underlying instrument denominated in another currency.

Article 279c MATURITY FACTOR

1. Institutions shall calculate the maturity factor as follows:

(a) for transactions included in the netting sets referred to in Article 275(1), institutions shall use the following formula:

$$\mathrm{MF} = \sqrt{\min\{\max\{\mathrm{M}, 10/OneBusinessYear\}, 1\}}$$

where:

MF = the maturity factor;

M = the remaining maturity of the transaction which is equal to the period of time needed for the termination of all contractual obligations of the transaction; for that purpose, any optionality of a derivative contract shall be considered to be a contractual obligation; the remaining maturity shall be expressed in years using *business days*;

where a transaction has another derivative contract as underlying instrument that may give rise to additional contractual obligations beyond the contractual obligations of the transaction, the remaining maturity of the transaction shall be equal to the period of time needed for the termination of all contractual obligations of the underlying instrument;

where a transaction is structured to settle outstanding exposure following specified payment dates and where the terms are reset so that the market value of the transaction is zero on those specified dates, the remaining maturity of the transaction shall be equal to the time until the next reset date; and

(b) for transactions included in the netting sets referred to in Article 275(2) and (3), the maturity factor is defined as:

$$\mathrm{MF} = \frac{3}{2}\sqrt{\frac{\mathrm{MPOR}}{OneBusinessYear}}$$

where:

MF = the maturity factor;

MPOR = the margin period of risk of the netting set determined in accordance with Article 285(2) to (5); and

When determining the 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.

2. For the purposes of paragraph 1, the remaining maturity shall be equal to the period of time until the next reset date for transactions that are structured to settle outstanding exposure following specified payment dates and where the terms are reset in such a way that the market value of the contract shall be zero on those specified payment dates.

Article 280 HEDGING SET SUPERVISORY FACTOR COEFFICIENT

For the purpose of calculating the add-on of a *hedging set* as referred to in Articles 280a to 280f, the *hedging set* supervisory factor coefficient 'ϵ' shall be the following:

ϵ = 1 for the *hedging set*s established in accordance with Article 277a(1)

5 for the *hedging set*s established in accordance with point (a) of Article 277a(2)

0.5 for the *hedging set*s established in accordance with point (b) of Article 277a(2)

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 as follows:

$$\mathrm{AddOn}^{\mathrm{IR}} = \sum_{j} \mathrm{AddOn}_j^{\mathrm{IR}}$$

where:

$\mathrm{AddOn}^{\mathrm{IR}}$ = the interest rate risk category add-on;

j = the index that denotes all the interest rate risk *hedging set*s established in accordance with point (a) of Article 277a(1) and with Article 277a(2) for the netting set; and

$\mathrm{AddOn}_j^{\mathrm{IR}}$ = the interest rate risk category add-on for *hedging set* j calculated in accordance with paragraph 2.

2. Institutions shall calculate the interest rate risk category add-on for *hedging set* j as follows:

$$\mathrm{AddOn}_j^{\mathrm{IR}} = \epsilon_j \cdot \mathrm{SF}^{\mathrm{IR}} \cdot \mathrm{EffNot}_j^{\mathrm{IR}}$$

where:

ϵ_j = the *hedging set* supervisory factor coefficient of *hedging set* j determined in accordance with the applicable value specified in Article 280;

SF^{IR} = the supervisory factor for the interest rate risk category with a value equal to 0.5%; and

$EffNot_j^{IR}$ = the effective notional amount of *hedging set* j calculated in accordance with paragraph 3.

3. For the purpose of calculating the effective notional amount of *hedging set* j, institutions shall first map each transaction of the *hedging set* to the appropriate bucket in Table 2. They shall do so on the basis of the end date of each transaction as determined under point (a) of Article 279b(1):

Table 2

Bucket	**End date (in years)**
1	> 0 and <= 1
2	> 1 and <= 5
3	> 5

Institutions shall then calculate the effective notional amount of *hedging set* j in accordance with the following formula:

$$EffNot_j^{IR} = \sqrt{\left[(D_{j,1})^2 + (D_{j,2})^2 + (D_{j,3})^2 + 1.4 \cdot D_{j,1} \cdot D_{j,2} + 1.4 \cdot D_{j,2} \cdot D_{j,3} + 0.6 \cdot D_{j,1} \cdot D_{j,3}\right]}$$

where:

$EffNot_j^{IR}$ = the effective notional amount of *hedging set* j; and

$D_{j,k}$ = the effective notional amount of bucket k of *hedging set* j calculated as follows:

$$D_{j,k} = \sum_{l \in \text{Bucket } k} \text{RiskPosition}_l$$

where:

l = the index that denotes the risk position.

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 as follows:

$$\mathrm{AddOn}^{\mathrm{FX}} = \sum_{\mathrm{j}} \mathrm{AddOn}_{\mathrm{j}}^{\mathrm{FX}}$$

where:

$\mathrm{AddOn}^{\mathrm{FX}}$ = the foreign exchange risk category add on;

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; and

$\mathrm{AddOn}_{\mathrm{j}}^{\mathrm{FX}}$ = the foreign exchange risk category add-on for *hedging set* j calculated in accordance with paragraph 2.

2. Institutions shall calculate the foreign exchange risk category add-on for *hedging set* j as follows:

$$\mathrm{AddOn}_{\mathrm{j}}^{\mathrm{FX}} = \epsilon_{\mathrm{j}} \cdot \mathrm{SF}^{\mathrm{FX}} \cdot \left|\mathrm{EffNot}_{\mathrm{j}}^{\mathrm{FX}}\right|$$

where:

ϵ_j the *hedging set* supervisory factor coefficient of *hedging set* j determined in accordance with Article 280;

$\mathrm{SF}^{\mathrm{FX}}$ the supervisory factor for the foreign exchange risk category with a value equal to 4%;

$\mathrm{EffNot}_{\mathrm{j}}^{\mathrm{FX}}$ the effective notional amount of *hedging set* j calculated as follows:

$$\mathrm{EffNot}_{\mathrm{j}}^{\mathrm{FX}} = \sum_{\mathrm{l} \in \mathit{Hedging\ set}\ \mathrm{j}} \mathrm{RiskPosition}_{\mathrm{l}}$$

where:

l = the index that denotes the risk position

Article 280c CREDIT RISK CATEGORY ADD-ON

1. For the purposes of paragraph 2, institutions shall establish the relevant credit reference entities of the netting set in accordance with the following:

(a) there shall be one credit reference entity for each issuer of a reference debt instrument that underlies a single-name transaction allocated to the credit risk category; single-name transactions shall be assigned to the same credit reference entity only where the underlying reference debt instrument of those transactions is issued by the same issuer;

(b) there shall be one credit reference entity for each group of reference debt instruments or single-name credit derivatives that underlie a multi-name transaction allocated to the credit risk category; multi-names transactions shall be assigned to the same credit reference entity only where the group of underlying reference debt instruments or single-name credit derivatives of those transactions have the same constituents.

2. For the purposes of Article 278, institutions shall calculate the credit risk category add-on for a given netting set as follows:

$$\text{AddOn}^{\text{Credit}} = \sum_{j} \text{AddOn}_j^{\text{Credit}}$$

where:

$\text{AddOn}^{\text{Credit}}$ = credit risk category add-on;

j = the index that denotes all the credit risk *hedging set*s established in accordance with point (c) of Article 277a(1) and with Article 277a(2) for the netting set; and

$\text{AddOn}_j^{\text{Credit}}$ = the credit risk category add-on for *hedging set* j calculated in accordance with paragraph 3.

3. Institutions shall calculate the credit risk category add-on for *hedging set* j as follows:

$$\text{AddOn}_j^{\text{Credit}} = \epsilon_j \sqrt{\left(\sum_k \rho_k^{\text{Credit}} \cdot \text{AddOn}(\text{Entity}_k)\right)^2 + \sum_k \left(1 - \left(\rho_k^{\text{Credit}}\right)^2\right) \cdot \left(\text{AddOn}(\text{Entity}_k)\right)^2}$$

where:

$\text{AddOn}_j^{\text{Credit}}$ = the credit risk category add-on for *hedging set* j;

ϵ_j = the *hedging set* supervisory factor coefficient of *hedging set* j determined in accordance with Article 280;

k = the index that denotes the credit reference entities of the netting set established in accordance with paragraph 1;

ρ_k^{Credit} = the correlation factor of the credit reference entity k; where the credit reference entity k has been established in accordance with point (a) of paragraph 1, $\rho_k^{\text{Credit}} = 50\%$, where the credit reference entity k has been established in accordance with point (b) of paragraph 1, $\rho_k^{\text{Credit}} = 80\%$; and

$\text{AddOn}(\text{Entity}_k)$ = the add-on for the credit reference entity k determined in accordance with paragraph 4.

4. Institutions shall calculate the add-on for the credit reference entity k as follows:

$$\text{AddOn}\ (\text{Entity}_k) = \text{EffNot}_k^{\text{Credit}}$$

where:

$\text{EffNot}_k^{\text{Credit}}$ the effective notional amount of the credit reference entity k calculated as follows:

$$\text{EffNot}_k^{\text{Credit}} = \sum_{l \in \text{Credit reference entity } k} \text{SF}_{k,l}^{\text{Credit}} \cdot \text{RiskPosition}_l$$

where:

l = the index that denotes the risk position; and

$\text{SF}_{k,l}^{\text{Credit}}$ = the supervisory factor applicable to the credit reference entity k calculated in accordance with paragraph 5.

5. Institutions shall calculate the supervisory factor applicable to the credit reference entity k as follows:

(a) for the credit reference entity k established in accordance with point (a) of paragraph 1, $\text{SF}_{k,l}^{\text{Credit}}$ shall be mapped to one of the six supervisory factors set out in Table 3 of this paragraph on the basis of an external credit assessment by a nominated ECAI of the corresponding individual issuer; for an individual issuer for which a credit assessment by a nominated ECAI is not available:

(i) an institution using the approach referred to in Chapter 3 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 Chapter 2 shall assign $\text{SF}_{k,l}^{\text{Credit}}$ = 0.54% to that credit reference entity; however, where an institution applies Article 128 to risk weight counterparty credit risk exposures to that individual issuer, $\text{SF}_{k,l}^{\text{Credit}}$ =1.6% shall be assigned to that credit reference entity;

(b) for the credit reference entity k established in accordance with point (b) of paragraph 1:

(i) where a risk position l assigned to the credit reference entity k is a credit index listed on a recognised exchange, $\text{SF}_{k,l}^{\text{Credit}}$ shall be mapped to one of the two supervisory factors set out in Table 4 of this paragraph on the basis of the credit quality of the majority of its individual constituents;

(ii) where a risk position l assigned to the credit reference entity k is not referred to in point (i) of this point, $\text{SF}_{k,l}^{\text{Credit}}$ shall be the weighted average of the supervisory factors mapped to each constituent in accordance with the method set out in point (a), where the weights are defined by the proportion of notional of the constituents in that position.

Table 3

Credit quality step	Supervisory factor for single-name transactions
1	0.38%
2	0.42%
3	0.54%
4	1.06%
5	1.6%
6	6.0%

Table 4

Dominant credit quality	Supervisory factor for quoted indices
Investment grade	0.38%
Non-investment grade	1.06%

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 in accordance with the following:

   (a) there shall be one equity reference entity for each issuer of a reference equity instrument that underlies a single-name transaction allocated to the equity risk category; single-name transactions shall be assigned to the same equity reference entity only where the underlying reference equity instrument of those transactions is issued by the same issuer;

   (b) there shall be one equity reference entity for each group of reference equity instruments or single-name equity derivatives that underlie a multi-name transaction allocated to the equity risk category; multi-names transactions shall be assigned to the same equity

reference entity only where the group of underlying reference equity instruments or single-name equity derivatives of those transactions, as applicable, has the same constituents.

2. For the purposes of Article 278, institutions shall calculate the equity risk category add-on for a given netting set as follows:

$$\mathrm{AddOn}^{\mathrm{Equity}} = \sum_{j} \mathrm{AddOn}_{j}^{\mathrm{Equity}}$$

where:

$\mathrm{AddOn}^{\mathrm{Equity}}$	=	the equity risk category add-on;
j	=	the index that denotes all the equity risk *hedging set*s established in accordance with point (d) of Article 277a(1) and Article 277a(2) for the netting set; and
$\mathrm{AddOn}_{j}^{\mathrm{Equity}}$	=	the equity risk category add-on for *hedging set* j calculated in accordance with paragraph 3.

3. Institutions shall calculate the equity risk category add-on for *hedging set* j as follows:

$$\mathrm{AddOn}_{j}^{\mathrm{Equity}} = \epsilon_j \sqrt{\left(\sum_{k} \rho_{k}^{\mathrm{Equity}} \cdot \mathrm{AddOn}(\mathrm{Entity}_k)\right)^2 + \sum_{k}\left(1 - \left(\rho_{k}^{\mathrm{Equity}}\right)^2\right) \cdot \left(\mathrm{AddOn}(\mathrm{Entity}_k)\right)^2}$$

where:

$\mathrm{AddOn}_{j}^{\mathrm{Equity}}$	=	the equity risk category add-on for *hedging set* j;
ϵ_j	=	the *hedging set* supervisory factor coefficient of *hedging set* j determined in accordance with Article 280;
k	=	the index that denotes the equity reference entities of the netting set established in accordance with paragraph 1;
$\rho_{k}^{\mathrm{Equity}}$	=	the correlation factor of the equity reference entity k; where the equity reference entity k has been established in accordance with point (a) of paragraph 1, $\rho_{k}^{\mathrm{Equity}} = 50\%$; where the equity reference entity k has been established in accordance with point (b) of paragraph 1, $\rho_{k}^{\mathrm{Equity}} = 80\%$; and
$\mathrm{AddOn}(\mathrm{Entity}_k)$	=	the add-on for the equity reference entity k determined in accordance with paragraph 4.

4. Institutions shall calculate the add-on for the equity reference entity k as follows:

$$\mathrm{AddOn}(\mathrm{Entity}_k) = \mathrm{SF}_{k}^{\mathrm{Equity}} \cdot \mathrm{EffNot}_{k}^{\mathrm{Equity}}$$

where:

AddOn(Entity$_k$)	=	the add-on for the equity reference entity k;
SF_k^{Equity}	=	the supervisory factor applicable to the equity reference entity k; where the equity reference entity k has been established in accordance with point (a) of paragraph 1, $SF_k^{Equity} = 32\%$; where the equity reference entity k has been established in accordance with point (b) of paragraph 1, $SF_k^{Equity} = 20\%$; and
$EffNot_k^{Equity}$	=	the effective notional amount of the equity reference entity k calculated as follows:

$$EffNot_k^{Equity} = \sum_{l \in \text{Equity reference entity } k} RiskPosition_l$$

where:

l = the index that denotes the risk position.

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 as follows:

$$AddOn^{Com} = \sum_j AddOn_j^{Com}$$

where:

$AddOn^{Com}$	=	the commodity risk category add-on;
j	=	the index that denotes the commodity *hedging set*s established in accordance with point (e) of Article 277a(1) and with Article 277a(2) for the netting set; and
$AddOn_j^{Com}$	=	the commodity risk category add-on for *hedging set* j calculated in accordance with paragraph 4.

2. For the purpose of calculating the add-on for a commodity *hedging set* of a given 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.

3. [Note: Provision left blank]

4. Institutions shall calculate the commodity risk category add-on for *hedging set* j as follows:

$$\text{AddOn}_j^{Com} = \epsilon_j \sqrt{\left(\rho^{Com} \cdot \sum_k \text{AddOn}\left(\text{Type}_k^j\right)\right)^2 + \left(1 - \left(\rho^{Com}\right)^2\right) \cdot \sum_k \left(\text{AddOn}\left(\text{Type}_k^j\right)\right)^2}$$

where:

AddOn_j^{Com}	=	the commodity risk category add-on for *hedging set* j;
ϵ_j	=	the *hedging set* supervisory factor coefficient of *hedging set* j determined in accordance with Article 280;
ρ^{Com}	=	the correlation factor of the commodity risk category with a value equal to 40%;
k	=	the index that denotes the commodity reference types of the netting set established in accordance with paragraph 2; and
$\text{AddOn}\left(\text{Type}_k^j\right)$	=	the add-on for the commodity reference type k calculated in accordance with paragraph 5.

5. Institutions shall calculate the add-on for the commodity reference type k as follows:

$$\text{AddOn}\left(\text{Type}_k^j\right) = \text{SF}_k^{Com} \cdot \text{EffNot}_k^{Com}$$

where:

$\text{AddOn}\left(\text{Type}_k^j\right)$	=	the add-on for the commodity reference type k;
SF_k^{Com}	=	the supervisory factor applicable to the commodity reference type k; where the commodity reference type k corresponds to transactions allocated to the *hedging set* referred to in point (e) of Article 277a(1), excluding transactions concerning electricity, $\text{SF}_k^{Com} = 18\%$; for transactions concerning electricity, $\text{SF}_k^{Com} = 40\%$; and
EffNot_k^{Com}	=	the effective notional amount of the commodity reference type k calculated as follows: $$\text{EffNot}_k^{Com} = \sum_{l \in \text{Commodity reference type k}} \text{RiskPosition}_l$$ where: l = the index that denotes the risk position.

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 as follows:

$$\text{AddOn}^{\text{Other}} = \sum_{j} \text{AddOn}_j^{\text{Other}}$$

where:

$\text{AddOn}^{\text{Other}}$	=	the other risks category add-on;
j	=	the index that denotes the other risk *hedging set*s established in accordance with point (f) of Article 277a(1) and Article 277a(2) for the netting set; and
$\text{AddOn}_j^{\text{Other}}$	=	the other risks category add-on for *hedging set* j calculated in accordance with paragraph 2.

2. Institutions shall calculate the other risks category add-on for *hedging set* j as follows:

$$\text{AddOn}_j^{\text{Other}} = \epsilon_j \cdot \text{SF}^{\text{Other}} \cdot \left|\text{EffNot}_j^{\text{Other}}\right|$$

where:

$\text{AddOn}_j^{\text{Other}}$	=	the other risks category add-on for *hedging set* j;
ϵ_j	=	the *hedging set* supervisory factor coefficient of *hedging set* j determined in accordance with Article 280;
SF^{Other}	=	the supervisory factor for the other risk category with a value equal to 8%; and
$\text{EffNot}_j^{\text{Other}}$	=	the effective notional amount of *hedging set* j calculated as follows:

$$\text{EffNot}_j^{\text{Other}} = \sum_{l \in \text{Hedging set j}} \text{RiskPosition}_l$$

where:

l = the index that denotes the risk position.

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 level in accordance with Section 3, subject to paragraph 2 of this Article.

2. The exposure value of a 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 that are not referred to in Article 275(2), institutions shall calculate the replacement cost in accordance with the following formula:

$RC = \max\{CMV, 0\}$

where:

RC = the replacement cost; and

CMV = the *current market value*.

(c) by way of derogation from Article 275(2), for 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:

$RC = TH + MTA$

where:

RC = the replacement cost;

TH = the *margin threshold* applicable to the netting set under the margin agreement below which the institution cannot call for collateral; and

MTA= the minimum transfer amount applicable to the netting set under the margin agreement;

(d) by way of derogation from Article 275(3), for multiple netting sets that are subject to a margin agreement, institutions shall calculate the replacement cost as the sum of the replacement cost of each individual netting set, calculated in accordance with paragraph 1 as if they were not margined;

(e) all *hedging sets* shall be established in accordance with Article 277a(1);

(f) institutions shall set to 1 the multiplier in the formula that is used to calculate the potential future exposure in Article 278(1), as follows:

$$\mathrm{PFE} = \sum_{a} \mathrm{AddOn}^{(a)}$$

where:

PFE = the potential future exposure; and

$\mathrm{AddOn}^{(a)}$ = the add-on for risk category a;

(g) by way of derogation from Article 279a(1), for all transactions, institutions shall calculate the supervisory delta as follows:

$$\delta = \begin{cases} +1 \text{ where the transaction is a long position in the primary risk driver} \\ -1 \text{ where the transaction is a short position in the primary risk driver} \end{cases}$$

where:

δ = the supervisory delta;

(h) the formula referred to in point (a) of Article 279b(1) that is used to compute the supervisory duration factor shall read as follows:

supervisory duration factor = E – S

where:

E = the period between the end date of a transaction and the calculation date; and

S = the period between the start date of a transaction and the calculation date;

(i) the maturity factor referred to in Article 279c(1) shall be calculated as follows:

(i) for transactions included in netting sets referred to in Article 275(1), MF = 1;

(ii) for transactions included in netting sets referred to in Article 275(2) and (3), MF = 0.42;

(j) the formula referred to in Article 280a(3) that is used to calculate the effective notional amount of *hedging set* j shall read as follows:

$$\text{EffNot}_j^{IR} = |D_{j,1}| + |D_{j,2}| + |D_{j,3}|$$

where:

EffNot_j^{IR} = the effective notional amount of *hedging set* j; and

$D_{j,k}$ = the effective notional amount of bucket k of *hedging set* j;

(k) the formula referred to in Article 280c(3) that is used to calculate the credit risk category add-on for *hedging set* j shall read as follows:

$$\text{AddOn}_j^{Credit} = \sum_k |\text{AddOn}(\text{Entity}_k)|$$

where:

AddOn_j^{Credit} = the credit risk category add-on for *hedging set* j; and

$\text{AddOn}(\text{Entity}_k)$ = the add-on for the credit reference entity k;

(l) the formula referred to in Article 280d(3) that is used to calculate the equity risk category add-on for *hedging set* j shall read as follows:

$$\text{AddOn}_j^{\text{Equity}} = \sum_k |\text{AddOn}(\text{Entity}_k)|$$

where:

$\text{AddOn}_j^{\text{Equity}}$ = the equity risk category add-on for *hedging set* j; and

$\text{AddOn}(\text{Entity}_k)$ = the add-on for the credit reference entity k;

(m) the formula referred to in Article 280e(4) that is used to calculate the commodity risk category add-on for *hedging set* j of the commodity risk category in Article 280e(3) shall read as follows:

$$\text{AddOn}_j^{\text{Com}} = \sum_k |\text{AddOn}(\text{Type}_k^j)|$$

where:

$\text{AddOn}_j^{\text{Com}}$ = the commodity risk category add-on for *hedging set* j; and

$\text{AddOn}(\text{Type}_k^j)$ = the add-on for the commodity reference type k.

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.

2. The exposure value of a 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 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:

   RC = TH + MTA

where:

RC = the replacement cost;

TH = the *margin threshold* applicable to the netting set under the margin agreement below which the institution cannot call for collateral; and

MTA= the minimum transfer amount applicable to the netting set under the margin agreement;

(b) for all other netting sets or individual transactions, institutions shall use the following formula:

RC = max{*CMV*, 0}

where:

RC = the replacement cost; and

CMV = the *current market value*.

In order to calculate the current replacement cost, institutions shall update *current market value*s at least monthly.

4. Institutions shall calculate the potential future exposure referred to in paragraph 2 as follows:

(a) the potential future exposure of a netting set is the sum of the potential future exposure of all the transactions included in the netting set, calculated in accordance with point (b);

(b) the potential future exposure of a single transaction is its notional amount multiplied by:

(i) the product of 0.5% and the residual maturity of the transaction expressed in years for interest-rate derivative contracts;

(ii) the product of 6% and the residual maturity of the transaction expressed in years for credit derivative contracts;

(iii) 4% for foreign-exchange derivatives;

(iv) 18% for gold and commodity derivatives other than electricity derivatives;

(v) 40% for electricity derivatives;

(vi) 32% for equity derivatives;

(c) the notional amount referred to in point (b) of this paragraph shall be determined in accordance with Article 279b(2) and (3) for all derivatives listed in that point; in addition, the notional amount of the derivatives referred to in points (b)(iii) to (b)(vi) of this paragraph shall be determined in accordance with points (b) and (c) of Article 279b(1);

(d) the potential future exposure of netting sets referred to in point (a) of paragraph 3 shall be multiplied by 0.42.

For calculating the potential exposure of interest-rate derivatives and credit derivatives in accordance with points b(i) and (b)(ii), an institution may choose to use the original maturity instead of the residual maturity of the contracts.

[Note: Articles 283 to 299 remain in the *CRR*]

SECTION 9 OWN FUNDS REQUIREMENTS FOR EXPOSURES TO A CENTRAL COUNTERPARTY

Article 300 DEFINITIONS

[Note: Article 300 is set out at rule 1.3 of this Part]

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 of the *CRR* and credit derivatives;

   (b) securities financing transactions and *fully guaranteed deposit lending or borrowing transactions*; and

   (c) long settlement transactions.

   This Section does not apply to exposures arising from the settlement of *cash transaction*s. Institutions shall apply the treatment laid down in Title V to trade exposures arising from those transactions and a 0% risk weight to default fund contributions covering only those transactions. Institutions shall apply the treatment set out in Article 307 to default fund contributions that cover any of the contracts listed in the first subparagraph of this paragraph in addition to *cash transaction*s.

2. For the purposes of this Section, the following requirements shall apply:

   (a) the initial margin shall not include contributions to a CCP for mutualised loss sharing arrangements;

   (b) the initial margin shall include collateral deposited by an institution acting as a *clearing member* or by a *client* in excess of the minimum amount required respectively by the CCP or by the institution acting as a *clearing member*, provided the CCP or the institution acting as a *clearing member* may, in appropriate cases, prevent the institution acting as a *clearing member* or the *client* from withdrawing such excess collateral;

   (c) where a CCP uses the initial margin to mutualise losses among its *clearing members*, institutions that act as *clearing members* shall treat that initial margin as a default fund contribution.

[Note: This rule corresponds to Article 301 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 302 MONITORING OF EXPOSURES TO CCPS

1. Institutions shall monitor all their exposures to CCPs and shall lay down procedures for the regular reporting of information on those exposures to senior management and appropriate committee or committees of the management body.
2. Institutions shall assess, through appropriate scenario analysis and stress testing, whether the level of own funds held against exposures to a CCP, including potential future or contingent credit exposures, exposures from default fund contributions and, where the institution is acting as a *clearing member*, exposures resulting from contractual arrangements as laid down in Article 304, adequately relates to the inherent risks of those exposures.

[Note: This rule corresponds to Article 302 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 303 TREATMENT OF CLEARING MEMBERS' EXPOSURES TO CCPS

1. An institution that acts as a *clearing member*, either for its own purposes or as a financial intermediary between a *client* and a CCP, shall calculate the own funds requirements for its exposures to a CCP as follows:
   (a) it shall apply the treatment set out in Article 306 to its trade exposures with the CCP;
   (b) it shall apply the treatment set out in Article 307 to its default fund contributions to the CCP.
2. For the purposes of paragraph 1, the sum of an institution's own funds requirements for its exposures to a QCCP due to trade exposures and default fund contributions shall be subject to a cap equal to the sum of own funds requirements that would be applied to those same exposures if the CCP were a non-qualifying CCP.

[Note: This rule corresponds to Article 303 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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, as applicable.
2. Where an institution acting as a *clearing member* enters into a contractual arrangement with a *client* of another *clearing member* that facilitates, in accordance with Article 48(5) and (6), of Regulation (EU) No 648/2012, the transfer of positions and collateral referred to in Article

305(2)(b) for that *client*, and that contractual agreement gives rise to a contingent obligation for that institution, that institution may attribute an exposure value of zero to that contingent obligation.

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 of at least five *business days* for its exposures to a *client*;

   (b) the institution shall apply a 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 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 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 that is the lower of one year and the remaining maturity of the transaction, with a floor of 10 *business days*.

4. By way of derogation from point (i) of Article 281(2), where an institution that acts as a *clearing member* uses the method set out in Section 4 to calculate the own funds requirement for its exposures to a *client*, the institution may use a maturity factor of 0.21 for its calculation.

5. By way of derogation from point (d) of Article 282(4), where an institution that acts as a *clearing member* uses the method set out in Section 5 to calculate the own funds requirement for its exposures to a client, that institution may use a maturity factor of 0.21 in that calculation.

6. An institution that acts as a *clearing member* may use the reduced exposure at default resulting from the calculations set out in paragraphs 3, 4 and 5 for the purposes of calculating its own funds requirements for CVA risk in accordance with Title VI.

7. An institution that acts as a *clearing member* that collects collateral from a *client* for a *CCP-related transaction* and passes the collateral on to the CCP may recognise that collateral to reduce its exposure to the *client* for that *CCP-related transaction*.

   In the case of a *multi-level client structure,* the treatment set out in the first subparagraph may be applied at each level of that structure.

[Note: This rule corresponds to Article 304 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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 as applicable.

2. Without prejudice to the approach specified in paragraph 1, where an institution is a *client*, it may calculate the own funds requirements for its trade exposures for *CCP-related transactions* with its *clearing member* in accordance with Article 306 provided that all the following conditions are met:

   (a) the positions and assets of that institution related to those transactions are distinguished and segregated, at the level of both the *clearing member* and the CCP, from the positions and assets of both the *clearing member* and the other *clients* of that *clearing member* and as a result of that distinction and segregation those positions and assets are *bankruptcy remote* in the event of the default or insolvency of the *clearing member* or one or more of its other *clients*;

   (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 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;

   (c) the *client* has conducted a sufficiently thorough legal review, which it has kept up to date, that substantiates that the arrangements that ensure that the condition set out in point (b) is met are legal, valid, binding and enforceable under the relevant laws of the relevant jurisdiction or jurisdictions;

   (d) the CCP is a QCCP.

   When assessing its compliance with the condition set out in point (b) of the first subparagraph, an institution may take into account any clear precedents of transfers of *client* positions and of corresponding collateral at a CCP, and any industry intent to continue with that practice.

3. By way of derogation from paragraph 2 of this Article, where an institution that is a *client* fails to meet the condition set out in point (a) of that paragraph because that institution is not protected from losses in case the *clearing member* and another *client* of the *clearing member* jointly default, provided that all the other conditions set out in points (a) to (d) of that paragraph are met, the institution may calculate the own funds requirements for its trade exposures for *CCP-related transactions* with its *clearing member* in accordance with Article 306, subject to replacing the 2% risk weight set out in point (a) of Article 306(1) with a 4% risk weight.

4. In the case of a *multi-level client structure*, an institution that is a *lower-level client* accessing the services of a CCP through a *higher-level client*, may apply the treatment set out in paragraph 2 or 3 only where the conditions in each paragraph are met at every level of that structure.

[Note: This rule corresponds to Article 305 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 306 OWN FUNDS REQUIREMENTS FOR TRADE EXPOSURES

1. An institution shall apply the following treatment to its trade exposures with CCPs:

   (a) it shall apply a risk weight of 2% to the exposure values of all its trade exposures with QCCPs;

   (b) it shall apply the risk weight used for the Standardised Approach to credit risk as set out in Article 107(2)(b) to all its trade exposures with non-qualifying CCPs;

   (c) where an institution acts as a financial intermediary between a *client* and a CCP, and the terms of the *CCP-related transaction* stipulate that the institution is not required to reimburse the *client* for any losses suffered due to changes in the value of that transaction in the event that the CCP defaults, that institution may set the exposure value of the trade exposure with the CCP that corresponds to that *CCP-related transaction* to zero;

   (d) where an institution acts as a financial intermediary between a *client* and a CCP, and the terms of the *CCP-related transaction* stipulate that the institution is required to reimburse the *client* for any losses suffered due to changes in the value of that transaction in the event that the CCP defaults, that institution shall apply the treatment in point (a) or (b), as applicable, to the trade exposure with the CCP that corresponds to that *CCP-related transaction*.

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 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, as applicable.

4. An institution shall calculate the risk-weighted exposure amounts for its trade exposures with CCPs for the purposes of Article 92(3) as the sum of the exposure values of its trade exposures with CCPs, calculated in accordance with paragraphs 2 and 3 of this Article, multiplied by the risk weight determined in accordance with paragraph 1 of this Article.

[Note: This rule corresponds to Article 306 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 307 OWN FUNDS REQUIREMENTS FOR CONTRIBUTIONS TO THE DEFAULT FUND OF A CCP

An institution that acts as a *clearing member* shall apply the following treatment to its exposures arising from its contributions to the default fund of a CCP:

(a) it shall calculate the own funds requirement for its pre-funded contributions to the default fund of a QCCP in accordance with the approach set out in Article 308;

(b) it shall calculate the own funds requirement for its pre-funded and unfunded contributions to the default fund of a non-qualifying CCP in accordance with the approach set out in Article 309;

(c) it shall calculate the own funds requirement for its unfunded contributions to the default fund of a QCCP in accordance with the treatment set out in Article 310.

[Note: This rule corresponds to Article 307 of the *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

1. The exposure value for an institution's pre-funded contribution to the default fund of a QCCP (DFi) shall be the amount paid in or the market value of the assets delivered by that institution reduced by any amount of that contribution that the QCCP has already used to absorb its losses following the default of one or more of its *clearing members*.

2. An institution shall calculate the own funds requirement to cover the exposure arising from its pre-funded contribution as follows:

$$K_i = \max\left\{K_{CCP} \cdot \frac{DF_i}{DF_{CCP} + DF_{CM}}, 8\% \cdot 2\% \cdot DF_i\right\}$$

where:

K_i = the own funds requirement;

i = the index denoting the *clearing member*;

K_{CCP} = the hypothetical capital of the QCCP communicated to the institution by the QCCP in accordance with Article 50c of Regulation (EU) No 648/2012;

DF_i = the pre-funded contribution;

DF_{CCP} = the pre-funded financial resources of the CCP communicated to the institution by the CCP in accordance with Article 50c of Regulation (EU) No 648/2012; and

DF_{CM} = the sum of pre-funded contributions of all *clearing members* of the QCCP communicated to the institution by the QCCP in accordance with Article 50c of Regulation (EU) No 648/2012.

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) as the own funds requirement, calculated in accordance with paragraph 2 of this Article, multiplied by 12.5.

[Note: This rule corresponds to Article 308 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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

1. An institution shall apply the following formula to calculate the own funds requirement for the exposures arising from its pre-funded contributions to the default fund of a non-qualifying CCP and from unfunded contributions to such CCP:

   $K = DF + UC$

   where:

   K = the own funds requirement;

   DF = the pre-funded contributions to the default fund of a non-qualifying CCP; and

   UC = the unfunded contributions to the default fund of 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) as the own funds requirement, calculated in accordance with paragraph 1 of this Article, multiplied by 12.5.

[Note: This rule corresponds to Article 309 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 310 OWN FUNDS REQUIREMENTS FOR UNFUNDED CONTRIBUTIONS TO THE DEFAULT FUND OF A QCCP

An institution shall apply a 0% risk weight to its unfunded contributions to the default fund of a QCCP.

[Note: This rule corresponds to Article 310 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 311 OWN FUNDS REQUIREMENTS FOR EXPOSURES TO CCPS THAT CEASE TO MEET CERTAIN CONDITIONS

1. Institutions shall apply the treatment set out in this Article where it has become known to them, following a public announcement or notification from the competent authority of a CCP used by those institutions or from that CCP itself, that the CCP will no longer comply with the conditions for authorisation or recognition, as applicable.

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:

(a) apply the treatment set out in point (b) of Article 306(1) to their trade exposures to that CCP;

(b) apply the treatment set out in Article 309 to their pre-funded contributions to the default fund of that CCP and to its unfunded contributions 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 Chapter 2.

[Note: This rule corresponds to Article 311 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ANNEX E

Operational Risk (CRR) Part

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

Part

OPERATIONAL RISK (CRR)

Content

1. **APPLICATION**
2. **LEVEL OF APPLICATION**
3. **OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK (PART THREE, TITLE III, CRR)**

   Article 316 RELEVANT INDICATOR

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 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*.

3 OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK (PART THREE, TITLE III CRR)

[Note: Articles 312 to 315, and Articles 317 to 324 remain in the *CRR*]

Article 316 RELEVANT INDICATOR

1. For institutions applying accounting standards established by Directive 86/635/EEC UK law, based on the accounting categories for the profit and loss account of institutions under Article 27 of that Directive, the relevant indicator is the sum of the elements listed in Table 1 of this paragraph. Institutions shall include each element in the sum with its positive or negative sign.

Table 1

1 Interest receivable and similar income
2 Interest payable and similar charges
3 Income from shares and other variable/fixed-yield securities
4 Commissions/fees receivable
5 Commissions/fees payable
6 Net profit or net loss on financial operations
7 Other operating income

Institutions shall adjust these elements to reflect the following qualifications:

(a) institutions shall calculate the relevant indicator before the deduction of any provisions and operating expenses. Institutions shall include in operating expenses fees paid for outsourcing services rendered by third parties which are not a parent or subsidiary of the

institution or a subsidiary of a parent which is also the parent of the institution. Institutions may use expenditure on the outsourcing of services rendered by third parties to reduce the relevant indicator where the expenditure is incurred from an undertaking subject to rules under, or equivalent to, the *CRR*;

(b) institutions shall not use the following elements in the calculation of the relevant indicator:

(i) realised profits/losses from the sale of non-trading book items;

(ii) income from extraordinary or irregular items;

(iii) income derived from insurance.

(c) when revaluation of trading items is part of the profit and loss statement, institutions may include revaluation. When institutions apply Article 36(2) of Directive 86/635/EEC UK law, they shall include revaluation booked in the profit and loss account.

1A. By way of derogation from the first subparagraph of paragraph (1), institutions may choose not to apply the accounting categories for the profit and loss account under Article 27 of Directive 86/635/EEC UK law to financial and operating leases for the purpose of calculating the relevant indicator, and may instead:

(a) include interest income from financial and operating leases and profits from leased assets in the category referred to in point 1 of Table 1;

(b) include interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets in the category referred to in point 2 of Table 1.

2. When institutions apply accounting standards different from those established by Directive 86/635/EEC UK law, they shall calculate the relevant indicator on the basis of data that best reflect the definition set out in this Article.

3. [Note: Provision left blank]

[Note: This rule corresponds to Article 316 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ANNEX F

Credit Valuation Adjustment Risk (CRR) Part

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

Part

CREDIT VALUATION ADJUSTMENT RISK (CRR)

Content

1. **APPLICATION**
2. **LEVEL OF APPLICATION**
3. **OWN FUNDS REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK (PART THREE, TITLE VI CRR)**

   Article 385 ALTERNATIVE TO USING CVA METHODS FOR CALCULATING OWN FUNDS REQUIREMENTS

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 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*.

3 OWN FUNDS REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK (PART THREE CRR, TITLE VI CRR)

[Note: Articles 381 to 384 remain in the *CRR*]

Article 385 ALTERNATIVE TO USING CVA METHODS FOR CALCULATING OWN FUNDS REQUIREMENTS

As an alternative to Article 384, for instruments referred to in Article 382 and subject to the prior consent of the competent authority, institutions using the Original Exposure Method as laid down in Article 282 may apply a multiplication factor of 10 to the resulting risk-weighted exposure amounts for counterparty credit risk for those exposures instead of calculating the own funds requirements for credit valuation adjustment (CVA) risk.

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

[Note: This rule corresponds to Article 385 of the *CRR* as it applied immediately before revocation by the *Treasury*]

[Note: Article 386 remains in the *CRR*]

ANNEX G

Large Exposures (CRR) Part

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

Part

LARGE EXPOSURES (CRR)

Content

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. LARGE EXPOSURES (PART FOUR CRR)

Article 387 SUBJECT MATTER

Article 388 NEGATIVE SCOPE

Article 389 DEFINITION

Article 390 CALCULATION OF EXPOSURE VALUE

Article 391 DEFINITION OF AN INSTITUTION FOR LARGE EXPOSURE PURPOSES

Article 392 DEFINITION OF LARGE EXPOSURE

Article 393 CAPACITY TO IDENTIFY AND MANAGE LARGE EXPOSURES

Article 394 REPORTING REQUIREMENTS

Article 395 LIMITS TO LARGE EXPOSURES

Article 396 COMPLIANCE WITH LARGE EXPOSURES REQUIREMENTS

Article 397 CALCULATING ADDITIONAL OWN FUNDS REQUIREMENTS FOR LARGE EXPOSURES IN THE TRADING BOOK

Article 398 PROCEDURES TO PREVENT INSTITUTIONS FROM AVOIDING THE ADDITIONAL OWN FUNDS REQUIREMENT

Article 399 ELIGIBLE CREDIT RISK MITIGATION TECHNIQUES

Article 400 EXEMPTIONS

Article 401 CALCULATING THE EFFECT OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

Article 402 EXPOSURES ARISING FROM MORTGAGE LENDING

Article 403 SUBSTITUTION APPROACH

5. RULES DETERMINING THE OVERALL EXPOSURE TO A CLIENT OR A GROUP OF CONNECTED CLIENTS IN RESPECT OF TRANSACTIONS WITH UNDERLYING ASSETS (PREVIOUSLY REGULATION (EU) NO 1187/2014)

Article 1	**SUBJECT MATTER**
Article 2	**DEFINITIONS**
Article 3	**IDENTIFICATION OF EXPOSURES RESULTING FROM TRANSACTIONS**
Article 4	**TRANSACTIONS WHICH THEMSELVES HAVE UNDERLYING ASSETS**
Article 5	**CALCULATION OF THE EXPOSURE VALUE**
Article 6	**PROCEDURE FOR DETERMINING THE CONTRIBUTION OF UNDERLYING EXPOSURES TO OVERALL EXPOSURES**
Article 7	**ADDITIONAL EXPOSURE CONSTITUTED BY THE STRUCTURE OF A TRANSACTION**

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

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

(b) a *CRR consolidation entity*.

1.2 In this Part, the following definitions shall apply:

(a) *exposure*

means any asset or off balance sheet item referred to in Part Three, Title II, Chapter 2 of the *CRR*, without applying the risk weights or degrees of risk.

[Note: This definition corresponds to Article 389 of the *CRR* as it applied immediately before revocation by the *Treasury*]

(b) *large exposure*

means an institution's *exposure* to a client or group of connected clients where the value of the *exposure* is equal to or exceeds 10% of its *Tier 1 capital*.

[Note: This definition corresponds to Article 392 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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*.

[Note: Rule 1.3 corresponds to the first subparagraph of Article 391 of the *CRR*. The second subparagraph of Article 391 containing the power for the *Treasury* to determine equivalence remains in the *CRR*. The third subparagraph of Article 391 of the *CRR* contains transitional provisions]

1.4 For the purposes of Chapter 5 of this Large Exposures (CRR) Part of the *PRA* Rules the following definitions shall apply:

(a) '*transactions'*

mean transactions referred to in points (m) and (o) of Article 112 of the *CRR* and other transactions where there is an *exposure* to underlying assets;

(b) '*unknown client'*

means a single hypothetical client to which the institution assigns all *exposures* for which it has not identified the obligor, provided that Article 6(2)(a) and (b) and Article 6(3)(a) of Chapter 5 of this Large Exposures (CRR) Part are not applicable.

[Note: This rule corresponds to Article 2 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury*]

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 the *CRR* that applies to this Part]

2.2 Where an institution 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.

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

2.3 But rule 2.1 shall not apply to the second and third paragraphs of Article 394(1), to Article 394(2) and to the third paragraph of Article 395(1), which obligations shall only be complied with on a consolidated basis.

Application of requirements on a consolidated basis

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

[Note: Rule 2.4 sets out an equivalent provision to the first sentence of Article 11(1) of the *CRR* that applies 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).

[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*.

[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.

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

3.3 An institution shall monitor and control its *large exposures* in accordance with this Part.

[Note: Rule 3.3 corresponds to Article 387 of the *CRR* as it applied immediately before revocation by the *Treasury*]

4 LARGE EXPOSURES (PART FOUR CRR)

ARTICLE 387 SUBJECT MATTER

[Note: Provision left blank]

[Note: Refer to rule 3.3]

ARTICLE 388 NEGATIVE SCOPE

[Note: Provision left blank]

[Note: Refer to rule 1.1]

ARTICLE 389 DEFINITION

[Note: Provision left blank]

[Note: The definition of “exposures” formerly contained in Article 389 of the *CRR* is in rule 1.2]

ARTICLE 390 CALCULATION OF EXPOSURE VALUE

1. The total *exposures* to a group of connected clients shall be calculated by adding together the *exposures* to individual clients in that group.

2. The overall *exposures* to individual clients shall be calculated by adding the *exposures* in the trading book and the *exposures* in the non-trading book.

3. For *exposures* in the trading book, institutions may:

   (a) offset their long positions and short positions in the same financial instruments issued by a given client, with the net position in each of the different instruments being calculated in accordance with the methods laid down in Chapter 2 of Title IV of Part Three;

   (b) offset their long positions and short positions in different financial instruments issued by a given client, but only where the financial instrument underlying the short position is junior to the financial instrument underlying the long position or where the underlying instruments are of the same seniority.

   For the purposes of points (a) and (b), financial instruments may be allocated into buckets on the basis of different degrees of seniority in order to determine the relative seniority of positions.

4. Institutions shall calculate the exposure values of the derivative contracts listed in Annex II of the *CRR* 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 Chapter 6 of Title II of Part Three, as applicable. The exposure value for securities financing transactions shall be calculated in accordance with the methods referred to in Section 4 of Chapter 4 of Title II of Part Three, as applicable. *Exposures* resulting from the transactions referred to in Articles 378, 379 and 380 shall be calculated 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, institutions shall also comply with the principles set out in Article 299.

   By way of derogation from the first subparagraph, institutions with permission to use the method referred to in Section 6 of Chapter 6 of Title II of Part Three may use that method for calculating the exposure value for securities financing transactions.

5. Institutions shall add to the total *exposure* to a client the *exposures* arising from derivative contracts listed in Annex II of the *CRR* and credit derivative contracts, where the contract was not directly entered into with that client but the underlying debt or equity instrument was issued by that client.

6. *Exposures* shall not include any of the following:

   (a) in the case of foreign exchange transactions, *exposures* incurred in the ordinary course of settlement during the two *business days* following payment;

(b) in the case of transactions for the purchase or sale of securities, *exposures* incurred in the ordinary course of settlement during the five *business days* following payment or delivery of the securities, whichever is the earlier;

(c) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking or financial instruments clearing, settlement and custody services to clients, delayed receipts in funding and other *exposures* arising from client activity which do not last longer than the following *business day*;

(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 providing those services;

(e) *exposures* deducted from Common Equity Tier 1 items or Additional Tier 1 items in accordance with Articles 36 and 56 or any other deduction from those items that reduces the solvency ratio.

7. To determine the overall *exposure* to a client or a group of connected clients, in respect of clients to which the institution has *exposures* through transactions referred to in points (m) and (o) of Article 112 or through other transactions where there is an *exposure* to underlying assets, an institution shall assess its underlying *exposures* taking into account the economic substance of the structure of the transaction and the risks inherent in the structure of the transaction itself, in order to determine whether it constitutes an additional *exposure*.

8. [Note: Provision left blank. Rules for determining the overall *exposure* to a client or a group of connected clients corresponding to Delegated Regulation 2014/1187 are set out in Chapter 5 of this Part]

9. [Note: Provision left blank]

[Note: This rule corresponds to Article 390 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 391 DEFINITION OF AN INSTITUTION FOR LARGE EXPOSURE PURPOSES

[Note: Article 391 is enacted in rule 1.3 of this Part]

ARTICLE 392 DEFINITION OF LARGE EXPOSURE

[Note: Article 392 is enacted in the definition of *large exposure* in rule 1.2 of this Part]

ARTICLE 393 CAPACITY TO IDENTIFY AND MANAGE LARGE EXPOSURES

An institution shall have sound administrative and accounting procedures and adequate *internal control* mechanisms for the purposes of identifying, managing, monitoring, reporting and recording all *large exposures* and subsequent changes to them, in accordance with this Part.

[Note: This rule corresponds to Article 393 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 394 REPORTING REQUIREMENTS

1. Institutions shall report the following information to their competent authority for each *large exposure* that they hold, including *large exposures* exempted from the application of Article 395(1):

   (a) the identity of the client or the group of connected clients to which the institution has a *large exposure*;

   (b) the exposure value before taking into account the effect of the credit risk mitigation, where applicable;

   (c) where used, the type of funded or unfunded credit protection;

   (d) the exposure value, after taking into account the effect of the credit risk mitigation calculated for the purposes of Article 395(1), where applicable.

   Institutions that are subject to Chapter 3 of Title II of Part Three shall report their 20 largest *exposures* to their competent authority on a consolidated basis, excluding the *exposures* exempted from the application of Article 395(1).

   Institutions shall also report *exposures* of a value greater than or equal to GBP 260 million but less than 10% of the institution's *Tier 1 capital* to their competent authority on a consolidated basis.

2. In addition to the information referred to in paragraph 1 of this Article, institutions shall report the following information to their competent authority in relation to their 10 largest *exposures* to institutions on a consolidated basis, as well as their 10 largest *exposures* to shadow banking entities which carry out banking activities outside the regulated framework on a consolidated basis, including *large exposures* exempted from the application of Article 395(1):

   (a) the identity of the client or the group of connected clients to which an institution has a *large exposure*;

   (b) the exposure value before taking into account the effect of the credit risk mitigation, when applicable;

   (c) where used, the type of funded or unfunded credit protection;

   (d) the exposure value after taking into account the effect of the credit risk mitigation calculated for the purpose of Article 395(1), where applicable.

3. Institutions shall report the information referred to in paragraphs 1 and 2 to their competent authority on at least a semi-annual basis.

4. [Note: Provision left blank]

[Note: This rule corresponds to Article 394 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 395 LIMITS TO LARGE EXPOSURES

1. An institution shall 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, that value shall not exceed 25% of the institution'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 institution's *Tier 1 capital*.

   [Note: IFR 2019/2033 added “or an investment firm” and “or investment firms” to 1]

   Where the amount of GBP 130 million is higher than 25% of the institution's *Tier 1 capital*, the value of the *exposure*, after having taken into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of this Part, shall not exceed a reasonable limit in terms of the institution's *Tier 1 capital*. That limit shall be determined by the institution in accordance with the policies and procedures referred to in Internal Capital Adequacy Assessment 6.1 required to address and control concentration risk. That limit shall not exceed 100% of the institution's *Tier 1 capital*.

   By way of derogation from the first subparagraph of this paragraph, a *G-SII* shall not incur an *exposure* to another *G-SII* or to a *non-UK G-SII*, the value of which, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, exceeds 15% of its *Tier 1 capital*. A *G-SII* shall comply with such limit no later than 12 months from the date on which it came to be identified as a *G-SII*. Where the *G-SII* has an *exposure* to another institution or group which comes to be identified as a *G-SII* or as a *non-UK G-SII*, it shall comply with such limit no later than 12 months from the date on which that other institution or group came to be identified as a *G-SII* or as a *non-UK G-SII*.

1A. [Note: Provision left blank]

3. Subject to Article 396, an institution shall at all times comply with the relevant limit laid down in paragraph 1.

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.

5. The limits laid down in this Article may be exceeded for the *exposures* in the institution's trading book, provided that all the following conditions are met:

(a) the *exposure* in the non-trading book to the client or group of connected clients in question does not exceed the limit laid down in paragraph 1, this limit being calculated with reference to *Tier 1 capital*, so that the excess arises entirely in the trading book;

(b) the institution meets an additional own funds requirement on the part of the *exposure* in excess of the limit laid down in paragraph 1 of this Article which is calculated in accordance with Articles 397 and 398;

(c) where 10 days or less have elapsed since the excess referred to in point (b) occurred, the trading-book *exposure* to the client or group of connected clients in question does not exceed 500% of the institution's *Tier 1 capital*;

(d) any excesses that have persisted for more than 10 days do not, in aggregate, exceed 600% of the institution's *Tier 1 capital*.

Each time the limit has been exceeded, the institution shall report to the competent authority without delay the amount of the excess and the name of the client concerned and, where applicable, the name of the group of connected clients concerned.

6. [Note: Provision left blank]

[Note: This rule corresponds to Article 395 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 396 COMPLIANCE WITH LARGE EXPOSURES REQUIREMENTS

1. If, in an exceptional case, *exposures* exceed the limit set out in Article 395(1), the institution shall report the value of the *exposure* without delay to the competent authority which may, where the circumstances warrant it, allow the institution a limited period of time in which to comply with the limit.

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

   Where the amount of GBP 130 million referred to in Article 395(1) is applicable, the competent authority may allow the 100% limit in terms of the institution's *Tier 1 capital* to be exceeded on a case-by-case basis.

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

   Where, in the exceptional cases referred to in the first and second subparagraph of this paragraph, a competent authority allows an institution to exceed the limit set out in Article 395(1) for a period longer than three *months*, the institution shall present a satisfactory plan for a timely return to compliance with that limit and shall carry out that plan within the period agreed with the competent authority.

2. Where compliance by an institution 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, measures shall be taken to ensure the satisfactory allocation of risks within the group.

[Note: This rule corresponds to Article 396 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 397 CALCULATING ADDITIONAL OWN FUNDS REQUIREMENTS FOR LARGE EXPOSURES IN THE TRADING BOOK

1. The excess referred to in Article 395(5)(b) shall be calculated by selecting those components of the total trading *exposure* to the client or group of connected clients in question which attract the highest specific-risk requirements in Part Three, Title IV, Chapter 2 and/or requirements in Article 299 and Part Three, Title V, the sum of which equals the amount of the excess referred to in point (a) of Article 395(5).

2. Where the excess has not persisted for more than 10 days, the additional capital requirement shall be 200% of the requirements referred to in paragraph 1, on these components.

3. As from 10 days after the excess has occurred, the components of the excess, selected in accordance with paragraph 1, shall be allocated to the appropriate line in Column 1 of Table 1 in ascending order of specific-risk requirements in Part Three, Title IV, Chapter 2 and/or requirements in Article 299 and Part Three, Title V. The additional own funds requirement shall be equal to the sum of the specific-risk requirements in Part Three, Title IV, Chapter 2 and/or the Article 299 and Part Three, Title V requirements on these components, multiplied by the corresponding factor in Column 2 of Table 1.

Table 1:

Column 1: Excess over the limits (on the basis of a percentage of *Tier 1 capital*)	**Column 2: Factors**
Up to 40%	200%
From 40% to 60%	300%
From 60% to 80%	400%
From 80% to 100%	500%
From 100% to 250%	600%
Over 250%	900%

[Note: This rule corresponds to Article 397 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 398 PROCEDURES TO PREVENT INSTITUTIONS FROM AVOIDING THE ADDITIONAL OWN FUNDS REQUIREMENT

Institutions shall not deliberately avoid the additional own funds requirements set out in Article 397 that they would otherwise incur, on *exposures* exceeding the limit laid down in Article 395(1) once those *exposures* have been maintained for more than 10 days, by means of temporarily transferring the *exposures* in question to another company, whether within the same group or not, and/or by undertaking artificial transactions to close out the *exposure* during the 10-day period and create a new exposure.

Institutions shall maintain systems which ensure that any transfer which has the effect referred to in the first subparagraph is immediately reported to the competent authority.

[Note: This rule corresponds to Article 398 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 399 ELIGIBLE CREDIT RISK MITIGATION TECHNIQUES

1. An institution shall use a credit risk mitigation technique in the calculation of an *exposure* where it has used that technique to calculate capital requirements for credit risk in accordance with Title II of Part Three, provided that the credit risk mitigation technique meets the conditions set out in this Article.

   For the purposes of Articles 400 to 403 the term 'guarantee' shall include credit derivatives recognised under Chapter 4 of Title II of Part Three other than credit linked notes.

2. Subject to paragraph 3 of this Article, where, under Articles 400 to 403 the recognition of funded or unfunded credit protection is permitted, this shall be subject to compliance with the eligibility requirements and other requirements set out in Part Three, Title II, Chapter 4.

3. Credit risk mitigation techniques which are available only to institutions using one of the IRB approaches shall not be used to reduce exposure values for *large exposure* purposes, except for *exposures* secured by immovable properties in accordance with Article 402.

4. Institutions shall analyse, to the extent possible, their *exposures* to collateral issuers, providers of unfunded credit protection and underlying assets pursuant to Article 390(7) for possible concentrations and where appropriate take action and report any significant findings to their competent authority.

[Note: This rule corresponds to Article 399 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 400 EXEMPTIONS

1. The following *exposures* shall be exempted from the application of Article 395(1):

(a) asset items constituting claims on central governments, central banks or public sector entities which, unsecured, would be assigned a 0% risk weight under Part Three, Title II, Chapter 2;

(b) asset items constituting claims on international organisations or multilateral development banks which, unsecured, would be assigned a 0% risk weight under Part Three, Title II, Chapter 2;

(c) asset items constituting claims carrying the explicit guarantees of central governments, central banks, international organisations, multilateral development banks or public sector entities, where unsecured claims on the entity providing the guarantee would be assigned a 0% risk weight under Part Three, Title II, Chapter 2;

(d) other *exposures* attributable to, or guaranteed by, central governments, central banks, international organisations, multilateral development banks or public sector entities, where unsecured claims on the entity to which the *exposure* is attributable or by which it is guaranteed would be assigned a 0% risk weight under Part Three, Title II, Chapter 2;

(e) asset items constituting claims on regional governments or local authorities of the *United Kingdom* where those claims would be assigned a 0% risk weight under Part Three, Title II, Chapter 2 and other *exposures* to or guaranteed by those regional governments or local authorities, claims on which would be assigned a 0% risk weight under Part Three, Title II, Chapter 2;

(f) *exposures* to counterparties referred to in Article 113(6) or (7) if they would be assigned a 0% risk weight under Part Three, Title II, Chapter 2. *Exposures* that do not meet those criteria, whether or not exempted from Article 395(1) shall be treated as *exposures* to a third party;

(g) asset items and other *exposures* secured by collateral in the form of cash deposits placed with the lending institution or with an institution which is the *parent undertaking* or a subsidiary of the lending institution;

(h) asset items and other *exposures* secured by collateral in the form of certificates of deposit issued by the lending institution or by an institution which is the *parent undertaking* or a subsidiary of the lending institution and lodged with either of them;

(i) *exposures* arising from undrawn credit facilities that are classified as low-risk off-balance sheet items in Annex I of the *CRR* and provided that an agreement has been concluded with the client or group of connected clients under which the facility may be drawn only if it has been ascertained that it will not cause the limit applicable under Article 395(1) to be exceeded;

(j) clearing members' trade exposures and default fund contributions to qualified central counterparties;

(k) *exposures* to the UK deposit guarantee scheme arising from the funding of that scheme;

(l) clients' trade exposures referred to in Article 305(2) or (3).

Cash received under a credit linked note issued by the institution and loans and deposits of a counterparty to or with the institution which are subject to an on-balance sheet netting agreement recognised under Part Three, Title II, Chapter 4 shall be deemed to fall under point (g).

2. The competent authority may permit an institution to treat as fully or partially exempt from the application of Article 395(1) the following types of *exposures*:

(a) [Note: Provision left blank];

(b) [Note: Provision left blank];

(c) *exposures* incurred by an institution, including through participations or other kinds of holdings, to its *parent undertaking*, to other subsidiaries of that *parent undertaking*, or to its own subsidiaries and qualifying holdings, in so far as those *undertakings* are covered by the supervision on a consolidated basis to which the institution itself is subject, in accordance with the *CRR*, *United Kingdom* enactments and rules which implemented Directive 2002/87/EC or with equivalent standards in force in a *third country*; *exposures* that do not meet those criteria, whether or not exempted from Article 395(1), shall be treated as *exposures* to a third party;

[Note: "NCLEG trading book permissions" and "NCLEG non-trading book permissions" (as defined in rule 1.2 of the Large Exposures Part) are granted by the *PRA* under this subparagraph]

(d) [Note: Provision left blank];

(e) [Note: Provision left blank];

(f) [Note: Provision left blank];

(g) asset items constituting claims on central banks in the form of required minimum reserves held at those central banks which are denominated in their national currencies;

[Note: "Sovereign large exposures permissions" (as defined in rule 1.2 of the Large Exposures Part) are granted by the *PRA* under subparagraph (g)]

(h) asset items constituting claims on central governments in the form of statutory liquidity requirements held in government securities which are denominated and funded in their national currencies provided that the credit assessment of those central governments assigned by a nominated ECAI is investment grade;

[Note: "Sovereign large exposures permissions" (as defined in rule 1.2 of the Large Exposures Part) are granted by the *PRA* under subparagraph (h)]

(i) [Note: Provision left blank];

(j) [Note: Provision left blank];

(k) [Note: Provision left blank].

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

3. [Note: Provision left blank].

4. The simultaneous application of more than one exemption set out in paragraphs 1 and 2 to the same *exposure* shall not be permitted.

[Note: This rule corresponds to Article 400 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 401 CALCULATING THE EFFECT OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

1. For calculating the value of *exposures* for the purposes of Article 395(1), an institution may use the fully adjusted exposure value (E*) as calculated under Chapter 4 of Title II of Part Three taking into account the credit risk mitigation, volatility adjustments, and any maturity mismatch referred to in that Chapter.

2. With the exception of institutions using the Financial Collateral Simple Method, for the purposes of the first paragraph, institutions shall use the Financial Collateral Comprehensive Method, regardless of the method used for calculating the own funds requirements for credit risk.

   By way of derogation from paragraph 1, institutions with permission to use the methods referred to in Section 4 of Chapter 4 of Title II of Part Three and Section 6 of Chapter 6 of Title II of Part Three, may use those methods for calculating the exposure value of securities financing transactions.

3. In calculating the value of *exposures* for the purposes of Article 395(1), institutions shall conduct periodic stress tests of their credit-risk concentrations, including in relation to the realisable value of any collateral taken.

   These periodic stress tests referred to in the first subparagraph shall address risks arising from potential changes in market conditions that could adversely impact the institutions' adequacy of own funds and risks arising from the realisation of collateral in stressed situations.

   The stress tests carried out shall be adequate and appropriate for the assessment of those risks.

   Institutions shall include the following in their strategies to address concentration risk:

   (a) policies and procedures to address risks arising from maturity mismatches between *exposures* and any credit protection on those *exposures*;

   (b) policies and procedures relating to concentration risk arising from the application of credit risk mitigation techniques, in particular from large indirect credit *exposures*, for example to a single issuer of securities taken as collateral.

4. Where an institution reduces an *exposure* to a client using an eligible credit risk mitigation technique in accordance with Article 399(1), and Article 403 applies, the institution, in the manner set out in Article 403, shall treat the part of the *exposure* by which the *exposure* to the client has been reduced as having been incurred for the protection provider rather than for the client.

[Note: This rule corresponds to Article 401 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 402 EXPOSURES ARISING FROM MORTGAGE LENDING

1. For the calculation of exposure values for the purposes of Article 395, institutions may, except where prohibited by applicable national law, reduce the value of an *exposure* or any part of an *exposure* fully secured by residential property in accordance with Article 125(1) by the pledged amount of the market value or mortgage lending value of the property concerned, but by not more than 50% of the market or 60% of the mortgage lending value if rigorous criteria are in force at the time in the *United Kingdom* for the assessment of the mortgage lending value in statutory or regulatory provisions, provided that all of the following conditions are met:

   (a) the competent authority has not, in rules, set a risk weight higher than 35% for *exposures* or parts of *exposures* secured by residential property in accordance with Article 124(2);

   (b) the *exposure* or part of the *exposure* is fully secured by any of the following:

      (i) one or more mortgages on residential property; or

      (ii) a residential property in a leasing transaction under which the lessor retains full ownership of the residential property and the lessee has not yet exercised their option to purchase;

   (c) the requirements laid down in Article 208 and Article 229(1) are met.

2. For the calculation of exposure values for the purposes of Article 395, an institution may, except where prohibited by applicable national law, reduce the value of an *exposure* or any part of an *exposure* that is fully secured by commercial immovable property in accordance with Article 126(1) by the pledged amount of the market value or mortgage lending value of the property concerned, but not by more than 50% of the market value or 60% of the mortgage lending value if rigorous criteria are in force at the time in the *United Kingdom* for the assessment of the mortgage lending value in statutory or regulatory provisions, provided that all of the following conditions are met:

   (a) the competent authority has not, in rules, set a risk weight higher than 50% for *exposures* or parts of *exposures* secured by commercial immovable property in accordance with Article 124(2);

   (b) the *exposure* is fully secured by any of the following:

      (i) one or more mortgages on offices or other commercial premises; or

(ii) one or more offices or other commercial premises and the *exposures* related to property leasing transactions;

(c) the requirements in point (a) of Article 126(2) and in Article 208 and Article 229(1) are met;

(d) the commercial immovable property is fully constructed.

3. An institution may treat an *exposure* to a counterparty that results from a reverse repurchase agreement under which the institution has purchased from the counterparty non-accessory independent mortgage liens on immovable property of third parties as a number of individual *exposures* to each of those third parties, provided that all of the following conditions are met:

(a) the counterparty is an institution or an investment firm;

(b) the *exposure* is fully secured by liens on the immovable property of those third parties that have been purchased by the institution and the institution is able to exercise those liens;

(c) the institution has ensured that the requirements in Article 208 and Article 229(1) are met;

(d) the institution becomes beneficiary of the claims that the counterparty has against the third parties in the event of default, insolvency or liquidation of the counterparty;

(e) the institution reports to the competent authority in accordance with Article 394 the total amount of *exposures* to each other institution or investment firm that are treated in accordance with this paragraph.

For these purposes, the institution shall assume that it has an *exposure* to each of those third parties for the amount of the claim that the counterparty has on the third party instead of the corresponding amount of the *exposure* to the counterparty. The remainder of the *exposure* to the counterparty, if any, shall continue to be treated as an *exposure* to the counter party.

[Note: This rule corresponds to Article 402 of the *CRR* as it applied immediately before revocation by the *Treasury*]

ARTICLE 403 SUBSTITUTION APPROACH

1. Where an *exposure* to a client is guaranteed by a third party or is secured by collateral issued by a third party, an institution may:

(a) treat the portion of the *exposure* which is guaranteed as an *exposure* to the guarantor rather than to the client, provided that the unsecured *exposure* to the guarantor would be assigned a risk weight that is equal to or lower than the risk weight of the unsecured *exposure* to the client under Chapter 2 of Title II of Part Three;

(b) treat the portion of the *exposure* collateralised by the market value of recognised collateral as *exposure* to the third party rather than to the client, provided that the *exposure* is secured by collateral and provided that the collateralised portion of the *exposure* would be assigned a risk weight that is equal to or lower than the risk weight of the unsecured *exposure* to the client under Chapter 2 of Title II of Part Three.

The approach referred to in point (b) of the first subparagraph shall not be used by an institution where there is a mismatch between the maturity of the *exposure* and the maturity of the protection.

For the purpose of this Part, an institution may use both the Financial Collateral Comprehensive Method and the treatment set out in point (b) of the first subparagraph of this paragraph only where it is permitted to use both the Financial Collateral Comprehensive Method and the Financial Collateral Simple Method for the purposes of Article 92.

2. Where an institution applies point (a) of paragraph 1, the institution:

   (a) where the guarantee is denominated in a currency different from that in which the *exposure* is denominated, shall calculate the amount of the *exposure* that is deemed to be covered in accordance with the provisions on the treatment of currency mismatch for unfunded credit protection set out in Part Three;

   (b) shall treat any mismatch between the maturity of the *exposure* and the maturity of the protection in accordance with the provisions on the treatment of maturity mismatch set out in Chapter 4 of Title II of Part Three;

   (c) may recognise partial coverage in accordance with the treatment set out in Chapter 4 of Title II of Part Three.

3. For the purposes of point (b) of paragraph 1, an institution may replace the amount in point (a) of this paragraph with the amount in point (b) of this paragraph, provided that the conditions set out in points (c), (d) and (e) of this paragraph are met:

   (a) the total amount of the institution's *exposure* to a collateral issuer due to tri-party repurchase agreements facilitated by a tri-party agent;

   (b) the full amount of the limits that the institution has instructed the tri-party agent referred to in point (a) to apply to the securities issued by the collateral issuer referred to in that point;

   (c) the institution has verified that the tri-party agent has in place appropriate safeguards to prevent breaches of the limits referred to in point (b);

   (d) the competent authority has not, in a requirement imposed under *FSMA*, prohibited such replacement;

   (e) the sum of the amount of the limit referred to in point (b) of this paragraph and any other *exposures* of the institution to the collateral issuer does not exceed the limit set out in Article 395(1).

[Note: This rule corresponds to Article 403 of the *CRR* as it applied immediately before revocation by the *Treasury*]

5 RULES DETERMINING THE OVERALL EXPOSURE TO A CLIENT OR A GROUP OF CONNECTED CLIENTS IN RESPECT OF TRANSACTIONS WITH UNDERLYING ASSETS (PREVIOUSLY REGULATION (EU) NO 1187/2014)

ARTICLE 1 SUBJECT MATTER

This Chapter 5 of this Large Exposures (CRR) Part of the *PRA* Rules specifies the conditions and methodologies used to determine the overall *exposure* of an institution to a client or a group of connected clients in respect of *exposures* through *transactions* with underlying assets and the conditions under which the structure of *transactions* with underlying assets does not constitute an additional *exposure*.

[Note: This rule corresponds to Article 1 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury*]

ARTICLE 2 DEFINITIONS

[Note: The definitions formerly found at Article 2 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury* can be found at rule 1.4 of this Part]

ARTICLE 3 IDENTIFICATION OF EXPOSURES RESULTING FROM TRANSACTIONS

1. An institution shall determine the contribution to the overall *exposure* to a certain client or group of connected clients that results from a certain *transaction* in accordance with the methodology set out in Articles 4, 5 and 6.

   The institution shall determine separately for each of the underlying assets its *exposure* to this underlying asset in accordance with Article 5.

2. An institution shall assess whether a certain *transaction* constitutes an additional *exposure* in accordance with Article 7.

[Note: This rule corresponds to Article 3 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury*]

ARTICLE 4 TRANSACTIONS WHICH THEMSELVES HAVE UNDERLYING ASSETS

1. When assessing the underlying *exposures* of a *transaction* (transaction A) which itself has an underlying *exposure* to another *transaction* (transaction B) for the purpose of Articles 5 and 6, an institution shall treat the *exposure* to transaction B as replaced with the *exposures* underlying transaction B.

2. Paragraph 1 shall apply as long as the underlying *exposures* are *exposures* to *transactions* with underlying assets.

[Note: This rule corresponds to Article 4 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury*]

ARTICLE 5 CALCULATION OF THE EXPOSURE VALUE

1. The *exposure* of an institution to an underlying asset of a *transaction* is the lower of the following:

   (a) the exposure value of the *exposure* arising from the underlying asset;

   (b) the total exposure value of the institution's *exposures* to the underlying asset resulting from all *exposures* of the institution to the *transaction*.

2. For each *exposure* of an institution to a *transaction*, the exposure value of the resulting *exposure* to an underlying asset shall be determined as follows:

   (a) if the *exposures* of all investors in this *transaction* rank pari passu, the exposure value of the resulting *exposure* to an underlying asset shall be the pro rata ratio for the institution's *exposure* to the *transaction* multiplied by the exposure value of the *exposure* formed by the underlying asset;

   (b) in cases other than those referred to in point (a) the exposure value of the resulting *exposure* to an underlying asset shall be the pro rata ratio for the institution's *exposure* to the *transaction* multiplied by the lower of:

      (i) the exposure value of the *exposure* formed by the underlying asset;

      (ii) the total exposure value of the institution's *exposure* to the *transaction* together with all other *exposures* to this *transaction* that rank pari passu with the institution's *exposure*.

3. The pro rata ratio for an institution's *exposure* to a *transaction* shall be the exposure value of the institution's *exposure* divided by the total exposure value of the institution's *exposure* together with all other *exposures* to this *transaction* that rank pari passu with the institution's *exposure*.

[Note: This rule corresponds to Article 5 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury*]

ARTICLE 6 PROCEDURE FOR DETERMINING THE CONTRIBUTION OF UNDERLYING EXPOSURES TO OVERALL EXPOSURES

1. For each credit risk *exposure* for which the obligor is identified, an institution shall include the exposure value of its *exposure* to the relevant underlying asset when calculating the overall *exposure* to this obligor as an individual client or to the group of connected clients to which this obligor belongs.

2. If an institution has not identified the obligor of an underlying credit risk *exposure*, or where an institution is unable to confirm that an underlying *exposure* is not a credit risk *exposure*, the institution shall assign this *exposure* as follows:

(a) where the exposure value does not exceed 0.25% of the institution's *Tier 1 capital*, it shall assign this *exposure* to the *transaction* as a separate client;

(b) where the exposure value is equal to or exceeds 0.25% of the institution's *Tier 1 capital* and the institution can ensure, by means of the *transaction*'s mandate, that the underlying *exposures* of the *transaction* are not connected with any other *exposures* in its portfolio, including underlying *exposures* from other *transactions*, it shall assign this *exposure* to the *transaction* as a separate client;

(c) in cases other than those referred to in points (a) and (b), it shall assign this *exposure* to the *unknown client*.

3. If an institution is not able to distinguish the underlying *exposures* of a *transaction*, the institution shall assign the total exposure value of its *exposures* to the *transaction* as follows:

(a) where this total exposure value does not exceed 0.25% of the institution's *Tier 1 capital*, it shall assign this total exposure value to the *transaction* as a separate client;

(b) in cases other than those referred to in point (a), it shall assign this total exposure value to the *unknown client*.

4. For the purposes of paragraphs 1 and 2, institutions shall regularly, and at least on a monthly basis, monitor such *transactions* for possible changes in the composition and the relative share of the underlying *exposures*.

[Note: This rule corresponds to Article 6 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury*]

ARTICLE 7 ADDITIONAL EXPOSURE CONSTITUTED BY THE STRUCTURE OF A TRANSACTION

1. The structure of a *transaction* shall not constitute an additional *exposure* if the *transaction* meets both of the following conditions:

(a) the legal and operational structure of the *transaction* is designed to prevent the manager of the *transaction* or a third party from redirecting any cash flows which result from the *transaction* to persons who are not otherwise entitled under the terms of the *transaction* to receive these cash flows;

(b) neither the issuer nor any other person can be required, under the *transaction*, to make a payment to the institution in addition to, or as an advance payment of, the cash flows from the underlying assets.

2. The condition in point (a) of paragraph 1 shall be considered to be met where the *transaction* is one of the following:

(a) a UK UCITS (as defined in section 237 of *FSMA*);

(b) an *undertaking* established in a *third country* that carries out activities similar to those carried out by a UCITS 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 UCITS.

[Note: This rule corresponds to Article 7 of Part 2 of Regulation (EU) No 1187/2014 as it applied immediately before revocation by the *Treasury*]

ARTICLE 8 ENTRY INTO FORCE

[Note: Provision left blank]

ANNEX H

Liquidity (CRR) Part

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

Part

LIQUIDITY (CRR)

Content

1. APPLICATION AND DEFINITIONS
2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. LIQUIDITY (PART SIX CRR)

Article 411	DEFINITIONS
Article 412	LIQUIDITY COVERAGE REQUIREMENT
Article 413	STABLE FUNDING REQUIREMENT
Article 414	COMPLIANCE WITH LIQUIDITY REQUIREMENTS
Article 415	REPORTING OBLIGATION AND REPORTING FORMAT
Article 416	REPORTING ON LIQUID ASSETS
Article 417	OPERATIONAL REQUIREMENTS FOR HOLDINGS OF LIQUID ASSETS
Article 418	VALUATION OF LIQUID ASSETS
Article 419	CURRENCIES WITH CONSTRAINTS ON THE AVAILABILITY OF LIQUID ASSETS
Article 420	LIQUIDITY OUTFLOWS
Article 421	OUTFLOWS ON RETAIL DEPOSITS
Article 422	OUTFLOWS ON OTHER LIABILITIES
Article 423	ADDITIONAL OUTFLOWS
Article 424	OUTFLOWS FROM CREDIT AND LIQUIDITY FACILITIES
Article 425	INFLOWS
Article 426	UPDATING FUTURE LIQUIDITY REQUIREMENTS
Article 427	ITEMS PROVIDING STABLE FUNDING
Article 428	ITEMS REQUIRING STABLE FUNDING
Article 428a	APPLICATION ON A CONSOLIDATED BASIS
Article 428b	THE NET STABLE FUNDING RATIO
Article 428c	CALCULATION OF THE NET STABLE FUNDING RATIO
Article 428d	DERIVATIVE CONTRACTS
Article 428da	DERIVATIVE CLIENT CLEARING
Article 428e	NETTING OF SECURED LENDING TRANSACTIONS AND CAPITAL MARKET-DRIVEN TRANSACTIONS

Article 428f	**INTERDEPENDENT ASSETS AND LIABILITIES**
Article 428h	**PREFERENTIAL TREATMENT WITHIN A GROUP**
Article 428i	**CALCULATION OF THE AMOUNT OF AVAILABLE STABLE FUNDING**
Article 428j	**RESIDUAL MATURITY OF A LIABILITY OR OF OWN FUNDS**
Article 428k	**0% AVAILABLE STABLE FUNDING FACTOR**
Article 428l	**50% AVAILABLE STABLE FUNDING FACTOR**
Article 428m	**90% AVAILABLE STABLE FUNDING FACTOR**
Article 428n	**95% AVAILABLE STABLE FUNDING FACTOR**
Article 428o	**100% AVAILABLE STABLE FUNDING FACTOR**
Article 428p	**CALCULATION OF THE AMOUNT OF REQUIRED STABLE FUNDING**
Article 428q	**RESIDUAL MATURITY OF AN ASSET**
Article 428r	**0% REQUIRED STABLE FUNDING FACTOR**
Article 428ra	**2.5% REQUIRED STABLE FUNDING FACTOR**
Article 428s	**5% REQUIRED STABLE FUNDING FACTOR**
Article 428t	**7% REQUIRED STABLE FUNDING FACTOR**
Article 428v	**10% REQUIRED STABLE FUNDING FACTOR**
Article 428w	**12% REQUIRED STABLE FUNDING FACTOR**
Article 428x	**15% REQUIRED STABLE FUNDING FACTOR**
Article 428y	**20% REQUIRED STABLE FUNDING FACTOR**
Article 428z	**25% REQUIRED STABLE FUNDING FACTOR**
Article 428aa	**30% REQUIRED STABLE FUNDING FACTOR**
Article 428ab	**35% REQUIRED STABLE FUNDING FACTOR**
Article 428ac	**40% REQUIRED STABLE FUNDING FACTOR**
Article 428ad	**50% REQUIRED STABLE FUNDING FACTOR**
Article 428ae	**55% REQUIRED STABLE FUNDING FACTOR**
Article 428af	**65% REQUIRED STABLE FUNDING FACTOR**
Article 428ag	**85% REQUIRED STABLE FUNDING FACTOR**
Article 428ah	**100% REQUIRED STABLE FUNDING FACTOR**
Article 428ai	**DEROGATION FOR SMALL AND NON-COMPLEX INSTITUTIONS**
Article 428aj	**SIMPLIFIED CALCULATION OF THE AMOUNT OF AVAILABLE STABLE FUNDING**
Article 428ak	**RESIDUAL MATURITY OF A LIABILITY OR OWN FUNDS**
Article 428al	**0% AVAILABLE STABLE FUNDING FACTOR**
Article 428am	**50% AVAILABLE STABLE FUNDING FACTOR**
Article 428an	**90% AVAILABLE STABLE FUNDING FACTOR**
Article 428ao	**95% AVAILABLE STABLE FUNDING FACTOR**
Article 428ap	**100% AVAILABLE STABLE FUNDING FACTOR**
Article 428aq	**SIMPLIFIED CALCULATION OF THE AMOUNT OF REQUIRED STABLE FUNDING**
Article 428ar	**RESIDUAL MATURITY OF AN ASSET**

Article 428as	**0% REQUIRED STABLE FUNDING FACTOR**
Article 428asa	**2.5% REQUIRED STABLE FUNDING FACTOR**
Article 428at	**5% REQUIRED STABLE FUNDING FACTOR**
Article 428au	**10% REQUIRED STABLE FUNDING FACTOR**
Article 428av	**20% REQUIRED STABLE FUNDING FACTOR**
Article 428aw	**50% REQUIRED STABLE FUNDING FACTOR**
Article 428ax	**55% REQUIRED STABLE FUNDING FACTOR**
Article 428axa	**65% REQUIRED STABLE FUNDING FACTOR**
Article 428ay	**85% REQUIRED STABLE FUNDING FACTOR**
Article 428az	**100% REQUIRED STABLE FUNDING FACTOR**

1 APPLICATION AND DEFINITIONS

1.1 The *Liquidity Parts* apply to:

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

(b) a *CRR consolidation entity*.

1.2 In the *Liquidity Parts*, the following definitions shall apply:

the end of the business day

means 22.00 hours (London time) on the business day immediately following the last day of the reporting period for the item in question;

central bank of a third country

means a third country national central bank, the European Central Bank or other supranational central bank;

competent authority

means the *PRA* or, in relation to a third country, a national supervisory authority, a European supervisory authority or other supranational supervisory authority;

Liquidity Parts

means the Liquidity (CRR) and Liquidity Coverage Ratio (CRR) Parts of the *PRA* Rulebook;

weekly

means the period beginning on Saturday and ending on Friday.

2 LEVEL OF APPLICATION

Application of requirements on an individual basis

2.1 An institution shall comply with the *Liquidity Parts* on an individual basis.

[Note: This rule sets out Article 6(4) of the *CRR* as it applies to the *Liquidity Parts*]

[Note: Rules for domestic liquidity sub-groups to be finalised]

Application of requirements on a consolidated basis

2.4 A *CRR consolidation entity* shall comply with the *Liquidity Parts* on 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).

[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.

[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 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

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.

[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*.

[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)

TITLE I DEFINITIONS AND LIQUIDITY COVERAGE REQUIREMENT

Article 411 DEFINITIONS

For the purposes of this Part, the following definitions apply:

(1) ‘*financial customer*’ means a customer, including a *financial customer* belonging to a non-financial corporate group, which performs one or more of the Annex 1 activities as its main business, or which is one of the following:

(a) a credit institution;

(b) an investment firm;

(c) a securitisation special purpose entity (SSPE);

(d) a collective investment undertaking (CIU);

(e) a non-open-ended investment scheme;

(f) an insurance undertaking;

(g) a reinsurance undertaking;

(h) a financial holding company or mixed-financial holding company;

(i) a financial institution;

(j) a pension scheme arrangement as defined in point (10) of Article 2 of Regulation (EU) No 648/2012;

(2) '*retail deposit*' means a liability to a natural person or to an SME, where the natural person or the 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 or company on a group basis do not exceed GBP 880,000;

(3) '*personal investment company*' means an *undertaking* or a trust, the owner or beneficial owner of which is either a natural person or a group of closely related natural persons which does not carry out any other commercial, industrial or professional activity and which was set up with the sole purpose of managing the wealth of the owner or owners, including ancillary activities such as segregating the owners' assets from corporate assets, facilitating the transmission of assets within a family or preventing a split of the assets after the death of a member of the family, provided that those ancillary activities are connected to the main purpose of managing the owners' wealth;

(4) '*deposit broker*' means a natural person or an *undertaking* that places deposits from third parties, including *retail deposits* and corporate deposits but excluding deposits from *financial customers*, with credit institutions in exchange of a fee;

(5) '*unencumbered assets*' (and '*unencumbered*') means assets which are not subject to any legal, contractual, regulatory or other restriction preventing the institution from liquidating, selling, transferring, assigning or, generally, disposing of those assets via an outright sale or a repurchase agreement;

(6) '*non-mandatory overcollateralisation*' means any amount of assets which the institution is not obliged to attach to a covered bond issuance by virtue of legal or regulatory requirements, contractual commitments or for reasons of market discipline, including in particular where the assets are provided in excess of the minimum legal, statutory or regulatory overcollateralisation

requirement applicable to the covered bonds under the national law of the *United Kingdom* or a third country;

(7) '*asset coverage requirement*' means the ratio of assets to liabilities as determined in accordance with the national law of the *United Kingdom* or a third country for credit enhancement purposes in relation to covered bonds;

(8) '*margin loans*' means collateralised loans extended to customers for the purpose of taking leveraged trading positions;

(9) '*derivative contracts*' means the derivative contracts listed in Annex II of the *CRR* and credit derivatives;

(10) '*stress*' (and '*stressed*') shall, unless the context otherwise indicates, mean a sudden or severe deterioration in the solvency or liquidity position of an institution due to changes in market conditions or idiosyncratic factors as a result of which there is a significant risk that the institution becomes unable to meet its commitments as they become due within the next 30 days;

(11) '*level 1 assets*' means assets of extremely high liquidity and credit quality as referred to in Article 10 of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(12) '*level 2 assets*' means assets of high liquidity and credit quality and further subdivided into level 2A and 2B assets in accordance with Articles 11 and 12 of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(13) '*liquidity buffer*' means the amount of *level 1 assets* and *level 2 assets* that an institution holds in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(14) '*net liquidity outflows*' means the amount which results from deducting an institution's liquidity inflows from its liquidity outflows;

(15) '*reporting currency*' means pounds sterling unless the institution's annual accounts are prepared in a different currency, in which case the institution may use that different currency as their *reporting currency*;

(16) '*factoring*' means a contractual agreement between a business (the 'assignor') and a financial entity (the 'factor') in which the assignor assigns or sells its receivables to the factor in exchange for the factor providing the assignor with one or more of the following services with regard to the receivables assigned:

(a) an advance of a percentage of the amount of the assigned receivables, generally short term, uncommitted and without automatic roll-over;

(b) receivables management, collection and credit protection, whereby, in general, the factor administers the assignor's sales ledger and collects the receivables in the factor's own name.

For the purposes of Title IV (The Net Stable Funding Ratio), *factoring* shall be treated as trade finance;

(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.

[Note: This rule corresponds to Article 411 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 412 LIQUIDITY COVERAGE REQUIREMENT

1. Institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under *stressed* conditions so as to ensure that institutions maintain levels of *liquidity buffers* which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely *stressed* conditions over a period of 30 days. During times of *stress*, institutions may use their liquid assets to cover their *net liquidity outflows*.

2. Institutions shall not double count liquidity outflows, liquidity inflows and liquid assets.

   Unless specified otherwise in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part, where an item can be counted in more than one outflow category, it shall be counted in the outflow category that produces the greatest contractual outflow for that item.

3. Institutions may use the liquid assets referred to in paragraph 1 to meet their obligations under *stressed* circumstances as specified under Article 414.

4. The provisions set out in Title II (Liquidity Reporting) shall apply exclusively for the purposes of specifying reporting obligations set out in Article 415.

[Note: This rule corresponds to Article 412 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 413 STABLE FUNDING REQUIREMENT

1. Institutions shall ensure that long term assets and off-balance sheet items are adequately met with a diverse set of funding instruments that are stable under both normal and *stressed* conditions.

2. The provisions set out in Title III (Reporting on Stable Funding) shall apply exclusively for the purpose of specifying reporting obligations set out in Article 415.

[Note: This rule corresponds to Article 413 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 414 COMPLIANCE WITH LIQUIDITY REQUIREMENTS

1. An institution that does not meet or does not expect to meet the requirements set out in Article 412, Article 413(1) or Article 428b(2), including during times of *stress*, shall:

   (a) notify the *competent authority* thereof without delay; and

   (b) submit to the *competent authority* without undue delay a plan for the restoration of compliance, within a time period that is consistent with the anticipated duration of the *stress*, with the requirements set out in Article 412, Article 413(1) or Article 428b(2) as appropriate.

2. An institution that complies with paragraph 1 shall be deemed to have met the requirements in 2.4 and 2.5 of the Notifications Part of the *PRA* Rulebook in so far as they relate to the requirements set out in Article 412, Article 413(1) or Article 428b(2) (as applicable).

3. An institution with *total assets*:

   (a) equal to or greater than GBP 5 billion on an individual basis or 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) 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 or 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*.

[Note: This rule corresponds to Article 414 of the *CRR* as it applied immediately before revocation by the *Treasury*]

TITLE II LIQUIDITY REPORTING

Article 415 REPORTING OBLIGATION AND REPORTING FORMAT

1. Institutions shall report the items referred to in the Reporting (CRR) Part of the *PRA* Rulebook, Title IV (The Net Stable Funding Ratio) and in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook to the *competent authority* in the *reporting currency*, regardless of the actual denomination of those items.

The reporting frequency shall be at least *monthly* for items referred to in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook and at least quarterly for items referred to in Title IV (The Net Stable Funding Ratio).

2. An institution shall report separately to the *competent authority* the items referred to in the Reporting (CRR) Part of the *PRA* Rulebook, in Title IV (The Net Stable Funding Ratio) and in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, as appropriate, in accordance with the following:

   (a) where items are denominated in a currency other than the *reporting currency* and the institution has aggregate liabilities denominated in such a currency which amount to or exceed 5% of the institution's or the single liquidity sub-group's total liabilities, excluding own funds and off-balance sheet items, reporting shall be done in the currency of denomination;

   (c) where items are denominated in the *reporting currency*, and the aggregate amount of liabilities in other currencies than the *reporting currency* amounts to or exceeds 5% of the institution's or the single liquidity subgroup's total liabilities, excluding own funds and off-balance sheet items, the reporting shall be done in the *reporting currency*.

3. [Note: Provision left blank]

3a. [Note: Provision left blank]

[Note: This rule corresponds to Article 415 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 416 REPORTING ON LIQUID ASSETS

1. Institutions shall report the following as liquid assets unless excluded by paragraph 2 and only if the liquid assets fulfil the conditions in paragraph 3:

   (a) cash and exposures to central banks to the extent that these exposures can be withdrawn at any time in times of *stress*. As regards deposits held with central banks (including the *Bank of England* and a *central bank of a third country*), institutions must have regard to any common understanding or agreement reached between the *competent authority* and central bank regarding the extent to which minimum reserves can be withdrawn in times of *stress*;

   (b) other transferable assets that are of extremely high liquidity and credit quality;

   (c) transferable assets representing claims on or guaranteed by:

      (i) the central government of the *United Kingdom*, a region with fiscal autonomy to raise and collect taxes, or of a third country in the domestic currency of the central or regional government, if the institution incurs a liquidity risk in the *United Kingdom* or third country that it covers by holding those liquid assets;

(ii) central banks and non-central government public sector entities in the domestic currency of the central bank and the public sector entity;

(iii) the Bank for International Settlements, the International Monetary Fund and multilateral development banks;

(iv) the European Financial Stability Facility and the European Stability Mechanism;

(d) transferable assets that are of high liquidity and credit quality;

(e) standby credit facilities granted by central banks within the scope of monetary policy to the extent that these facilities are not collateralised by liquid assets and excluding emergency liquidity assistance;

(f) if the credit institution belongs to a network in accordance with legal or statutory provisions, the legal or statutory minimum deposits with the central credit institution and other statutory or contractually available liquid funding from the central credit institution.

2. The following shall not be considered liquid assets:

(a) assets that are issued by a credit institution unless they fulfil one of the following conditions:

(i) they are bonds eligible for the treatment set out in Article 129(4) or (5) or asset backed instruments if demonstrated to be of the highest credit quality as set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(ii) they are CRR covered bonds other than those referred to in point (i) of this point;

(iii) the credit institution has been set up by the central or a regional government of the *United Kingdom* and that government has an obligation to protect the economic basis of the institution and maintain its viability throughout its lifetime; or the asset is explicitly guaranteed by that government; or at least 90% of the loans granted by the institution are directly or indirectly guaranteed by that government and the asset is predominantly used to fund promotional loans granted on a non-competitive, not for profit basis in order to promote that government's public policy objectives;

(b) assets that are provided as collateral to the institution under reverse repo and securities financing transactions and that are held by the institution only as a credit risk mitigant and that are not legally and contractually available for use by the institution;

(c) assets issued by any of the following:

(i) an investment firm;

(ii) an insurance undertaking;

(iii) a financial holding company;

(iv) a mixed financial holding company;

(v) any other entity that performs one or more of the Annex 1 activities as its main business.

3. In accordance with paragraph 1, institutions shall report assets that fulfil the following conditions as liquid assets:

(a) the assets are *unencumbered* or stand available within collateral pools to be used for obtaining additional funding under committed or, where the pool is operated by a central bank, uncommitted but not yet funded credit lines available to the institution;

(b) the assets are not issued by the institution itself, by its parent or subsidiary institutions, or by another subsidiary of its parent institution or parent financial holding company;

(c) the price of the assets is generally agreed upon by market participants and can easily be observed in the market or the price can be determined by a formula that is easy to calculate on the basis of publicly available inputs and that does not depend on strong assumptions, as is typically the case for structured or exotic products;

(d) the assets are listed on a recognised exchange or they are tradable by an outright sale or via a simple repurchase agreement on repurchase markets; those criteria shall be assessed separately for each market.

The conditions referred to in points (c) and (d) of the first subparagraph shall not apply to the assets referred to in points (a), (e) and (f) of paragraph 1.

5. Shares or units in CIUs may be treated as liquid assets, up to an absolute amount of GBP 440 million or the equivalent amount in domestic currency, in the portfolio of liquid assets of each institution, provided that the requirements laid down in Article 132(3) are met and that the CIU only invests in liquid assets as referred to in paragraph 1 of this Article, apart from derivatives to mitigate interest rate or credit or currency risk.

The use or potential use by a CIU of derivative instruments to hedge risks of permitted investments shall not prevent that CIU from being eligible for the treatment referred to in the first subparagraph of this paragraph. Where the value of the shares or units of the CIU is not regularly marked to market by the third parties referred to in points (a) and (b) of Article 418(4) and where an institution has not developed robust methodologies and processes for such valuation as referred to in Article 418(4), shares or units in that CIU shall not be treated as liquid assets.

6. Where a liquid asset ceases to comply with the requirement for liquid assets as set out in this Article, an institution may nevertheless continue to consider it a liquid asset for an additional period of 30 days. Where a liquid asset in a CIU ceases to be eligible for the treatment set out in paragraph 5, the shares or units in the CIU may nevertheless be considered a liquid asset for an additional period of 30 days, provided that those assets do not exceed 10% of the CIU's overall assets.

[Note: This rule corresponds to Article 416 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 417 OPERATIONAL REQUIREMENTS FOR HOLDINGS OF LIQUID ASSETS

The institution shall only report as liquid assets those holdings of liquid assets that meet the following conditions:

(a) they are appropriately diversified. Diversification is not required in terms of assets corresponding to points (a), (b) and (c) of Article 416(1);

(b) they are legally and practically readily available at any time during the next 30 days to be liquidated via outright sale or via a simple repurchase agreement on approved repurchase markets in order to meet obligations coming due. Liquid assets referred to in point (c) of Article 416(1) which are held in third countries where there are transfer restrictions or which are denominated in non-convertible currencies shall be considered available only to the extent that they correspond to outflows in the third country or currency in question, unless the institution has appropriately hedged the ensuing currency risk;

(c) the liquid assets are controlled by a liquidity management function;

(d) a portion of the liquid assets except those referred to in points (a), (c), (e) and (f) of Article 416(1) is periodically and at least annually liquidated via outright sale or via simple repurchase agreements on an approved repurchase market for the following purposes:

(i) to test the access to the market for these assets;

(ii) to test the effectiveness of its processes for the liquidation of assets;

(iii) to test the usability of the assets;

(iv) to minimise the risk of negative signalling during a period of stress;

(e) price risks associated with the assets may be hedged but the liquid assets are subject to appropriate internal arrangements that ensure that they are readily available to the treasury when needed and especially that they are not used in other ongoing operations, including:

(i) hedging or other trading strategies;

(ii) providing credit enhancements in structured transactions;

(iii) covering operational costs;

(f) the denomination of the liquid assets is consistent with the distribution by currency of liquidity outflows after the deduction of inflows.

[Note: This rule corresponds to Article 417 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 418 VALUATION OF LIQUID ASSETS

1. The value of a liquid asset to be reported shall be its market value, subject to appropriate haircuts that reflect at least the duration, the credit and liquidity risk and typical repo haircuts in periods of general market stress. The haircuts shall not be less than 15% for the assets referred to in point (d) of Article 416(1). If the institution hedges the price risk associated with an asset, it shall take into account the cash flow resulting from the potential close-out of the hedge.

2. Shares or units in CIUs as referred to in Article 416(5) shall be subject to haircuts, looking through to the underlying assets as follows:

   (a) 0% for the assets referred to in point (a) of Article 416(1);

   (b) 5% for the assets referred to in points (b) and (c) of Article 416(1);

   (c) 20% for the assets referred to in point (d) of Article 416(1).

3. The look-through approach referred to in paragraph 2 shall be applied as follows:

   (a) where the institution is aware of the underlying exposures of a CIU, it may look through to those underlying exposures in order to assign them to points (a) to (d) of Article 416(1);

   (b) where the institution is not aware of the underlying exposures of a CIU, it shall be assumed that the CIU invests, to the maximum extent allowed under its mandate, in descending order in the asset types referred to in points (a) to (d) of Article 416(1) until the maximum total investment limit is reached.

4. Institutions shall develop robust methodologies and processes to calculate and report the market value and haircuts for shares or units in CIUs. Only where the materiality of the exposure does not justify the development of their own methodologies, institutions may rely on the following third parties to calculate and report the haircuts for shares or units in CIUs, in accordance with the methods set out in points (a) and (b) of paragraph 3:

   (a) the depository institution of the CIU provided that the CIU exclusively invests in securities and deposits all securities at this depository institution;

   (b) for other CIUs, the CIU management company.

   The correctness of the calculations by the depository institution or the CIU management company shall be confirmed by an external auditor.

[Note: This rule corresponds to Article 418 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 419 CURRENCIES WITH CONSTRAINTS ON THE AVAILABILITY OF LIQUID ASSETS

1. [Note: Provision left blank]

2. Where the justified needs for liquid assets in light of the requirement in Article 412 are exceeding the availability of those liquid assets in a currency, one or more of the following derogations shall apply:

   (a) by way of derogation from point (f) of Article 417, the denomination of the liquid assets may be inconsistent with the distribution by currency of liquidity outflows after the deduction of inflows;

   (b) for currencies of third countries, required liquid assets may be substituted by credit lines from the central banks which are contractually irrevocably committed for the next 30 days and are fairly priced, independent of the amount currently drawn, provided that the *competent authority* of the third country has a publicly disclosed liquidity framework which provides for the same alternative option as this paragraph (b) and provided that the third country has comparable reporting requirements in place;

   (c) where there is a deficit of *level 1 assets*, additional level 2A assets may be held by the institution, subject to higher haircuts, and any cap applicable to those assets in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook may be amended.

3. The derogations applied in accordance with paragraph 2 shall be inversely proportional to the availability of the relevant assets. The justified needs of institutions shall be assessed taking into account their ability to reduce, by sound liquidity management, the need for those liquid assets and the holdings of those assets by other market participants.

4. [Note: Provision left blank]

5. [Note: Provision left blank]

[Note: This rule corresponds to Article 419 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 420 LIQUIDITY OUTFLOWS

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2. Institutions shall regularly assess the likelihood and potential volume of liquidity outflows during the next 30 days as far as products or services are concerned, which are not captured in Articles 422, 423 and 424 and which they offer or sponsor or which potential purchasers would consider to be associated with them, including but not limited to liquidity outflows resulting from any contractual arrangements such as other off-balance sheet and contingent funding obligations, including, but not limited to committed funding facilities, un-drawn loans and advances to wholesale counterparties, mortgages that have been agreed but not yet drawn down, credit cards, overdrafts, planned outflows related to renewal or extension of new retail or wholesale loans, planned derivative payables and trade finance off-balance sheet related products. These outflows shall be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario.

For this assessment, institutions shall take particular account of material reputational damage that could result from not providing liquidity support to such products or services. Institutions shall report at least once a year to the *competent authority* those products and services for which the likelihood and potential volume of the liquidity outflows referred to in the first subparagraph are material and institutions shall assign appropriate outflows.

[Note: This rule corresponds to Article 420 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 421 OUTFLOWS ON RETAIL DEPOSITS

1. Institutions shall separately report the amount of *retail deposits* covered by the UK deposit guarantee scheme or an equivalent deposit guarantee scheme in a third country, and multiply by at least 5% where the deposit is either of the following:

   (a) part of an established relationship making withdrawal highly unlikely;

   (b) held in a transactional account, including accounts to which salaries are regularly credited.

2. Institutions shall multiply other *retail deposits* not referred to in paragraph 1 by at least 10%.

4. Notwithstanding paragraphs 1 and 2, institutions shall multiply *retail deposits* that they have taken in third countries by a higher percentage than provided for in those paragraphs if such percentage is provided by comparable third country reporting requirements.

5. Institutions may exclude from the calculation of outflows certain clearly circumscribed categories of *retail deposits* as long as in each and every instance the institution rigorously applies the following for the whole category of those deposits, unless in individually justified circumstances of hardship for the depositor:

   (a) within 30 days, the depositor is not allowed to withdraw the deposit; or

   (b) for early withdrawals within 30 days, the depositor has to pay a penalty that includes the loss of interest between the date of withdrawal and the contractual maturity date plus a material penalty that does not have to exceed the interest due for the time elapsed between the date of deposit and the date of withdrawal.

[Note: This rule corresponds to Article 421 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 422 OUTFLOWS ON OTHER LIABILITIES

1. Institutions shall multiply liabilities resulting from the institution's own operating expenses by 0%.

2. Institutions shall multiply liabilities resulting from secured lending and capital market-driven transactions as defined in point (3) of Article 192 by:

(a) 0% up to the value of the liquid assets in accordance with Article 418 if they are collateralised by assets that would qualify as liquid assets in accordance with Article 416;

(b) 100% over the value of the liquid assets in accordance with Article 418, if they are collateralised by assets that would qualify as liquid assets in accordance with Article 416;

(c) 100% if they are collateralised by assets that would not qualify as liquid assets in accordance with Article 416, with the exception of transactions covered by points (d) and (e) of this paragraph;

(d) 25% if they are collateralised by assets that would not qualify as liquid assets in accordance with Article 416 and the lender is the central government of the *United Kingdom*, a public sector entity of the *United Kingdom* or a multilateral development bank. Public sector entities that receive that treatment shall be limited to those that have a risk weight of 20% or lower in accordance with Chapter 2, Title II of Part Three of the *CRR*;

(e) 0% if the lender is a central bank.

3. Institutions shall multiply liabilities resulting from deposits that have to be maintained:

(a) by the depositor in order to obtain clearing, custody or cash management or other comparable services from the institution;

(c) by the depositor in the context of an established operational relationship other than that mentioned in point (a);

(d) by the depositor to obtain cash clearing and central credit institution services and where the credit institution belongs to a network in accordance with legal or statutory provisions,

by 5% in the case of point (a) to the extent to which they are covered by the UK deposit guarantee scheme or an equivalent deposit guarantee scheme in a third country and by 25% otherwise.

Deposits from credit institutions placed at central credit institutions that are considered as liquid assets in accordance with Article 416(1)(f) shall be multiplied by 100% outflow rate.

4. Clearing, custody, cash management or other comparable services referred to in points (a) and (d) of paragraph 3 shall only cover those services to the extent that they are rendered in the context of an established relationship on which the depositor has substantial dependence. Those services shall not merely consist of correspondent banking or prime brokerage services, and the institutions shall have evidence that the client is unable to withdraw amounts legally due over a 30-day time horizon without compromising its operational functioning.

5. Institutions shall multiply liabilities resulting from deposits by clients that are not *financial customers* to the extent they do not fall under paragraphs 3 and 4 by 40% and shall multiply the amount of these liabilities covered by the UK deposit guarantee scheme or an equivalent deposit guarantee scheme in a third country by 20%.

6. Institutions shall take outflows and inflows expected over the 30-day horizon from the contracts listed in Annex II of the *CRR* into account on a net basis across counterparties and shall multiply them by 100% in the case of a net outflow. Net basis shall mean also net of collateral to be received that qualifies as liquid assets under Article 416.

7. Institutions shall separately report other liabilities that do not fall under paragraphs 1 to 5.

8. An institution may apply to the *competent authority* for permission to apply a lower outflow percentage to the liabilities referred to in paragraph 7 on a case-by-case basis with a counterparty who:

   (a) is any of the following:

      (i) a UK parent institution or subsidiary institution of the institution or another subsidiary of the same parent institution;

      (ii) linked to the institution by a common management relationship; or

      (iii) the central institution or a member of a network compliant with point (d) of Article 400 (2);

   (b) applies a corresponding symmetric or more conservative inflow by way of derogation from Article 425; and

   (c) is established in the *United Kingdom*.

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

[Note: This rule corresponds to Article 422 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 423 ADDITIONAL OUTFLOWS

1. Collateral other than assets referred to in Article 416(1)(a), (b) and (c), which is posted by the institution for contracts listed in Annex II of the *CRR* and credit derivatives, shall be subject to an additional outflow of 20%.

2. An institution shall notify the *competent authority* of all contracts entered into of which the contractual conditions lead to liquidity outflows or additional collateral needs, within 30 days after a material deterioration of the institution's credit quality. Where those contracts are material in relation to the potential liquidity outflows of the institution, the institution shall add an appropriate additional outflow for those contracts, which shall correspond to the additional collateral needs resulting from a material deterioration in its credit quality, such as a downgrade in its external credit assessment. The institution shall regularly review the extent of any such material deterioration in light of what is relevant under the contracts it has entered into, and shall notify the result of its review to the *competent authority*.

3. The institution shall add an additional outflow which shall correspond to the collateral needs that would result from the impact of an adverse market scenario on its derivatives transactions if material.

4. The institution shall add an additional outflow corresponding to the market value of securities or other assets sold short and to be delivered within the 30-day horizon unless the institution owns the securities to be delivered or has borrowed them at terms requiring their return only after the 30-day horizon and the securities do not form part of the institution's liquid assets.

5. The institution shall add an additional outflow corresponding to:

   (a) the excess collateral the institution holds that can be contractually called at any time by the counterparty;

   (b) collateral that is due to be returned to a counterparty;

   (c) collateral that corresponds to assets that would qualify as liquid assets for the purposes of Article 416 that can be substituted for assets corresponding to assets that would not qualify as liquid assets for the purposes of Article 416 without the consent of the institution.

6. Deposits received as collateral shall not be considered liabilities for the purposes of Article 422 but will be subject to the provisions of this Article where applicable.

[Note: This rule corresponds to Article 423 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 424 OUTFLOWS FROM CREDIT AND LIQUIDITY FACILITIES

1. Institutions shall report outflows from *committed credit facilities* and *committed liquidity facilities*, which shall be determined as a percentage of the maximum amount that can be drawn within the next 30 days. This maximum amount that can be drawn may be assessed net of any liquidity requirement that would be mandated under Article 420(2) for the trade finance off-balance sheet items and net of the value in accordance with Article 418 of collateral to be provided if the institution can reuse the collateral and if the collateral is held in the form of liquid assets in accordance with Article 416. The collateral to be provided shall not be assets issued by the counterparty of the facility or one of its affiliated entities. If the necessary information is available to the institution, the maximum amount that can be drawn for credit and liquidity facilities shall be determined as the maximum amount that could be drawn given the counterparty's own obligations or given the pre-defined contractual drawdown schedule coming due over the next 30 days.

2. The maximum amount that can be drawn of undrawn *committed credit facilities* and undrawn *committed liquidity facilities* within the next 30 days shall be multiplied by 5% if they qualify for the retail exposure class under the Standardised or IRB approaches for credit risk.

3. The maximum amount that can be drawn of undrawn *committed credit facilities* and undrawn *committed liquidity facilities* within the next 30 days shall be multiplied by 10% where they meet the following conditions:

   (a) they do not qualify for the retail exposure class under the Standardised or IRB approaches for credit risk;

   (b) they have been provided to clients that are not *financial customers*;

   (c) they have not been provided for the purpose of replacing funding of the client in situations where they are unable to obtain their funding requirements in the financial markets.

4. The committed amount of a liquidity facility that has been provided to an SSPE for the purpose of enabling that SSPE to purchase assets, other than securities, from clients that are not *financial customers* shall be multiplied by 10%, provided that the committed amount exceeds the amount of assets currently purchased from clients and that the maximum amount that can be drawn is contractually limited to the amount of assets currently purchased.

5. The institutions shall report the maximum amount that can be drawn of other undrawn *committed credit facilities* and undrawn *committed liquidity facilities* within the next 30 days. This applies in particular to the following:

   (a) liquidity facilities that the institution has granted to SSPEs other than those referred to in point (b) of paragraph 3;

   (b) arrangements under which the institution is required to buy or swap assets from an SSPE;

   (c) facilities extended to credit institutions;

   (d) facilities extended to financial institutions and investment firms.

6. By way of derogation from paragraph 5, institutions which have been set up and are sponsored by the central or a regional government of the *United Kingdom* may apply the treatments set out in paragraphs 2 and 3 also to credit and liquidity facilities that are provided to institutions for the sole purpose of directly or indirectly funding promotional loans qualifying for the exposure classes referred to in those paragraphs. By way of derogation from point (g) of Article 425(2), where those promotional loans are extended via another institution as intermediary (pass through loans), a symmetric in and outflow may be applied by institutions. Those promotional loans shall be available only to *persons* who are not *financial customers* on a non-competitive, not for profit basis in order to promote public policy objectives of the central or regional government. It shall only be possible to draw on such facilities following the reasonably expected demand for a promotional loan and up to the amount of such demand linked to a subsequent reporting on the use of the funds disbursed.

[Note: This rule corresponds to Article 424 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 425 INFLOWS

1. Institutions shall report their liquidity inflows. Capped liquidity inflows shall be the liquidity inflows limited to 75% of liquidity outflows. Institutions may exempt liquidity inflows from deposits placed with other institutions and qualifying for the treatments set out in Article 113(6) from this limit. Institutions may exempt liquidity inflows from monies due from borrowers and bond investors related to mortgage lending funded by bonds eligible for the treatment set out in Article 129(4), (5) or (6) or by CRR covered bonds from this limit. Institutions may exempt inflows from promotional loans that the institutions have passed through. An institution may apply to the *competent authority* for permission fully or partially to exempt inflows where the provider is a parent or a subsidiary institution of the institution or another subsidiary of the same parent institution or linked to the institution by a common management relationship.
[Note: This is a permission under section 144G of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies]

2. The liquidity inflows shall be measured over the next 30 days. They shall comprise only contractual inflows from exposures that are not past due and for which the institution has no reason to expect non-performance within the 30-day time horizon. Liquidity inflows shall be reported in full with the following inflows reported separately:

   (a) monies due from customers that are not *financial customers* for the purposes of principal payment shall be reduced by 50% of their value or by the contractual commitments to those customers to extend funding, whichever is higher. This does not apply to monies due from secured lending and capital market-driven transactions as defined in point (3) of Article 192 that are collateralised by liquid assets in accordance with Article 416 as referred to in point (d) of this paragraph.

   By way of derogation from the first subparagraph of this point, institutions that have received a commitment referred to in Article 424(6) in order for them to disburse a promotional loan to a final recipient may take an inflow into account up to the amount of the outflow they apply to the corresponding commitment to extend those promotional loans;

   (b) monies due from trade financing transactions referred to in point (b) of the second subparagraph of Article 162(3) with a residual maturity of up to 30 days, shall be taken into account in full as inflows;

   (c) loans with an undefined contractual end date shall be taken into account with a 20% inflow, provided that the contract allows the institution to withdraw and request payment within 30 days;

   (d) monies due from secured lending and capital market-driven transactions as defined in point (3) of Article 192 if they are collateralised by liquid assets as referred to in Article

416(1), shall not be taken into account up to the value net of haircuts of the liquid assets and shall be taken into account in full for the remaining monies due;

(e) monies due that the institution owing those monies treats in accordance with Article 422(3) and (4), shall be multiplied by a corresponding symmetrical inflow;

(f) monies due from positions in major index equity instruments provided that there is no double counting with liquid assets;

(g) any undrawn credit or liquidity facilities and any other commitments received shall not be taken into account.

3. Outflows and inflows expected over the 30-day horizon from the contracts listed in Annex II of the *CRR* shall be reflected on a net basis across counterparties and shall be multiplied by 100% in the event of a net inflow. Net basis shall mean also net of collateral to be received that qualifies as liquid assets under Article 416.

4. By way of derogation from point (g) of paragraph 2, an institution may apply to the *competent authority* for permission to apply a higher inflow on a case-by-case basis for credit and liquidity facilities with a counterparty who:

(a) is a UK parent institution or subsidiary institution of the institution or another subsidiary of the same parent institution or linked to the institution by a common management relationship;

(b) applies a corresponding symmetric or more conservative outflow by way of derogation from Articles 422, 423 and 424; and

(c) is established in the *United Kingdom*.

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

7. Institutions shall not report inflows from any of the liquid assets reported in accordance with Article 416 other than payments due on the assets that are not reflected in the market value of the asset.

8. Institutions shall not report inflows from any new obligations entered into.

9. Institutions shall take liquidity inflows which are to be received in third countries where there are transfer restrictions or which are denominated in non-convertible currencies into account only to the extent that they correspond to outflows respectively in the third country or currency in question.

[Note: This rule corresponds to Article 425 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 426 UPDATING FUTURE LIQUIDITY REQUIREMENTS

[Note: Provision left blank]

TITLE III REPORTING ON STABLE FUNDING

Article 427 ITEMS PROVIDING STABLE FUNDING

1. Institutions shall report to the *competent authority* in accordance with the reporting requirements set out in Article 415(1) and the uniform reporting formats referred to in the Reporting (CRR) Part of the *PRA* Rulebook, the following items and their components in order to allow an assessment of the availability of stable funding:

   (a) the following own funds, after deductions have been applied, where appropriate:

      (i) Tier 1 capital instruments;

      (ii) Tier 2 capital instruments;

      (iii) other preferred shares and capital instruments in excess of Tier 2 allowable amount having an effective maturity of one year or greater;

   (b) the following liabilities not included in point (a):

      (i) *retail deposits* that qualify for the treatment set out in Article 421(1);

      (ii) *retail deposits* that qualify for the treatment set out in Article 421(2);

      (iii) deposits that qualify for the treatment set out in Article 422 (3) and (4);

      (iv) of the deposits referred to in point (iii), those that are subject to the UK deposit guarantee scheme or an equivalent deposit guarantee scheme in a third country deposit guarantees within the terms of Article 421(1);

      (vi) of the deposits referred to in point (iii), those that fall under point (d) of Article 422(3);

      (vii) amounts deposited not falling under point (i), (ii) or (iii) if they are not deposited by *financial customers*;

      (viii) all funding obtained from *financial customers*;

      (ix) separately for amounts falling under points (vii) and (viii) respectively, funding from secured lending and capital market-driven transactions as defined in point (3) of Article 192:

         — collateralised by assets that would qualify as liquid assets in accordance with Article 416;

         — collateralised by any other assets;

      (x) liabilities resulting from securities issued qualifying for the treatment set out in Article 129(4) or (5) or CRR covered bonds;

(xi) the following other liabilities resulting from securities issued that do not fall under point (a):

— liabilities resulting from securities issued with an effective maturity of one year or greater;

— liabilities resulting from securities issued with an effective maturity of less than one year;

(xii) any other liabilities.

2. Where applicable, all items shall be presented in the following five buckets according to the closest of their maturity date and the earliest date at which they can contractually be called:

(a) within three *months*;

(b) between three and six *months*;

(c) between six and nine *months*;

(d) between nine and 12 *months*;

(e) after 12 *months*.

[Note: This rule corresponds to Article 427 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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:

(a) the assets that would qualify as liquid assets in accordance with Article 416, broken down by asset type;

(b) the following securities and *money market instruments* not included in point (a):

(i) assets qualifying for credit step 1 under Article 122;

(ii) assets qualifying for credit step 2 under Article 122;

(iii) other assets;

(c) equity securities of non-financial entities listed on a major index in a recognised exchange;

(d) other equity securities;

(e) gold;

(f) other precious metals;

(g) non-renewable loans and receivables, and separately those non-renewable loans and receivables for which borrowers are:

(i) natural persons other than commercial sole proprietors and *partnerships*;

(ii) 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;

(iii) sovereigns, central banks and public sector entities;

(iv) clients not referred to in points (i) and (ii) other than *financial customers*;

(v) clients not referred to in points (i), (ii) and (iii) that are *financial customers*, and thereof separately those that are credit institutions and other *financial customers*;

(h) non-renewable loans and receivables referred to in point (g), and thereof separately those that are:

(i) collateralised by commercial immovable property (CRE);

(ii) collateralised by residential property (RRE);

(iii) match funded (pass-through) via bonds eligible for the treatment set out in Article 129(4) or (5) or via CRR covered bonds;

(i) derivatives receivables;

(j) any other assets;

(k) undrawn *committed credit facilities* that qualify as 'medium risk' or 'medium/low risk' under Annex I of the *CRR*.

2. Where applicable, all items shall be presented in the five buckets described in Article 427(2).

[Note: This rule corresponds to Article 428 of the *CRR* as it applied immediately before revocation by the *Treasury*]

TITLE IV THE NET STABLE FUNDING RATIO

CHAPTER 1 THE NET STABLE FUNDING RATIO

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 in accordance with rule 2.4 of this Part, the following provisions shall apply:

(a) the assets and off-balance sheet items of a subsidiary having its head office in a third country which are subject to required stable funding factors under the net stable funding requirement set out in the national law of that third country that are higher than those specified in Chapter 4 of Title IV (The Net Stable Funding Ratio) shall be subject to consolidation in accordance with the higher factors specified in the national law of that third country;

(b) the liabilities and own funds of a subsidiary having its head office in a third country which are subject to available stable funding factors under the net stable funding requirement set out in

the national law of that third country that are lower than those specified in Chapter 3 of Title IV (The Net Stable Funding Ratio) shall be subject to consolidation in accordance with the lower factors specified in the national law of that third country;

(c) third country assets which meet the requirements laid down in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook and which are held by a subsidiary having its head office in a third country shall not be recognised as liquid assets for consolidation purposes where they do not qualify as liquid assets under the national law of that third country which sets out the liquidity coverage requirement.

Article 428b THE NET STABLE FUNDING RATIO

1. The net stable funding requirement laid down in Article 413(1) shall be equal to the ratio of the institution's available stable funding as referred to in Chapter 3 of Title IV (The Net Stable Funding Ratio) to the institution's required stable funding as referred to in Chapter 4 of Title IV (The Net Stable Funding Ratio), and shall be expressed as a percentage. Institutions shall calculate their net stable funding ratio in accordance with the following formula:

$$\frac{\text{Available stable funding}}{\text{Required stable funding}} = \text{Net stable funding ratio } \%$$

2. Institutions shall maintain a net stable funding ratio of at least 100%, calculated in the *reporting currency* for all their transactions, irrespective of their actual currency denomination.

3. Where, at any time, the net stable funding ratio of an institution has fallen below 100%, or can be reasonably expected to fall below 100%, the requirement laid down in Article 414 shall apply. The institution shall aim to restore its net stable funding ratio to the level referred to in paragraph 2 of this Article.

4. Institutions shall calculate and monitor their net stable funding ratio in the *reporting currency* for all their transactions, irrespective of their actual currency denomination, and separately for their transactions denominated in each of the currencies that is subject to separate reporting in accordance with Article 415(2).

5. Institutions shall ensure that the distribution of their funding profile by currency denomination is generally consistent with the distribution of their assets by currency.

CHAPTER 2 GENERAL RULES FOR THE CALCULATION OF THE NET STABLE FUNDING RATIO

Article 428c CALCULATION OF THE NET STABLE FUNDING RATIO

1. Unless otherwise specified in this Title IV (The Net Stable Funding Ratio), institutions shall take into account assets, liabilities and off-balance sheet items on a gross basis.

2. For the purpose of calculating their net stable funding ratio, institutions shall apply the appropriate stable funding factors set out in Chapters 3 and 4 of Title IV (The Net Stable

Funding Ratio) to the accounting value of their assets, liabilities and off-balance sheet items, unless otherwise specified in this Title IV (The Net Stable Funding Ratio).

3. Institutions shall not double count required stable funding and available stable funding.

Unless otherwise specified in this Title IV (The Net Stable Funding Ratio), where an item can be allocated to more than one required stable funding category, it shall be allocated to the required stable funding category that produces the greatest contractual required stable funding for that item.

Article 428d DERIVATIVE CONTRACTS

1. Institutions shall apply this Article to calculate the amount of required stable funding for *derivative contracts* as referred to in Chapters 3, 4, 6 and 7 of Title IV (The Net Stable Funding Ratio).

2. Without prejudice to Articles 428ah(2) and 428az(2), institutions shall take into account the fair value of derivative positions on a net basis where those positions are included in the same netting set that fulfils the requirements referred to in Article 428d(2A). Where that is not the case, institutions shall take into account the fair value of derivative positions on a gross basis and shall treat those derivative positions as belonging to their own netting set for the purposes of Chapter 4 of Title IV (The Net Stable Funding Ratio).

2A. For the purposes of Article 428d(2), institutions may take into account the effects of contracts for novation and other netting agreements in accordance with Article 295 of the *CRR*. Institutions shall not take into account cross-product netting, but may net within the product category as referred to in point (25)(c) of Article 272 of the *CRR* and credit derivatives where they are subject to a contractual cross-product netting agreement as referred to in point (c) of Article 295 of the *CRR*.

3. For the purposes of this Title IV (The Net Stable Funding Ratio), the 'fair value of a netting set' means the sum of the fair values of all the transactions included in a netting set.

4. Without prejudice to Articles 428ah(2) and 428az(2), all *derivative contracts* listed in points 2(a) to (e) of Annex II of the *CRR* that involve a full exchange of principal amounts on the same date shall be calculated on a net basis across currencies, including for the purpose of reporting in a currency that is subject to separate reporting in accordance with Article 415(2), even where those transactions are not included in the same netting set that fulfils the requirements set out in Article 428d(2A).

5. Cash received as collateral to mitigate the exposure of a derivative position shall be treated as such and shall not be treated as deposits to which Chapters 3 and 6 of Title IV (The Net Stable Funding Ratio) applies.

Article 428da DERIVATIVE CLIENT CLEARING

1. This Article applies to initial margin, variation margin and derivatives assets and liabilities that are directly linked to derivative client clearing activities with a QCCP where the institution acts as *clearing member*, provided that:

   (a) initial margin shall include:

      (i) all amounts posted to the QCCP; and

      (ii) amounts in excess of the amount posted to a QCCP only to the extent that such amounts are segregated from the assets of the institution and, as a result of that segregation, are not available to the institution freely to dispose of or exchange; and

   (b) the institution does not provide to its clients guarantees of the performance of the QCCP and, as a result, does not incur any funding risk.

2. Notwithstanding any other provision of this Part, where this Article applies institutions may exclude all amounts included in paragraph 1 from the calculation of the amount of required stable funding and available stable funding in accordance with Chapters 3 to 8, inclusive, of Title IV (The Net Stable Funding Ratio). If all amounts are not excluded the institution shall calculate the amount of required stable funding and available stable funding in accordance with Title IV (The Net Stable Funding Ratio).

3. Where providing derivative client clearing services in its capacity as a *clearing member* of a QCCP the institution receives initial margin collateral from clients that is not included in paragraph 1(a):

   (a) collateral assets accounted for on the balance sheet of the institution shall be subject to a required stable funding factor in accordance with Chapter 4 or Chapter 7 of Title IV (The Net Stable Funding Ratio); and

   (b) associated liabilities shall be subject to an available stable funding factor in accordance with Chapter 3 or Chapter 6 of Title IV (The Net Stable Funding Ratio).

Article 428e NETTING OF SECURED LENDING TRANSACTIONS AND CAPITAL MARKET-DRIVEN TRANSACTIONS

1. Assets and liabilities resulting from securities financing transactions and long settlement transactions with a single counterparty shall be calculated on a net basis, provided that those assets and liabilities meet the following netting conditions:

   (a) the transactions have the same explicit final settlement date;

   (b) the right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable in the normal course of business and in the event of default, insolvency and bankruptcy;

(c) the counterparties intend to settle on a net basis or to settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement.

2. For purposes of point (c) of paragraph 1 institutions may consider that a settlement mechanism results in the functional equivalent of net settlement only where, on the settlement date, the net result of the cash flows of the transactions under that mechanism is equal to the single net amount under net settlement and all the following conditions are met:

(a) the transactions are settled through the same settlement system or settlement systems using a common settlement infrastructure;

(b) the settlement arrangements are supported by cash or intraday credit facilities intended to ensure that the settlement of the transactions will occur by *the end of the business day*;

(c) any issues arising from the securities legs of the securities financing transactions do not interfere with the completion of the net settlement of the cash receivables and payables.

3. The condition set out in point (c) of paragraph 1 is met only where the failure of any securities financing transaction in the settlement mechanism may delay settlement of only the matching cash leg or may create an obligation to the settlement mechanism, supported by an associated credit facility.

Where there is a failure of the securities leg of a securities financing transaction in the settlement mechanism at the end of the window for settlement in the settlement mechanism, institutions shall split out this transaction and its matching cash leg from the netting set and treat them on a gross basis.

Article 428f INTERDEPENDENT ASSETS AND LIABILITIES

1. An institution may apply to the *competent authority* for permission to treat an asset and a liability as interdependent. For the purpose of this Article, an asset and a liability are interdependent where either conditions (a) to (f) below are met or where paragraph 2 applies:

(a) the institution acts solely as a pass-through unit to channel the funding from the liability into the corresponding interdependent asset;

(b) the individual interdependent assets and liabilities are clearly identifiable and have the same principal amount;

(c) the asset and interdependent liability have matched maturities;

(d) the interdependent liability has been requested pursuant to a legal, regulatory or contractual commitment and is not used to fund other assets;

(e) the principal payment flows from the asset are not used for other purposes than repaying the interdependent liability; and

(f) the counterparties for each pair of interdependent assets and liabilities are not the same.

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

2. This paragraph applies to an institution's *unencumbered* physical stock of precious metals and customer deposit accounts in precious metals where all of the following conditions are met:

    (a) the institution's *unencumbered* physical stock of each precious metal is used to cover customer deposit accounts in the same precious metal;

    (b) the institution is not exposed to liquidity or market risk resulting from either the sale of precious metals by the customer or the physical settlement of customer transactions in precious metals; and

    (c) the precious metals assets and liabilities are on the balance sheet of the institution.

3. For the purpose of paragraph 2:

    (a) precious metals means gold, silver, platinum or palladium;

    (b) the interdependent asset and liability treatment shall only be available to the extent that the institution's *unencumbered* physical stock of each precious metal is matched by customer deposits of the same precious metal. Any excess physical stock or customer deposits in a precious metal shall not be treated as an interdependent asset or liability for the purpose of paragraph 1;

    (c) an institution's precious metals accounts at any other institution shall not be considered a part of the institution's physical stock of precious metals.

Article 428h PREFERENTIAL TREATMENT WITHIN A GROUP

1. By way of derogation from Chapters 3 and 4 of Title IV (The Net Stable Funding Ratio) an institution may apply to the *competent authority* for permission to apply a higher available stable funding factor or a lower required stable funding factor to assets, liabilities and *committed credit or liquidity facilities* with a counterparty who:

    (a) is one of the following:

        (i) the parent or a subsidiary of the institution;

        (ii) another subsidiary of the same parent;

        (iii) an *undertaking* that is related to the institution within the meaning of provisions implementing Article 22(7) of Directive 2013/34/EU;

    (b) applies a required stable funding factor that is equal to or higher than the higher available stable funding factor or applies an available stable funding factor that is equal to or lower than the lower required stable funding factor; and

(c) is established in the *United Kingdom*.

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

CHAPTER 3 AVAILABLE STABLE FUNDING

Section 1 GENERAL PROVISIONS

Article 428i CALCULATION OF THE AMOUNT OF AVAILABLE STABLE FUNDING

Unless otherwise specified in this Chapter 3 of Title IV (The Net Stable Funding Ratio), the amount of available stable funding shall be calculated by multiplying the accounting value of various categories or types of liabilities and own funds by the available stable funding factors to be applied under Section 2. The total amount of available stable funding shall be the sum of the weighted amounts of liabilities and own funds.

Bonds and other debt securities that are issued by the institution, sold exclusively in the retail market, and held in a retail account, may be treated as belonging to the appropriate *retail deposit* category. Limitations shall be in place, such that those instruments cannot be bought and held by parties other than retail customers.

Article 428j RESIDUAL MATURITY OF A LIABILITY OR OF OWN FUNDS

1. Unless otherwise specified in this Chapter 3 of Title IV (The Net Stable Funding Ratio), institutions shall take into account the residual contractual maturity of their liabilities and own funds to determine the available stable funding factors to be applied under Section 2.

2. Institutions shall take into account existing options in determining the residual maturity of a liability or of own funds in a prudent manner. They shall do so on the assumption that the counterparty will redeem call options at the earliest possible date. For options exercisable at the discretion of the institution, the institution shall take into account reputational factors that may limit an institution's ability not to exercise the option, in particular market expectations that institutions should redeem certain liabilities before their maturity.

3. Institutions shall treat deposits with fixed notice periods in accordance with their notice period, and shall treat term deposits in accordance with their residual maturity. By way of derogation from paragraph 2 of this Article, institutions shall not take into account options for early withdrawals where the depositor has to pay a material penalty for early withdrawals which occur in less than one year, such penalty being laid down in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, to determine the residual maturity of term *retail deposits*.

4. In order to determine the available stable funding factors to be applied under Section 2, institutions shall treat any portion of liabilities having a residual maturity of one year or more that matures in less than six *months* and any portion of such liabilities that matures between six

months and less than one year as having a residual maturity of less than six *months* and between six *months* and less than one year, respectively.

SECTION 2 AVAILABLE STABLE FUNDING FACTORS

Article 428k 0% AVAILABLE STABLE FUNDING FACTOR

1. Unless otherwise specified in Articles 428l to 428o, all liabilities without a stated maturity, including short positions and open maturity positions, shall be subject to a 0% available stable funding factor, with the exception of the following:

   (a) deferred tax liabilities, which shall be treated in accordance with the nearest possible date on which such liabilities could be realised;

   (b) minority interests, which shall be treated in accordance with the term of the instrument.

2. Deferred tax liabilities and minority interests as referred to in paragraph 1 shall be subject to one of the following factors:

   (a) 0%, where the effective residual maturity of the deferred tax liability or minority interest is less than six *months*;

   (b) 50%, where the effective residual maturity of the deferred tax liability or minority interest is a minimum of six *months* but less than one year;

   (c) 100%, where the effective residual maturity of the deferred tax liability or minority interest is one year or more.

3. The following liabilities and capital items or instruments shall be subject to a 0% available stable funding factor:

   (a) trade date payables arising from purchases of financial instruments, of foreign currencies and of commodities, that are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transactions, or that have failed to settle but are nonetheless expected to settle;

   (b) liabilities that are categorised as being interdependent with assets in accordance with Article 428f;

   (c) liabilities with a residual maturity of less than six *months* provided by:

      (i) the *Bank of England*;

      (ii) the *central bank of a third country*;

      (iii) *financial customers*;

   (d) any other liabilities and capital items or instruments not referred to in Articles 428l to 428o.

4. Institutions shall apply a 0% available stable funding factor to the absolute value of the difference, if negative, between the sum of fair values across all netting sets with positive fair

value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Article 428d.

The following rules shall apply to the calculation referred to in the first subparagraph:

(a) variation margin received by institutions from their counterparties shall be deducted from the fair value of a netting set with positive fair value, only up to the extent that it results in the netting set having zero fair value, where the collateral received as variation margin qualifies as a *level 1 asset* pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding extremely high quality covered bonds specified in that Chapter, and where institutions are legally entitled and operationally able to reuse that collateral;

(b) all variation margin posted by institutions with their counterparties shall be deducted from the fair value of a netting set with negative fair value only up to the extent that it results in the netting set having zero fair value.

Article 428l 50% AVAILABLE STABLE FUNDING FACTOR

The following liabilities and capital items or instruments shall be subject to a 50% available stable funding factor:

(a) deposits received that fulfil the criteria for operational deposits set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(b) liabilities with a residual maturity of less than one year provided by:

(i) the central government of the *United Kingdom* or of a third country;

(ii) regional governments or local authorities of the *United Kingdom* or a third country;

(iii) public sector entities in the *United Kingdom* or in a third country;

(iv) multilateral development banks referred to in Article 117(2) and international organisations referred to in Article 118;

(v) non-financial corporate customers;

(vi) *credit unions* authorised by the *competent authority*, *personal investment companies* and clients that are *deposit brokers* to the extent that those liabilities do not fall under point (a) of this paragraph;

(c) liabilities with a residual contractual maturity of a minimum of six *months* but less than one year that are provided by:

(i) the *Bank of England*;

(ii) the *central bank of a third country*;

(iii) *financial customers*;

(d) any other liabilities and capital items or instruments with a residual maturity of a minimum of six *months* but less than one year not referred to in Articles 428m, 428n and 428o.

Article 428m 90% AVAILABLE STABLE FUNDING FACTOR

Sight *retail deposits*, *retail deposits* with a fixed notice period of less than one year and term *retail deposits* having a residual maturity of less than one year that fulfil the relevant criteria for other *retail deposits* set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 90% available stable funding factor.

Article 428n 95% AVAILABLE STABLE FUNDING FACTOR

Sight *retail deposits*, *retail deposits* with a fixed notice period of less than one year and term *retail deposits* having a residual maturity of less than one year that fulfil the relevant criteria for stable *retail deposits* set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 95% available stable funding factor.

Article 428o 100% AVAILABLE STABLE FUNDING FACTOR

The following liabilities and capital items and instruments shall be subject to a 100% available stable funding factor:

(a) the Common Equity Tier 1 items of the institution before the adjustments required pursuant to Articles 32 to 35, the deductions pursuant to Article 36 and the application of the exemptions and alternatives laid down in Articles 48, 49 and 79;

(b) the Additional Tier 1 items of the institution before the deduction of the items referred to in Article 56 and before Article 79 has been applied thereto, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;

(c) the Tier 2 items of the institution before the deductions referred to in Article 66 and before the application of Article 79, having a residual maturity of one year or more, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;

(d) any other capital instruments of the institution with a residual maturity of one year or more, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;

(e) any other secured and unsecured borrowings and liabilities with a residual maturity of one year or more, including term deposits, unless otherwise specified in Articles 428k to 428n.

CHAPTER 4 REQUIRED STABLE FUNDING

SECTION 1 GENERAL PROVISIONS

Article 428p CALCULATION OF THE AMOUNT OF REQUIRED STABLE FUNDING

1. Unless otherwise specified in this Chapter 4 of Title IV (The Net Stable Funding Ratio), the amount of required stable funding shall be calculated by multiplying the accounting value of various categories or types of assets and off-balance sheet items by the required stable funding factors to be applied in accordance with Section 2 of this Chapter. The total amount of required stable funding shall be the sum of the weighted amounts of assets and off-balance sheet items.

2. Assets which institutions have borrowed or otherwise acquired in securities financing transactions, shall be subject to the required stable funding factors to be applied under Section 2 of this Chapter where those assets are accounted for on the balance sheet of the institution or where the institution is exposed to all or substantially all of the economic risk and reward in respect of those assets. Otherwise, such assets shall be excluded from the calculation of the amount of required stable funding.

3. Assets that institutions have lent or otherwise disposed of in securities financing transactions which the institution keeps on balance sheet or in respect of which the institution retains exposure to all or substantially all of the economic risk and reward, shall be considered as encumbered assets for the purposes of this Chapter 4 of Title IV (The Net Stable Funding Ratio) and shall be subject to the required stable funding factors to be applied under Section 2, even where the assets do not remain on the balance sheet of the institution. Otherwise, such assets shall be excluded from the calculation of the amount of required stable funding.

4. Assets that are encumbered for a residual maturity of six *months* or longer shall be assigned either the required stable funding factor that would be applied under Section 2 to those assets if they were held *unencumbered* or the required stable funding factor that is otherwise applicable to those encumbered assets, whichever factor is higher. The same shall apply where the residual maturity of the encumbered assets is shorter than the residual maturity of the transaction that is the source of encumbrance.

   Assets that have less than six *months* remaining in the encumbrance period shall be subject to the required stable funding factors to be applied under Section 2 to the same assets if they were held *unencumbered*.

5. Where an institution reuses or repledges an asset that was borrowed, including in securities financing transactions, and that asset is accounted for off-balance sheet, the transaction in relation to which that asset has been borrowed shall be treated as encumbered, provided that the transaction cannot mature without the institution returning the asset borrowed.

6. The following assets shall be considered to be *unencumbered*:

   (a) assets included in a pool which are available for immediate use as collateral to obtain additional funding under committed or, where the pool is operated by a central bank, uncommitted but not yet funded, credit lines that are available to the institution; those assets shall include assets placed by a credit institution with a central institution in a

cooperative network or institutional protection scheme; institutions shall assume that assets in the pool are encumbered in order of increasing liquidity on the basis of the liquidity classification pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, starting with assets ineligible for the *liquidity buffer*;

(b) assets that the institution has received as collateral for credit risk mitigation purposes in secured lending, secured funding or collateral exchange transactions and that the institution may dispose of;

(c) assets attached as *non-mandatory overcollateralisation* to a covered bond issuance.

8. In order to avoid any double counting, institutions shall exclude assets that are associated with collateral that is recognised as variation margin posted in accordance with point (b) of Article 428k(4) and 428ah(2), recognised as initial margin posted, or recognised as a contribution to the default fund of a CCP in accordance with points (a) and (b) of Article 428ag from other parts of calculation of the amount of required stable funding in accordance with this Chapter 4 of Title IV (The Net Stable Funding Ratio). This paragraph 8 does not apply to collateral assets associated with excess variation margin posted and not already recognised in point (b) of Article 428k(4) or Article 428ah(2), which institutions shall take into account in other parts of the calculation of the amount of required stable funding in accordance with this Chapter 4 of Title IV (The Net Stable Funding Ratio).

9. Institutions shall include foreign currencies and commodities for which a purchase order has been executed in the calculation of the amount of required stable funding financial instruments. They shall exclude financial instruments, foreign currencies and commodities for which a sale order has been executed from the calculation of the amount of required stable funding, provided that those transactions are not reflected as derivatives or secured funding transactions on the institutions' balance sheet and that those transactions are to be reflected on the institutions' balance sheet when settled.

10. Institutions shall apply appropriate stable funding factors to off-balance sheet exposures that are not referred to in this Chapter 4 of Title IV (The Net Stable Funding Ratio) to ensure that they hold an appropriate amount of available stable funding for the portion of those exposures that are expected to require funding over the one-year horizon of the net stable funding ratio. When considering those factors, institutions shall, in particular, take into account the material reputational damage to the institution that could result from not providing that funding.

Article 428q RESIDUAL MATURITY OF AN ASSET

1. Unless otherwise specified in this Chapter 4 of Title IV (The Net Stable Funding Ratio), institutions shall take into account the residual contractual maturity of their assets and off-balance sheet transactions when determining the required stable funding factors to be applied to their assets and off-balance sheet items under Section 2.

2. Institutions shall treat assets that have been segregated in accordance with Article 11(3) of Regulation (EU) No 648/2012 in accordance with the underlying exposure of those assets. Institutions shall, however, subject those assets to higher required stable funding factors, based on the term of encumbrance of those assets. For these purposes, segregated assets are encumbered when the institution is not able freely to dispose of or exchange such assets. Institutions shall consider the term of encumbrance to be the same as the term of the liabilities which generated the segregation requirement.

3. When calculating the residual maturity of an asset, institutions shall take options into account in a prudent manner. Institutions shall assume that the issuer or counterparty will exercise any option to extend the maturity of an asset. For options that are exercisable at the discretion of the institution, the institution shall take into account reputational factors that may limit the institution's ability not to exercise the option, in particular markets' and clients' expectations that the institution should extend the maturity of certain assets at their maturity date.

4. In order to determine the required stable funding factors to be applied in accordance with Section 2, for amortising loans with a residual contractual maturity of one year or more, any portion that matures in less than six *months* and any portion that matures between six *months* and less than one year shall be treated as having a residual maturity of less than six *months* and between six *months* and less than one year, respectively.

SECTION 2 REQUIRED STABLE FUNDING FACTORS

Article 428r 0% REQUIRED STABLE FUNDING FACTOR

1. The following assets shall be subject to a 0% required stable funding factor:

   (a) *unencumbered assets* that are eligible as level 1 high quality liquid assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding extremely high quality covered bonds specified in that Chapter, regardless of whether they comply with the operational requirements as set out in that Chapter;

   (b) *unencumbered* shares or units in CIUs that are eligible for a 0% haircut for the calculation of the liquidity coverage ratio pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* set out in that Chapter;

   (c) all reserves held by the institution with the *Bank of England* or the *central bank of a third country*, including required reserves and excess reserves;

   (d) all claims on the *Bank of England* or the *central bank of a third country* that have a residual maturity of less than six *months*;

   (e) trade date receivables arising from sales of financial instruments, foreign currencies or commodities that are expected to settle within the standard settlement cycle or period that

is customary for the relevant exchange or type of transaction, or that have failed to settle but are nonetheless expected to settle;

(f) assets that are categorised as being interdependent with liabilities in accordance with Article 428f;

(g) monies due from securities financing transactions with *financial customers*, where those transactions have a residual maturity of less than six *months*, where those monies due are collateralised by assets that qualify as *level 1 assets* pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding extremely high quality covered bonds specified therein, and where the institution would be legally entitled and operationally able to reuse those assets for the duration of the transaction.

Institutions shall take the monies due referred to in point (g) of the first subparagraph of this paragraph into account on a net basis where Article 428e applies.

2. By way of derogation from point (c) of paragraph 1, institutions shall apply a higher required stable funding factor to required reserves which shall be:

(a) the required stable funding factor for required reserves that is prescribed by the national law of the third country in which the relevant central bank is located; or

(b) if there is no national law prescribing the required stable funding for required reserves, an appropriate required stable funding factor, taking into account, in particular, the extent to which reserve requirements exist over a one-year horizon and therefore require associated stable funding.

Article 428ra 2.5% REQUIRED STABLE FUNDING FACTOR

Trade finance off-balance sheet related products as referred to in Annex I of the *CRR* with a residual maturity of less than one year shall be subject to a 2.5% required stable funding factor.

Article 428s 5% REQUIRED STABLE FUNDING FACTOR

1. The following assets and off-balance sheet items shall be subject to a 5% required stable funding factor:

(a) *unencumbered* shares or units in CIUs that are eligible for a 5% haircut for the calculation of the liquidity coverage ratio in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter;

(b) monies due from securities financing transactions with *financial customers*, where those transactions have a residual maturity of less than six *months*, other than those referred to in point (g) of Article 428r(1);

(c) the undrawn portion of *committed credit and liquidity facilities* pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(d) trade finance off-balance sheet related products as referred to in Annex I of the *CRR* with a residual maturity of one year or more.

Institutions shall take the monies due referred to in point (b) of the first subparagraph of this paragraph into account on a net basis where Article 428e applies.

2. Subject to Article 428da, for all netting sets of *derivative contracts*, institutions shall apply a 5% required stable funding factor to the absolute fair value of those netting sets of *derivative contracts*, gross of any collateral posted, where those netting sets have a negative fair value. For the purposes of this paragraph, institutions shall determine the fair value as gross of any collateral posted or settlement payments and receipts related to market valuation changes of such contracts.

Article 428t 7% REQUIRED STABLE FUNDING FACTOR

Unencumbered assets that are eligible as level 1 extremely high quality covered bonds pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 7% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428v 10% REQUIRED STABLE FUNDING FACTOR

Monies due from transactions with *financial customers* that have a residual maturity of less than six *months* other than those referred to in point (g) of Article 428r(1) and in point (b) of Article 428s(1) shall be subject to a 10% required stable funding factor.

Article 428w 12% REQUIRED STABLE FUNDING FACTOR

Unencumbered shares or units in CIUs that are eligible for a 12% haircut for the calculation of the liquidity coverage ratio in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 12% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428x 15% REQUIRED STABLE FUNDING FACTOR

Unencumbered assets that are eligible as level 2A assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 15% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428y 20% REQUIRED STABLE FUNDING FACTOR

Unencumbered shares or units in CIUs that are eligible for a 20% haircut for the calculation of the liquidity coverage ratio in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 20% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428z 25% REQUIRED STABLE FUNDING FACTOR

Unencumbered level 2B securitisations pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook and falling within Article 13(14)(a) of that Chapter shall be subject to a 25% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428aa 30% REQUIRED STABLE FUNDING FACTOR

The following assets shall be subject to a 30% required stable funding factor:

(a) *unencumbered* high quality covered bonds pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter;

(b) *unencumbered* shares or units in CIUs that are eligible for a 30% haircut for the calculation of the liquidity coverage ratio in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter;

(c) trade finance on-balance sheet related products with non-*financial customers* with a residual maturity of less than six *months*.

Article 428ab 35% REQUIRED STABLE FUNDING FACTOR

The following assets shall be subject to a 35% required stable funding factor:

(a) *unencumbered* level 2B securitisations pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook and falling within Article 13(14)(b) of that Chapter, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter;

(b) *unencumbered* shares or units in CIUs that are eligible for a 35% haircut for the calculation of the liquidity coverage ratio pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428ac 40% REQUIRED STABLE FUNDING FACTOR

Unencumbered shares or units in CIUs that are eligible for a 40% haircut for the calculation of the liquidity coverage ratio pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 40% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428ad 50% REQUIRED STABLE FUNDING FACTOR

The following assets shall be subject to a 50% required stable funding factor:

(a) *unencumbered assets* that are eligible as level 2B assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding level 2B securitisations and high quality covered bonds pursuant to that Chapter, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter. For these purposes Article 12(1)(c)(i) to (iii) of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part shall be replaced with the following eligibility criteria:

(i) the shares form part of the Financial Times Stock Exchange 100 (FTSE 100) in the *United Kingdom* or a major stock index of a third country composed of leading companies in the relevant jurisdiction;

(ii) the shares are denominated in the domestic currency of the institution's home jurisdiction or in the currency of the jurisdiction where the institution's liquidity risk is taken; and

(iii) the shares have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions, i.e.:

— a maximum decline of price over a 30-day period not exceeding 40%; or

— an increase in haircut over a 30-day period not exceeding 40 percentage points,

during a relevant period of significant liquidity stress;

(b) deposits held by the institution in another financial institution that fulfil the criteria for operational deposits as set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(c) monies due from transactions with a residual maturity of less than one year with:

(i) the central government of the *United Kingdom* or of a third country;

(ii) regional governments or local authorities in a third country;

(iii) public sector entities of the *United Kingdom* or of a third country;

(iv) multilateral development banks referred to in Article 117(2) and international organisations referred to in Article 118;

(v) non-financial corporates, retail customers and SMEs, unless otherwise specified in Article 428aa(c);

(vi) *credit unions* authorised by the *competent authority*, *personal investment companies* and clients that are *deposit brokers* to the extent that those assets do not fall under point (b) of this paragraph;

(d) monies due from transactions with a residual maturity of at least six *months* but less than one year with:

(i) the *Bank of England* or the *central bank of a third country*;

(iii) *financial customers*;

(e) trade finance on-balance sheet related products with a residual maturity of at least six *months* but less than one year;

(f) assets encumbered for a residual maturity of at least six *months* but less than one year, except where those assets would be assigned a higher required stable funding factor in accordance with Articles 428ae to 428ah if they were held *unencumbered*, in which case the higher required stable funding factor that would apply to those assets if they were held *unencumbered* shall apply;

(g) any other assets with a residual maturity of less than one year, unless otherwise specified in Articles 428r to 428ac.

Article 428ae 55% REQUIRED STABLE FUNDING FACTOR

Unencumbered shares or units in CIUs that are eligible for a 55% haircut for the calculation of the liquidity coverage ratio in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 55% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428af 65% REQUIRED STABLE FUNDING FACTOR

1. The following assets shall be subject to a 65% required stable funding factor:

(a) *unencumbered* loans secured by mortgages on residential property with a residual maturity of one year or more, provided that those loans are assigned a risk weight of 35% or less in accordance with Chapter 2 of Title II of Part Three of the *CRR*;

(b) *unencumbered* loans with a residual maturity of one year or more, excluding loans to *financial customers* and loans referred to in Articles 428r to 428ad, provided that those loans are assigned a risk weight of 35% or less in accordance with Chapter 2 of Title II of Part Three of the *CRR*.

2. Institutions shall apply a 65% required stable funding factor to the most senior tranche or, if the institution has retained all tranches, all tranches of *unencumbered* securitisations:

(a) with a residual maturity of one year or more;

(b) where the underlying exposures were originated by:

(i) the institution;

(ii) a subsidiary of the institution; or

(iii) a third party provided the exposures were purchased by any of the entities in paragraph (2)(b)(i) to (ii) of this Article prior to the securitisation; and

(c) whose underlying exposures would be subject to paragraph 1(a) of this Article had the underlying exposures not been securitised.

Article 428ag 85% REQUIRED STABLE FUNDING FACTOR

The following assets and off-balance sheet items shall be subject to a 85% required stable funding factor:

(a) any assets and off-balance sheet items, including cash, posted as initial margin for *derivative contracts*, unless those assets would be assigned a higher required stable funding factor in accordance with Article 428ah if held *unencumbered*, in which case the higher required stable funding factor that would apply to those assets if they were held *unencumbered* shall apply;

(b) any assets and off-balance sheet items, including cash, posted as contribution to the default fund of a CCP, unless those would be assigned a higher required stable funding factor in accordance with Article 428ah if held *unencumbered*, in which case the higher required stable funding factor to be applied to the *unencumbered asset* shall apply;

(c) *unencumbered* loans with a residual maturity of one year or more, excluding loans to *financial customers* and loans referred to in Articles 428r to 428af, which are not past due for more than 90 days and which are assigned a risk weight of more than 35% in accordance with Chapter 2 of Title II of Part Three of the *CRR*;

(d) trade finance on-balance sheet related products with non-*financial customers* with a residual maturity of one year or more;

(e) *unencumbered* securities with a residual maturity of one year or more that are not in default in accordance with Article 178 and that are not eligible as liquid assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, unless otherwise specified in Article 428af(2);

(f) *unencumbered* exchange-traded equities that are not eligible as level 2B assets pursuant to Article 428ad(a);

(g) physically traded commodities, including gold but excluding commodity derivatives unless otherwise specified in Article 428f;

(h) assets encumbered for a residual maturity of one year or more in a cover pool funded by covered bonds as referred to in provisions implementing Article 52(4) of Directive 2009/65/EC

or covered bonds which meet the eligibility requirements for the treatment as set out in Article 129(4) or (5) of the *CRR*.

Article 428ah 100% REQUIRED STABLE FUNDING FACTOR

1. The following assets shall be subject to a 100% required stable funding factor:

   (a) unless otherwise specified in this Chapter 4 of Title IV (The Net Stable Funding Ratio), any assets encumbered for a residual maturity of one year or more;

   (b) any assets other than those referred to in Articles 428r to 428ag, including loans to *financial customers* having a residual contractual maturity of one year or more, non-performing exposures, items deducted from own funds, fixed assets, non-exchange-traded equities, retained interest, insurance assets, defaulted securities.

2. Institutions shall apply a 100% required stable funding factor to the difference, if positive, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Article 428d.

   The following rules shall apply to the calculation referred to in the first subparagraph:

   (a) variation margin received by institutions from their counterparties shall be deducted from the fair value of a netting set with positive fair value, only up to the extent that it results in the netting set having zero fair value, where the collateral received as variation margin qualifies as a *level 1 asset* pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding extremely high quality covered bonds specified in that Chapter, and where institutions are legally entitled and operationally able to reuse that collateral;

   (b) all variation margin posted by institutions with their counterparties shall be deducted from the fair value of a netting set with negative fair value, only up to the extent that it results in the netting set having zero fair value.

CHAPTER 5 DEROGATION FOR SMALL AND NON-COMPLEX INSTITUTIONS

Article 428ai DEROGATION FOR SMALL AND NON-COMPLEX INSTITUTIONS

By way of derogation from Chapters 3 and 4 of Title IV (The Net Stable Funding Ratio), small and non-complex institutions may, subject to giving reasonable notice to the *competent authority*, calculate the ratio between an institution's available stable funding as referred to in Chapter 6 of Title IV (The Net Stable Funding Ratio), and the institution's required stable funding as referred to in Chapter 7 of Title IV (The Net Stable Funding Ratio), expressed as a percentage.

CHAPTER 6 AVAILABLE STABLE FUNDING FOR THE SIMPLIFIED CALCULATION OF THE NET STABLE FUNDING RATIO

SECTION 1 GENERAL PROVISIONS

Article 428aj SIMPLIFIED CALCULATION OF THE AMOUNT OF AVAILABLE STABLE FUNDING

1. Unless otherwise specified in this Chapter 6 of Title IV (The Net Stable Funding Ratio), the amount of available stable funding shall be calculated by multiplying the accounting value of various categories or types of liabilities and own funds by the available stable funding factors to be applied under Section 2. The total amount of available stable funding shall be the sum of the weighted amounts of liabilities and own funds.

2. Bonds and other debt securities that are issued by the institution, sold exclusively in the retail market, and held in a retail account, may be treated as belonging to the appropriate *retail deposit* category. Limitations shall be in place, such that those instruments cannot be bought and held by parties other than retail customers.

Article 428ak RESIDUAL MATURITY OF A LIABILITY OR OWN FUNDS

1. Unless otherwise specified in this Chapter 6 of Title IV (The Net Stable Funding Ratio), institutions shall take into account the residual contractual maturity of their liabilities and own funds to determine the available stable funding factors to be applied under Section 2.

2. Institutions shall take into account existing options in determining the residual maturity of a liability or of own funds in a prudent manner. They shall do so on the assumption that the counterparty will redeem call options at the earliest possible date. For options exercisable at the discretion of the institution, the institution shall take into account reputational factors that may limit an institution's ability not to exercise the option, in particular market expectations that institutions should redeem certain liabilities before their maturity.

3. Institutions shall treat deposits with fixed notice periods in accordance with their notice period, and shall treat term deposits in accordance with their residual maturity. By way of derogation from paragraph 2 of this Article, institutions shall not take into account options for early withdrawals where the depositor has to pay a material penalty for early withdrawals which occur in less than one year, such penalty being laid down in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, to determine the residual maturity of term *retail deposits*.

4. In order to determine the available stable funding factors to be applied under Section 2, for liabilities with a residual contractual maturity of one year or more, any portion that matures in less than six *months* and any portion that matures between six *months* and less than one year, shall be treated as having a residual maturity of less than six *months* and between six *months* and less than one year, respectively.

Section 2 AVAILABLE STABLE FUNDING FACTORS

Article 428al 0% AVAILABLE STABLE FUNDING FACTOR

1. Unless otherwise specified in this Section, all liabilities without a stated maturity, including short positions and open maturity positions, shall be subject to a 0% available stable funding factor, with the exception of the following:

   (a) deferred tax liabilities, which shall be treated in accordance with the nearest possible date on which such liabilities could be realised;

   (b) minority interests, which shall be treated in accordance with the term of the instrument concerned.

2. Deferred tax liabilities and minority interests as referred to in paragraph 1 shall be subject to one of the following factors:

   (a) 0%, where the effective residual maturity of the deferred tax liability or minority interest is less than one year;

   (b) 100%, where the effective residual maturity of the deferred tax liability or minority interest is one year or more.

3. The following liabilities and capital items or instruments shall be subject to a 0% available stable funding factor:

   (a) trade date payables arising from purchases of financial instruments, of foreign currencies and of commodities, that are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or that have failed to settle but are nonetheless expected to settle;

   (b) liabilities that are categorised as being interdependent with assets in accordance with Article 428f;

   (c) liabilities with a residual maturity of less than one year provided by:

      (i) the *Bank of England*;

      (ii) the *central bank of a third country*;

      (iii) *financial customers*;

   (d) any other liabilities and capital items or instruments not referred to in this Article and Articles 428am to 428ap.

4. Institutions shall apply a 0% available stable funding factor to the absolute value of the difference, if negative, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Article 428d.

   The following rules shall apply to the calculation referred to in the first subparagraph:

(a) variation margin received by institutions from their counterparties shall be deducted from the fair value of a netting set with positive fair value, only up to the extent that it results in the netting set having zero fair value, where the collateral received as variation margin qualifies as a *level 1 asset* pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding extremely high quality covered bonds specified in that Chapter, and where institutions are legally entitled and operationally able to reuse that collateral;

(b) all variation margin posted by institutions with their counterparties shall be deducted from the fair value of a netting set with negative fair value, only up to the extent that it results in the netting set having zero fair value.

Article 428am 50% AVAILABLE STABLE FUNDING FACTOR

The following liabilities and capital items or instruments shall be subject to a 50% available stable funding factor:

(a) deposits received that fulfil the criteria for operational deposits set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook;

(b) liabilities and capital items or instruments with a residual maturity of less than one year provided by:

(i) the central government of the *United Kingdom* or of a third country;

(ii) regional governments or local authorities in the *United Kingdom* or in a third country;

(iii) public sector entities of the *United Kingdom* or of a third country;

(iv) multilateral development banks referred to in Article 117(2) and international organisations referred to in Article 118;

(v) non-financial corporate customers;

(vi) *credit unions* authorised by the *competent authority*, *personal investment companies* and clients that are *deposit brokers*, with the exception of deposits received, that fulfil the criteria for operational deposits as set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook.

Article 428an 90% AVAILABLE STABLE FUNDING FACTOR

Sight *retail deposits*, *retail deposits* with a fixed notice period of less than one year and term *retail deposits* having a residual maturity of less than one year that fulfil the relevant criteria for other *retail deposits* set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 90% available stable funding factor.

Article 428ao 95% AVAILABLE STABLE FUNDING FACTOR

Sight *retail deposits*, *retail deposits* with a fixed notice period of less than one year and term *retail deposits* having a residual maturity of less than one year that fulfil the relevant criteria for stable *retail deposits* set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 95% available stable funding factor.

Article 428ap 100% AVAILABLE STABLE FUNDING FACTOR

The following liabilities and capital items and instruments shall be subject to a 100% available stable funding factor:

(a) the Common Equity Tier 1 items of the institution before the adjustments required pursuant to Articles 32 to 35, the deductions pursuant to Article 36 and the application of the exemptions and alternatives laid down in Articles 48, 49 and 79;

(b) the Additional Tier 1 items of the institution before the deduction of the items referred to in Article 56 and before Article 79 has been applied thereto, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;

(c) the Tier 2 items of the institution before the deductions referred to in Article 66 and before the application of Article 79, having a residual maturity of one year or more, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;

(d) any other capital instruments of the institution with a residual maturity of one year or more, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;

(e) any other secured and unsecured borrowings and liabilities with a residual maturity of one year or more, including term deposits, unless otherwise specified in Articles 428al to 428ao.

CHAPTER 7 REQUIRED STABLE FUNDING FOR THE SIMPLIFIED CALCULATION OF THE NET STABLE FUNDING RATIO

SECTION 1 GENERAL PROVISIONS

Article 428aq SIMPLIFIED CALCULATION OF THE AMOUNT OF REQUIRED STABLE FUNDING

1. Unless otherwise specified in this Chapter 7 of Title IV (The Net Stable Funding Ratio), for small and non-complex institutions the amount of required stable funding shall be calculated by multiplying the accounting value of various categories or types of assets and off-balance sheet items by the required stable funding factors to be applied in accordance with Section 2 of this

Chapter. The total amount of required stable funding shall be the sum of the weighted amounts of assets and off-balance sheet items.

2. Assets that institutions have borrowed or otherwise acquired in securities financing transactions shall be subject to the required stable funding factors to be applied under Section 2 of this Chapter where those assets are accounted for on the balance sheet of the institution or where the institution is exposed to all or substantially all of the economic risk and reward in respect of those assets. Otherwise, such assets shall be excluded from the calculation of the amount of required stable funding.

3. Assets that institutions have lent or otherwise disposed of in securities financing transactions which the institution keeps on balance sheet or in respect of which the institution retains exposure to all or substantially all of the economic risk and reward, shall be considered as encumbered assets for the purposes of this Chapter 7 of Title IV (The Net Stable Funding Ratio) and shall be subject to required stable funding factors to be applied under Section 2. Otherwise, such assets shall be excluded from the calculation of the amount of required stable funding.

4. Assets that are encumbered for a residual maturity of six *months* or longer shall be assigned either the required stable funding factor that would be applied under Section 2 to those assets if they were held *unencumbered* or the required stable funding factor that is otherwise applicable to those encumbered assets, whichever factor is higher. The same shall apply where the residual maturity of the encumbered assets is shorter than the residual maturity of the transaction that is the source of encumbrance.

   Assets that have less than six *months* remaining in the encumbrance period shall be subject to the required stable funding factors to be applied under Section 2 to the same assets if they were held *unencumbered*.

5. Where an institution reuses or repledges an asset that was borrowed, including in securities financing transactions, and that is accounted for off-balance sheet, the transaction through which that asset has been borrowed shall be treated as encumbered to the extent that the transaction cannot mature without the institution returning the asset borrowed.

6. The following assets shall be considered to be *unencumbered*:

   (a) assets included in a pool which are available for immediate use as collateral to obtain additional funding under committed or, where the pool is operated by a central bank, uncommitted but not yet funded credit lines available to the institution;

   (b) assets that the institution has received as collateral for credit risk mitigation purposes in secured lending, secured funding or collateral exchange transactions and that the institution may dispose of;

   (c) assets attached as non-mandatory over-collateralisation to a covered bond issuance.

For the purposes of point (a) of the first subparagraph of this paragraph, institutions shall assume that assets in the pool are encumbered in order of increasing liquidity on the basis of the liquidity classification set out in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, starting with assets ineligible for the *liquidity buffer*.

8. Institutions shall exclude assets associated with collateral recognised as variation margin posted in accordance with point (b) of Article 428al(4) and Article 428az(2) or as initial margin posted or as contribution to the default fund of a CCP in accordance with points (a) and (b) of Article 428ay from other parts of calculation of the amount of required stable funding in accordance with this Chapter 7 of Title IV (The Net Stable Funding Ratio) in order to avoid any double counting. This paragraph 8 does not apply to collateral assets associated with excess variation margin posted and not already recognised in point (b) of Article 428al(4) or Article 428az(2), which institutions shall take into account in other parts of the calculation of the amount of required stable funding in accordance with this Chapter 7 of Title IV (The Net Stable Funding Ratio).

9. Institutions shall include in the calculation of the amount of required stable funding financial instruments, foreign currencies and commodities for which a purchase order has been executed. They shall exclude from the calculation of the amount of required stable funding financial instruments, foreign currencies and commodities for which a sale order has been executed, provided that those transactions are not reflected as derivatives or secured funding transactions on the institutions' balance sheet and that those transactions are to be reflected on the institutions' balance sheet when settled.

10. Institutions shall apply appropriate stable funding factors to off-balance sheet exposures that are not referred to in this Chapter 7 of Title IV (The Net Stable Funding Ratio) to ensure that they hold an appropriate amount of available stable funding for the portion of those exposures that are expected to require funding over the one-year horizon of the net stable funding ratio. When considering those factors, institutions shall, in particular, take into account the material reputational damage to the institution that could result from not providing that funding.

Article 428ar RESIDUAL MATURITY OF AN ASSET

1. Unless otherwise specified in this Chapter 7 of Title IV (The Net Stable Funding Ratio), institutions shall take into account the residual contractual maturity of their assets and off-balance sheet transactions when determining the required stable funding factors to be applied to their assets and off-balance sheet items under Section 2.

2. Institutions shall treat assets that have been segregated in accordance with Article 11(3) of Regulation (EU) No 648/2012 in accordance with the underlying exposure of those assets. Institutions shall, however, subject those assets to higher required stable funding factors, based on the term of encumbrance of those assets. For these purposes, segregated assets are encumbered when the institution is not able freely to dispose of or exchange such

assets. Institutions shall consider the term of encumbrance to be the same as the term of the liabilities which generated the segregation requirement.

3. When calculating the residual maturity of an asset, institutions shall take options into account in a prudent manner. Institutions shall assume that the issuer or counterparty will exercise any option to extend the maturity of an asset. For options that are exercisable at the discretion of the institution, the institution shall take into account reputational factors that may limit the institution's ability not to exercise the option, in particular markets' and clients' expectations that the institution should extend the maturity of certain assets at their maturity date.

4. In order to determine the required stable funding factors to be applied in accordance with Section 2, for amortising loans with a residual contractual maturity of one year or more, the portions that mature in less than six *months* and between six *months* and less than one year shall be treated as having a residual maturity of less than six *months* and between six *months* and less than one year respectively.

SECTION 2 REQUIRED STABLE FUNDING FACTORS

Article 428as 0% REQUIRED STABLE FUNDING FACTOR

1. The following assets shall be subject to a 0% required stable funding factor:

   (a) *unencumbered assets* that are eligible as level 1 high quality liquid assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding extremely high quality covered bonds specified in that Chapter, regardless of whether they comply with the operational requirements as set out in that Chapter;

   (b) all reserves held by the institution in the *Bank of England* or the *central bank of a third country*, including required reserves and excess reserves;

   (c) all claims on the *Bank of England* or the *central bank of a third country* that have a residual maturity of less than six *months*;

   (d) assets that are categorised as being interdependent with liabilities in accordance with Article 428f.

2. By way of derogation from point (b) of paragraph 1, institutions shall apply a higher required stable funding factor to required reserves which shall be:

   (a) the required stable funding factor for required reserves that is prescribed by the national law of the third country in which the relevant central bank is located; or

   (b) if there is no national law prescribing the required stable funding for required reserves, an appropriate required stable funding factor, taking into account, in particular, the extent to which reserve requirements exist over a one-year horizon and therefore require associated stable funding.

Article 428asa 2.5% REQUIRED STABLE FUNDING FACTOR

Trade finance off-balance sheet related products as referred to in Annex I of the *CRR* with a residual maturity of less than one year shall be subject to a 2.5% required stable funding factor.

Article 428at 5% REQUIRED STABLE FUNDING FACTOR

1. The undrawn portion of *committed credit and liquidity facilities* specified in Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 5% required stable funding factor.

2. Subject to Article 428da, for all netting sets of *derivative contracts*, institutions shall apply a 5% required stable funding factor to the absolute fair value of those netting sets of *derivative contracts*, gross of any collateral posted, where those netting sets have a negative fair value. For the purposes of this paragraph, institutions shall determine the fair value as gross of any collateral posted or settlement payments and receipts related to market valuation changes of such contracts.

3. Trade finance off-balance sheet related products as referred to in Annex I of the *CRR* with a residual maturity of one year or more shall be subject to a 5% required stable funding factor.

Article 428au 10% REQUIRED STABLE FUNDING FACTOR

Unencumbered assets that are eligible as level 1 extremely high quality covered bonds pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook shall be subject to a 10% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428av 20% REQUIRED STABLE FUNDING FACTOR

Unencumbered assets that are eligible as level 2A assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, and *unencumbered* shares or units in CIUs pursuant to that Chapter shall be subject to a 20% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter.

Article 428aw 50% REQUIRED STABLE FUNDING FACTOR

The following assets shall be subject to a 50% required stable funding factor:

(a) secured and unsecured loans with a residual maturity of less than one year and provided that they are encumbered less than one year;

(b) any other assets with a residual maturity of less than one year, unless otherwise specified in Articles 428as to 428av;

(c) assets encumbered for a residual maturity of at least six *months* but less than one year, except where those assets would be assigned a higher required stable funding factor in accordance

with Articles 428ax, 428 axa, 428ay and 428az if they were held *unencumbered*, in which case the higher required stable funding factor that would apply to those assets if they were held *unencumbered* shall apply.

Article 428ax 55% REQUIRED STABLE FUNDING FACTOR

Assets that are eligible as level 2B assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, and shares or units in CIUs pursuant to that Chapter shall be subject to a 55% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the *liquidity buffer* as set out in that Chapter, provided that they are encumbered less than one year. For these purposes Article 12(1)(c)(i) to (iii) of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part shall be replaced with the following eligibility criteria:

(a) the shares form part of the Financial Times Stock Exchange 100 (FTSE 100) in the *United Kingdom* or a major stock index of a third country composed of leading companies in the relevant jurisdiction;

(b) the shares are denominated in the domestic currency of the institution's home jurisdiction or in the currency of the jurisdiction where the institution's liquidity risk is taken; and

(c) the shares have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions, i.e.:

 (i) a maximum decline of price over a 30-day period not exceeding 40%; or

 (ii) an increase in haircut over a 30-day period not exceeding 40 percentage points,

 during a relevant period of significant liquidity stress.

Article 428axa 65% REQUIRED STABLE FUNDING FACTOR

1. *Unencumbered* loans secured by mortgages on residential property with a residual maturity of one year or more, provided that those loans are assigned a risk weight of 35% or less in accordance with Chapter 2 of Title II of Part Three of the CRR, shall be subject to a 65% required stable funding factor.

2. Institutions shall apply a 65% required stable funding factor to the most senior tranche or, if the institution has retained all tranches, all tranches of *unencumbered* securitisations:

 (a) with a residual maturity of one year or more;

 (b) where the underlying exposures were originated by:

  (i) the institution;

  (ii) a subsidiary of the institution; or

  (iii) a third party provided the exposures were purchased by any of the entities in paragraph (2)(b)(i) to (ii) of this Article prior to the securitisation; and

(c) whose underlying exposures would be subject to paragraph 1 of this Article had the underlying exposures not been securitised.

Article 428ay 85% REQUIRED STABLE FUNDING FACTOR

The following assets and off-balance sheet items shall be subject to a 85% required stable funding factor:

(a) any assets and off-balance sheet items, including cash, posted as initial margin for *derivative contracts* or posted as contribution to the default fund of a CCP, unless those assets would be assigned a higher required stable funding factor in accordance with Article 428az if held *unencumbered*, in which case the higher required stable funding factor that would apply to those assets if they were held *unencumbered* shall apply;

(b) *unencumbered* loans with a residual maturity of one year or more, excluding loans to *financial customers*, which are not past due for more than 90 days, unless otherwise specified in Article 428axa(1);

(c) trade finance on-balance sheet related products with non-*financial customers* with a residual maturity of one year or more;

(d) *unencumbered* securities with a residual maturity of one year or more that are not in default in accordance with Article 178 and that are not eligible as liquid assets pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, unless otherwise specified in Article 428axa(2);

(e) *unencumbered* exchange-traded equities that are not eligible as level 2B assets pursuant to Article 428ax;

(f) physically traded commodities, including gold but excluding commodity derivatives, unless otherwise specified in Article 428f;

(g) *unencumbered* loans secured by mortgages on residential property with a residual maturity of one year or more, provided that those loans are assigned a risk weight of more than 35% in accordance with Chapter 2 of Title II of Part Three of the CRR.

Article 428az 100% REQUIRED STABLE FUNDING FACTOR

1. The following assets shall be subject to a 100% required stable funding factor:

   (a) any assets encumbered for a residual maturity of one year or more;

   (b) any assets other than those referred to in Articles 428as to 428ay, including loans to *financial customers* having a residual contractual maturity of one year or more, non-performing exposures, items deducted from own funds, fixed assets, non-exchange traded equities, retained interest, insurance assets, defaulted securities.

2. Institutions shall apply a 100% required stable funding factor to the difference, if positive, between the sum of fair values across all netting sets with positive fair value and the sum of fair

values across all netting sets with negative fair value calculated in accordance with Article 428d.

The following rules shall apply to the calculation referred to in the first subparagraph:

(a) variation margin received by institutions from their counterparties shall be deducted from the fair value of a netting set with positive fair value, only up to the extent that it results in the netting set having zero fair value, where the collateral received as variation margin qualifies as a *level 1 asset* pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, excluding extremely high quality covered bonds specified in that Chapter, and where institutions are legally entitled and operationally able to reuse that collateral;

(b) all variation margin posted by institutions with their counterparties shall be deducted from the fair value of a netting set with negative fair value, only up to the extent that it results in the netting set having zero fair value.

ANNEX I

Liquidity Coverage Ratio (CRR) Part

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

Part

LIQUIDITY COVERAGE RATIO (CRR)

Content

1. APPLICATION AND DEFINITIONS
2. RULES ON STANDARDS FOR THE LIQUIDITY COVERAGE REQUIREMENT FOR CREDIT INSTITUTIONS (PREVIOUSLY REGULATION (EU) NO 2015/61)

Article 1 SUBJECT MATTER
Article 2 SCOPE AND APPLICATION
Article 3 DEFINITIONS
Article 4 THE LIQUIDITY COVERAGE RATIO
Article 5 STRESS SCENARIOS FOR THE PURPOSES OF THE LIQUIDITY COVERAGE RATIO
Article 6 COMPOSITION OF THE LIQUIDITY BUFFER
Article 7 GENERAL REQUIREMENTS FOR LIQUID ASSETS
Article 8 OPERATIONAL REQUIREMENTS
Article 9 VALUATION OF LIQUID ASSETS
Article 10 LEVEL 1 ASSETS
Article 11 LEVEL 2A ASSETS
Article 12 LEVEL 2B ASSETS
Article 13 LEVEL 2B SECURITISATIONS
Article 14 RESTRICTED-USE COMMITTED LIQUIDITY FACILITIES
Article 15 CIUS
Article 17 COMPOSITION OF THE LIQUIDITY BUFFER BY ASSET LEVEL
Article 18 BREACH OF REQUIREMENTS
Article 19 ALTERNATIVE LIQUIDITY APPROACHES
Article 20 DEFINITION OF NET LIQUIDITY OUTFLOWS
Article 21 NETTING OF DERIVATIVES TRANSACTIONS
Article 22 DEFINITION OF LIQUIDITY OUTFLOWS
Article 23 ADDITIONAL LIQUIDITY OUTFLOWS FOR OTHER PRODUCTS AND SERVICES
Article 24 OUTFLOWS FROM STABLE RETAIL DEPOSITS
Article 25 OUTFLOWS FROM OTHER RETAIL DEPOSITS
Article 26 OUTFLOWS WITH INTER-DEPENDENT INFLOWS
Article 27 OUTFLOWS FROM OPERATIONAL DEPOSITS
Article 28 OUTFLOWS FROM OTHER LIABILITIES

Article 29 OUTFLOWS WITHIN A GROUP

Article 30 ADDITIONAL OUTFLOWS

Article 31 OUTFLOWS FROM CREDIT AND LIQUIDITY FACILITIES

Article 31a OUTFLOWS FROM LIABILITIES AND COMMITMENTS NOT COVERED BY OTHER PROVISIONS OF THIS CHAPTER

Article 32 INFLOWS

Article 33 CAP ON INFLOWS

Article 34 INFLOWS WITHIN A GROUP

Article 35 UNITED KINGDOM-GUARANTEED BANK ASSETS

Article 37 TRANSITIONAL PROVISION FOR SECURITISATIONS BACKED BY RESIDENTIAL LOANS

Article 38 TRANSITIONAL PROVISION FOR THE INTRODUCTION OF THE LIQUIDITY COVERAGE RATIO

Article 39 ENTRY INTO FORCE

ANNEX I FORMULAE FOR THE DETERMINATION OF THE LIQUIDITY BUFFER COMPOSITION

ANNEX II FORMULA FOR THE CALCULATION OF THE NET LIQUIDITY OUTFLOW

3. RULES ON STANDARDS FOR SPECIFYING THE CONDITIONS FOR THE APPLICATION OF THE DEROGATIONS CONCERNING CURRENCIES WITH CONSTRAINTS ON THE AVAILABILITY OF LIQUID ASSETS (PREVIOUSLY REGULATION (EU) NO 2016/709)

Article 1 SUBJECT MATTER

Article 2 NOTIFICATION OF THE DEROGATION

Article 3 ASSESSMENT OF JUSTIFIED NEEDS

Article 4 APPLICATION OF THE DEROGATION PROVIDED FOR IN ARTICLE 419(2)(A) OF CRR

Article 5 APPLICATION OF THE DEROGATION PROVIDED FOR IN ARTICLE 419(2)(B) OF CRR

Article 6 FEE PAYABLE FOR THE GRANTING OF A CREDIT LINE

Article 7 LIMITATION ON THE USE OF DEROGATIONS

Article 8 FINAL PROVISIONS

4. RULES ON STANDARDS FOR ADDITIONAL LIQUIDITY OUTFLOWS CORRESPONDING TO COLLATERAL NEEDS RESULTING FROM THE IMPACT OF AN ADVERSE MARKET SCENARIO ON AN INSTITUTION'S DERIVATIVES TRANSACTIONS (PREVIOUSLY REGULATION (EU) NO 2017/208)

Article 1 MATERIALITY OF AN INSTITUTION'S DERIVATIVES TRANSACTIONS

Article 2 CALCULATION OF AN ADDITIONAL OUTFLOW CORRESPONDING TO COLLATERAL NEEDS RESULTING FROM THE IMPACT OF AN ADVERSE MARKET SCENARIO ON AN INSTITUTION'S DERIVATIVE TRANSACTIONS

Article 3 ENTRY INTO FORCE

1 APPLICATION AND DEFINITIONS

1.1 Chapters 1 to 3 of the Liquidity (CRR) Part of the *PRA* Rulebook apply in relation to this Part.

1.2 Unless the contrary intention appears, words and expressions used in this Part that are defined in Chapter 4 of the Liquidity (CRR) Part of the *PRA* Rulebook shall have the same meaning in this Part.

1.3 Unless the contrary intention appears, in any Chapter of this Part a reference to a provision is to the provision in the same Chapter where the reference is made.

1.4 This Part is subject to the Liquidity Coverage Requirement - UK Designated Investment Firms Part of the *PRA* Rulebook.

2 RULES ON STANDARDS FOR THE LIQUIDITY COVERAGE REQUIREMENT FOR CREDIT INSTITUTIONS (PREVIOUSLY REGULATION (EU) NO 2015/61)

TITLE I THE LIQUIDITY COVERAGE RATIO

Article 1 SUBJECT MATTER

Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook lays down rules to specify in detail the liquidity coverage requirement provided for in Article 412(1) of *CRR*.

[Note: This rule corresponds to Article 1 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 2 SCOPE AND APPLICATION

1. [Note: Provision left blank]
2. [Note: Provision left blank]
3. Where a *CRR consolidation entity* is required to comply with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook on the basis of its consolidated situation all the following provisions shall apply:
   (a) third country assets held by a subsidiary *undertaking* in a third country may be recognised as liquid assets for consolidation purposes where they qualify as liquid assets under that third country's national law setting out the liquidity coverage requirement and they satisfy one of the following conditions:
      (i) the assets meet all the requirements laid down in Title II (The Liquidity Buffer);

(ii) the assets fail to meet the specific requirement laid down in Title II (The Liquidity Buffer) with respect to their issue size but meet all the other requirements laid down therein.

The assets recognisable by virtue of point (ii) may only be recognised up to the amount of the *stressed net liquidity outflows* incurred in the particular currency in which they are denominated and arising from that same subsidiary *undertaking*;

(b) liquidity outflows in a subsidiary *undertaking* in a third country which are subject under the national law of that third country setting out the liquidity coverage requirement to higher percentages than those specified in Title III (Liquidity outflows and inflows) shall be subject to consolidation in accordance with the higher rates specified in the national law of the third country;

(c) liquidity inflows in a subsidiary *undertaking* in a third country which are subject under the national law of that third country setting out the liquidity coverage requirement to lower percentages than those specified in Title III (Liquidity outflows and inflows) shall be subject to consolidation in accordance with the lower rates specified in the national law of the third country;

(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 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;

(e) at a consolidated level the amount of inflows arising from a specialised credit institution referred to in Article 33 paragraphs (3) and (4) shall only be recognised up to the amount of the outflows arising from the same *undertaking*.

[Note: This rule corresponds to Article 2 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

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:

(1) ‘*level 1 assets*’ means assets of extremely high liquidity and credit quality as referred to in Article 10;

(2) ‘*level 2 assets*’ means assets of high liquidity and credit quality and further subdivided into level 2A and 2B assets in accordance with Articles 11 and 12;

(3) '*liquidity buffer*' means the amount of liquid assets that a credit institution holds in accordance with Title II (The Liquidity Buffer);

(4) '*reporting currency*' means the currency in which the liquidity items referred to in Titles II and III of Part Six of *CRR* must be reported to the *competent authority* in accordance with Article 415(1) of *CRR*;

(5) '*asset coverage requirement*' means the ratio of assets to liabilities as determined for credit enhancement purposes in relation to covered bonds by the national law of the *United Kingdom* or a third country;

(7) '*net liquidity outflows*' means the amount which results from deducting a credit institution's liquidity inflows from its liquidity outflows in accordance with Title III (Liquidity outflows and inflows) ;

(9A) '*UK deposit guarantee scheme*' means the depositor protection part of the Financial Services Compensation Scheme established under section 213 of *FSMA*;

(10) '*personal investment company*' ('*PIC*') means an *undertaking* or a trust whose owner or beneficial owner, respectively, is a natural person or a group of closely related natural persons, which was set up with the sole purpose of managing the wealth of the owners and which does not carry out any other commercial, industrial or professional activity. The purpose of the *PIC* may include other ancillary activities such as segregating the owners' assets from corporate assets, facilitating the transmission of assets within a family or preventing a split of the assets after the death of a member of the family, provided these are connected to the main purpose of managing the owners' wealth;

(11) '*stress'* (or '*stressed*') means a sudden or severe deterioration in the solvency or liquidity position of a credit institution due to changes in market conditions or idiosyncratic factors as a result of which there is a significant risk that the credit institution becomes unable to meet its commitments as they fall due within the next 30 calendar days;

(12) '*margin loans*' means collateralised loans extended to customers for the purpose of taking leveraged trading positions.

(13) [Note: Provision left blank]

(14) [Note: Provision left blank]

(15) [Note: Provision left blank]

(16) [Note: Provision left blank]

[Note: This rule corresponds to Article 3 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 4 THE LIQUIDITY COVERAGE RATIO

1. The detailed liquidity coverage requirement in accordance with Article 412(1) of *CRR* shall be equal to the ratio of a credit institution's *liquidity buffer* to its *net liquidity outflows* over a 30 calendar day *stress* period and shall be expressed as a percentage. Credit institutions shall calculate their liquidity coverage ratio in accordance with the following formula:

$$\frac{Liquidity\ Buffer}{Net\ Liquidity\ Outflows\ \text{over a 30 calendar day}\ stress\ \text{period}} = \text{Liquidity Coverage Ratio (\%)}$$

2. Credit institutions shall maintain a liquidity coverage ratio of at least 100%.

3. By derogation from paragraph 2, credit institutions may monetise their liquid assets to cover their *net liquidity outflows* during *stress* periods, even if such a use of liquid assets may result in their liquidity coverage ratio falling below 100% during such periods.

4. Where at any time the liquidity coverage ratio of a credit institution has fallen or can be reasonably expected to fall below 100%, the requirement laid down in Article 414 of *CRR* shall apply. Until the liquidity coverage ratio has been restored to the level referred to in paragraph 2, the credit institution shall report to the *competent authority* in accordance with Article 414 of *CRR*.

5. Credit institutions shall calculate and monitor their liquidity coverage ratio in the *reporting currency* for all items, irrespective of their actual currency denomination.

   In addition, credit institutions shall separately calculate and monitor their liquidity coverage ratio for certain items as follows:

   (a) for items that are subject to separate reporting in a currency other than the *reporting currency* in accordance with Article 415(2) of *CRR*, credit institutions shall separately calculate and monitor their liquidity coverage ratio in that other currency;

   (b) for items denominated in the *reporting currency* where the aggregate amount of liabilities denominated in currencies other than the *reporting currency* equals or exceeds 5% of the credit institution's total liabilities, excluding regulatory capital and off-balance-sheet items, credit institutions shall separately calculate and monitor their liquidity coverage ratio in the *reporting currency*.

   Credit institutions shall report to their *competent authority* the liquidity coverage ratio in accordance with Reporting (CRR) Part of the *PRA* Rulebook.

6. Credit institutions shall not double-count liquid assets, inflows and outflows.

[Note: This rule corresponds to Article 4 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 5 STRESS SCENARIOS FOR THE PURPOSES OF THE LIQUIDITY COVERAGE RATIO

Credit institutions may regard the following scenarios as indicators of circumstances in which they may be considered as being subject to *stress*:

(a) the run-off of a significant proportion of its *retail deposits*;

(b) a partial or total loss of unsecured wholesale funding capacity, including wholesale deposits and other sources of contingent funding such as received committed or uncommitted liquidity or credit lines;

(c) a partial or total loss of secured, short-term funding;

(d) additional liquidity outflows as a result of a credit rating downgrade of up to three notches;

(e) increased market volatility affecting the value of collateral or its quality or creating additional collateral needs;

(f) unscheduled draws on liquidity and credit facilities;

(g) potential obligation to buy-back debt or to honour non-contractual obligations.

[Note: This rule corresponds to Article 5 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

TITLE II THE LIQUIDITY BUFFER

CHAPTER 1 GENERAL PROVISIONS

Article 6 COMPOSITION OF THE LIQUIDITY BUFFER

In order to be eligible to form part of a credit institution's *liquidity buffer*, the liquid assets shall comply with each of the following requirements:

(a) the general requirements laid down in Article 7;

(b) the operational requirements laid down in Article 8;

(c) the respective eligibility criteria for their classification as a *level 1 asset* or *level 2 asset* in accordance with Chapter 2 of Title II (The Liquidity Buffer).

[Note: This rule corresponds to Article 6 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 7 GENERAL REQUIREMENTS FOR LIQUID ASSETS

1. In order to qualify as liquid assets, the assets of a credit institution shall comply with paragraphs 2 to 6.

2. The assets shall be a property, right, entitlement, or interest, that is held by the credit institution, or included in a pool as referred to in point (a), and is free from any encumbrance. For those purposes, an asset shall be deemed to be unencumbered where it is not subject to any legal, contractual, regulatory or other restriction preventing the credit institution from liquidating, selling, transferring, assigning or, generally, disposing of the asset via an outright sale or a repurchase agreement within the following 30 calendar days. The following assets shall be deemed to be unencumbered:

   (a) assets included in a pool which are available for immediate use as collateral to obtain additional funding under committed but not yet funded credit lines available to the credit institution or, if the pool is operated by a central bank, under uncommitted and not yet funded credit lines available to the credit institution. Credit institutions shall assume that assets in the pool are encumbered in order of increasing liquidity on the basis of the liquidity classification set out in Chapter 2 of Title II (The Liquidity Buffer), starting with assets ineligible for the *liquidity buffer*;

   (b) assets that the credit institution has received as collateral for credit risk mitigation purposes in reverse repo or securities financing transactions and that the credit institution may dispose of.

3. The assets shall not have been issued by the credit institution itself, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary or another subsidiary of its parent undertaking or by a securitisation special purpose entity with which the credit institution has close links.

4. The assets shall not have been issued by any of the following:

   (a) another credit institution, unless one or more of the following conditions is met:

      (i) the issuer is a public sector entity referred to in point (c) of Article 10(1) or in point (a) or (b) of Article 11(1);

      (ii) the asset is a covered bond referred to in point (f) of Article 10(1) or in point (c) or (d) of Article 11(1) or in point (e) of Article 12(1);

      (iii) the asset belongs to the category described in point (e) of Article 10(1);

   (b) an investment firm;

   (c) an insurance undertaking;

   (d) a reinsurance undertaking;

   (e) a financial holding company;

   (f) a mixed financial holding company;

(g) any other entity that performs one or more of the Annex 1 activities as its main business. For the purposes of this Article, SSPEs shall be deemed not included within the entities referred to in this point.

5. The value of the assets shall be capable of being determined on the basis of widely disseminated and easily available market prices. In the absence of market-based prices, the value of the assets 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.

6. The assets shall be listed on a recognised exchange or tradable via active outright sale or via simple repurchase transaction on generally accepted repurchase markets. These criteria shall be assessed separately for each market. An asset admitted to trading in an organised venue which is not a recognised exchange, either in the *United Kingdom* or in a third country, shall be deemed liquid only where the trading venue provides for an active and sizable market for outright sales of assets. The credit institution shall take into account the following as minimum criteria to assess whether a trading venue provides for an active and sizeable market for the purposes of this paragraph:

(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;

(b) the presence of a robust market infrastructure.

7. The requirements laid down in paragraphs 5 and 6 shall not apply to:

(a) banknotes and coins referred to in point (a) of Article 10(1);

(aa) the exposures to central governments referred to in point (d) of Article 10(1);

(b) the exposures to central banks referred to in points (b) and (d) of Article 10(1) and in point (b) of Article 11(1);

(c) the restricted-use committed liquidity facility referred to in point (d) of Article 12(1).

[Note: This rule corresponds to Article 7 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 8 OPERATIONAL REQUIREMENTS

1. Credit institutions shall have policies and limits in place to ensure that the holdings of liquid assets comprising their *liquidity buffer* remain appropriately diversified at all times. For those purposes, credit institutions shall take into account the extent of diversification between the various categories of liquid assets and within the same category of liquid assets referred to in Chapter 2 of Title II (The Liquidity Buffer) and any other relevant diversification factors, such as types of issuers, counterparties or the geographical location of those issuers and counterparties.

2. Credit institutions shall have ready access to their holdings of liquid assets and be able to monetise them at any time during the 30 calendar day *stress* period via outright sale or repurchase agreement on generally accepted repurchase markets. A liquid asset shall be deemed readily accessible to a credit institution where there are no legal or practical impediments to the credit institution's ability to monetise such an asset in a timely fashion.

   Assets used to provide credit enhancement in structured transactions or to cover operational costs of the credit institutions shall not be deemed as readily accessible to a credit institution.

   Assets held in a third country where there are restrictions to their free transferability shall be deemed readily accessible only insofar as the credit institution uses those assets to meet liquidity outflows in that third country. Assets held in a non-convertible currency shall be deemed readily accessible only insofar as the credit institution uses those assets to meet liquidity outflows in that currency.

3. Credit institutions shall ensure that their liquid assets are under the control of a specific liquidity management function within the credit institution by:

   (a) placing the liquid assets in a separate pool under the direct management of the liquidity function and with the sole intent of using them as a source of contingent funds, including during *stress* periods; or

   (b) putting in place internal systems and controls to give the liquidity management function effective operational control to monetise the holdings of liquid assets at any point in the 30 calendar day *stress* period and to access the contingent funds without directly conflicting with any existing business or risk management strategies. In particular, an asset shall not be included in the *liquidity buffer* where monetisation of the asset without replacement throughout the 30 calendar day *stress* period would remove a hedge that would create an open risk position in excess of the internal limits of the credit institution; or

   (c) a combination of options (a) and (b), if appropriate.

4. Credit institutions shall regularly, and at least once a year, monetise a sufficiently representative sample of their holdings of liquid assets by means of outright sale or simple repurchase agreement on a generally accepted repurchase market. Credit institutions shall develop strategies for disposing of samples of liquid assets which are adequate to:

   (a) test the access to the market for those assets and their usability;

   (b) check that the credit institution's processes for the timely monetisation of assets are effective;

   (c) minimise the risk of sending a negative signal to the market as a result of the credit institution's monetising its assets during *stress* periods.

The requirement laid down in the first subparagraph shall not apply to *level 1 assets* referred to in Article 10, other than extremely high quality covered bonds, to the restricted-use committed liquidity facility referred to in subparagraph (d) of Article 12(1).

5. The requirement set out in paragraph 2 shall not prevent credit institutions from hedging the market risk associated with their liquid assets provided that the following conditions are met:

   (a) the credit institution puts in place appropriate internal arrangements in accordance with paragraphs 2 and 3 to ensure that those assets continue to be readily available and under the control of the liquidity management function;

   (b) the *net liquidity outflows* and inflows that would result in the event of an early close-out of the hedge are taken into account in the valuation of the relevant asset in accordance with Article 9.

6. Credit institutions shall ensure that the currency denomination of their liquid assets is consistent with the distribution by currency of their *net liquidity outflows*.

[Note: This rule corresponds to Article 8 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 9 VALUATION OF LIQUID ASSETS

For the purposes of calculating its liquidity coverage ratio, a credit institution shall use the market value of its liquid assets. The market value of liquid assets shall be reduced in accordance with the haircuts set out in Chapter 2 of Title II (The Liquidity Buffer) and with Article 8(5)(b), where applicable.

[Note: This rule corresponds to Article 9 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

CHAPTER 2 LIQUID ASSETS

Article 10 LEVEL 1 ASSETS

1. *Level 1 assets* shall only include assets falling under one or more of the following categories and meeting in each case the eligibility criteria laid down herein:

   (a) coins and banknotes;

   (b) the following exposures to central banks:

      (i) assets representing claims on or guaranteed by the *Bank of England*;

      (ii) assets representing claims on or guaranteed by *central banks of third countries*, provided that exposures to the central bank or its central government (if applicable) are assigned a credit assessment by a nominated external credit assessment institution (ECAI) which is at least credit quality step 1 in accordance with Article 114(2) of *CRR*;

(iii) reserves held by the credit institution in a central bank referred to in point (i) or (ii) provided that the credit institution is permitted to withdraw such reserves at any time during *stress* periods and that the conditions for such withdrawal have been specified in an agreement between the *competent authority* of the credit institution and the central bank in which the reserves are held, or in the applicable rules of the third country.

For the purposes of this point, the following shall apply:

— where the reserves are held by a subsidiary credit institution, the conditions for the withdrawal shall be specified in an agreement between the *United Kingdom* or third country *competent authority* of the subsidiary credit institution and the central bank in which the reserves are held, or in the applicable rules of the third country, as applicable;

— where the reserves are held by a branch, the conditions for the withdrawal shall be specified in an agreement between the *competent authority* of the *United Kingdom* or third country where the branch is located and the central bank in which the reserves are held, or in the applicable rules of the third country, as applicable;

(c) assets representing claims on or guaranteed by the following central or regional governments, local authorities or public sector entities:

(i) the central government of the *United Kingdom*;

(ii) the central government of a third country, provided that it is assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Article 114(2) of *CRR*;

(iii) regional governments or local authorities in the *United Kingdom*, provided that they are treated as exposures to the central government of the *United Kingdom* in accordance with Article 115(2) of *CRR*;

(iv) regional governments or local authorities in a third country of the type referred to in point (ii), provided that they are treated as exposures to the central government of the third country in accordance with Article 115(4) of *CRR*;

(v) public sector entities provided that they are treated as exposures to the central government of the *United Kingdom* or to one of the regional governments or local authorities referred to in point (iii) in accordance with paragraph 4 of Article 116 of *CRR*;

(d) the following assets:

(i) assets representing claims on or guaranteed by the central government or *central bank of a third country* which is not assigned a credit assessment of credit quality step 1 by a nominated ECAI in accordance with Article 114(2) of *CRR*;

(ii) reserves held by the credit institution in a central bank referred to in point (i), provided that the credit institution is permitted to withdraw those reserves at any time during *stress* periods and provided that the conditions for such withdrawal have been specified either in an agreement between the *competent authorities* of that third country and the central bank in which the reserves are held or in the applicable rules of that third country.

For the purposes of point (ii), the following shall apply:

— where the reserves are held by a subsidiary credit institution, the conditions for the withdrawal shall be specified either in an agreement between the third country *competent authority* of the subsidiary credit institution and the central bank in which the reserves are held or in the applicable rules of the third country;

— where the reserves are held by a branch, the conditions for the withdrawal shall be specified either in an agreement between the *competent authority* of the third country where the branch is located and the central bank in which the reserves are held or in the applicable rules of the third country.

The aggregate amount of assets falling within points (i) and (ii) of the first subparagraph and denominated in a given currency that the credit institution may recognise as *level 1 assets* shall not exceed the amount of the credit institution's *stressed net liquidity outflows* incurred in that same currency.

Moreover, where part or all of the assets falling within points (i) and (ii) of the first subparagraph are denominated in a currency which is not the domestic currency of the third country in question, the credit institution may only recognise those assets as *level 1 assets* up to an amount equal to the amount of the credit institution's *stressed net liquidity outflows* incurred in that foreign currency that corresponds to the credit institution's operations in the jurisdiction where the liquidity risk is being taken;

(e) assets issued by credit institutions which meet at least one of the following two requirements:

(i) the issuer is a credit institution incorporated or established by the central government of the *United Kingdom* or the regional government or local authority in the *United Kingdom*, the government or local authority is under the legal obligation to protect the economic basis of the credit institution and maintain its financial viability throughout its life-time and any exposure to that regional government or local authority, as applicable, is treated as an exposure to the central government of the *United Kingdom* in accordance with Article 115(2) of *CRR*;

(ii) the credit institution is a promotional lender which, for the purposes of this Article, shall be understood as any credit institution whose purpose is to advance the public policy objectives of the central or a regional government of, or a local authority in, the *United Kingdom* predominantly through the provision of promotional loans on a non-

competitive, not for profit basis, provided that at least 90% of the loans that it grants are directly or indirectly guaranteed by the central or regional government or local authority and that any exposure to that regional government or local authority, as applicable, is treated as an exposure to the government of the *United Kingdom* in accordance with Article 115(2) of *CRR*;

(f) exposures in the form of extremely high quality covered bonds, which shall comply with all of the following requirements:

(i) they are CRR covered bonds or meet the requirements to be eligible for the treatment set out in Article 129(4) or (5) of *CRR*;

(ii) the exposures to institutions in the cover pool meet the conditions laid down in Article 129(1)(c) of *CRR* or, where the *competent authority* has granted the partial waiver referred to in the last subparagraph of Article 129(1) of *CRR*, the conditions referred to in that subparagraph;

(iii) the credit institution investing in the covered bonds and the issuer meet the transparency requirement referred to in Article 129(7) of *CRR*;

(iv) their issue size is at least GBP 440 million (or the equivalent amount in domestic currency);

(v) the covered bonds are assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Article 129(4) of *CRR*, the equivalent credit quality step in the event of a short term credit assessment or, in the absence of a credit assessment, they are assigned a 10% risk weight in accordance with Article 129(5) of *CRR*;

(vi) the cover pool meets at all times an *asset coverage requirement* of at least 2% in excess of the amount required to meet the claims attaching to the covered bonds;

(g) assets representing claims on or guaranteed by the multilateral development banks and the international organisations referred to in Article 117(2) and Article 118, respectively, of *CRR*.

2. The market value of extremely high quality covered bonds referred to in point (f) of paragraph 1 shall be subject to a haircut of at least 7%. Except as specified in relation to shares and units in CIUs in points (b) and (c) of Article 15(2), no haircut shall be required on the value of the remaining *level 1 assets*.

[Note: This rule corresponds to Article 10 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 11 LEVEL 2A ASSETS

1. Level 2A assets shall only include assets falling under one or more of the following categories and meeting in each case the eligibility criteria laid down herein:

(a) assets representing claims on or guaranteed by regional governments, local authorities or public sector entities in the *United Kingdom*, where exposures to them are assigned a risk weight of 20% in accordance with Article 115(1) and (5) and Article 116(1), (2) and (3) of *CRR*, as applicable;

(b) assets representing claims on or guaranteed by the central government or the *central bank of a third country* or by a regional government, local authority or public sector entity in a third country, provided that they are assigned a 20% risk weight in accordance with Articles 114(2), 115 or 116 of *CRR*, as applicable;

(c) exposures in the form of high quality covered bonds, which shall comply with all of the following requirements:

(i) they are CRR covered bonds or meet the requirements to be eligible for the treatment set out in Article 129(4) or (5) of *CRR*;

(ii) the exposures to institutions in the cover pool meet the conditions laid down in Article 129(1)(c) of *CRR* or, where the *competent authority* has granted the partial waiver referred to in the last subparagraph of Article 129(1) of *CRR*, the conditions referred to in that subparagraph;

(iii) the credit institution investing in the covered bonds and the issuer meet the transparency requirement laid down in Article 129(7) of *CRR*;

(iv) their issue size is at least GBP 220 million (or the equivalent amount in domestic currency);

(v) the covered bonds are assigned a credit assessment by a nominated ECAI which is at least credit quality step 2 in accordance with Article 129(4) of *CRR*, the equivalent credit quality step in the event of a short term credit assessment or, in the absence of a credit assessment, they are assigned a 20% risk weight in accordance with Article 129(5) of *CRR*;

(vi) the cover pool meets at all times an *asset coverage requirement* of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds. However, where covered bonds with a credit quality step 1 credit assessment do not meet the minimum issue size for extremely high quality covered bonds in accordance with point (f)(iv) of Article 10(1) but meet the requirements for high quality covered bonds laid down in points (i), (ii), (iii) and (iv), they shall instead be subject to a minimum *asset coverage requirement* of 2%;

(d) exposures in the form of covered bonds issued by credit institutions in third countries, which shall comply with all of the following requirements:

(i) they are covered bonds in accordance with the national law of the third country which must define them as debt securities issued by credit institutions, or by a wholly owned subsidiary of a credit institution which guarantees the issue, and secured by a cover

pool of assets, in respect of which bondholders shall have direct recourse for the repayment of principal and interest on a priority basis in the event of the issuer's default;

(ii) the issuer and the covered bonds are subject by the national law in the third country to special public supervision designed to protect bondholders and the supervisory and regulatory arrangements applied in the third country must be at least equivalent to those applied in the *United Kingdom*;

(iii) the covered bonds are backed by a pool of assets of one or more of the types described in points (b), (d)(i), (f)(i) or (g) of Article 129(1) of *CRR*. Where the pool comprises loans secured by immovable property, the requirements in Articles 208 and 229(1) of *CRR* must be met;

(iv) the exposures to institutions in the cover pool meet the conditions laid down in Article 129(1)(c) of *CRR* or, where the *competent authority* has granted the partial waiver referred to in the last subparagraph of Article 129(1) of *CRR*, the conditions referred to in that subparagraph;

(v) the credit institution investing in the covered bonds and the issuer meet the transparency requirement laid down in Article 129(7) of *CRR*;

(vi) the covered bonds are assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Article 129(4) of *CRR*, the equivalent credit quality step in the event of a short term credit assessment or, in the absence of a credit assessment, they are assigned a 10% risk weight in accordance with Article 129(5) of *CRR*; and

(vii) the cover pool meets at all times an *asset coverage requirement* of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds. However, where the issue size of the covered bonds is GBP 440 million (or the equivalent amount in domestic currency) or higher, they shall instead be subject to a minimum *asset coverage requirement* of 2%;

(e) corporate debt securities which meet all of the following requirements:

(i) they are assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Article 122 of *CRR* or the equivalent credit quality step in the event of a short term credit assessment;

(ii) the securities issue size is at least GBP 220 million (or the equivalent in domestic currency);

(iii) the maximum time to maturity of the securities at the time of issuance is 10 years.

2. The market value of each of the level 2A assets shall be subject to a haircut of at least 15%.

[Note: This rule corresponds to Article 11 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 12 LEVEL 2B ASSETS

1. Level 2B assets shall only include assets falling under one or more of the following categories and meeting in each case the eligibility criteria laid down herein:

   (a) exposures in the form of asset-backed securities meeting the requirements laid down in Article 13;

   (b) corporate debt securities which meet all of the following requirements:

      (i) they have received a credit assessment by a nominated ECAI which is at least credit quality step 3 in accordance with Article 122 of *CRR* or the equivalent credit quality step in the event of a short term credit assessment;

      (ii) the securities issue size is at least GBP 220 million (or the equivalent in domestic currency);

      (iii) the maximum time to maturity of the securities at the time of issuance is 10 years;

   (c) shares, provided that they meet all of the following requirements:

      (i) they form part of the Financial Times Stock Exchange 100 (FTSE 100) in the *United Kingdom* or a major stock index of a third country composed of leading companies in the relevant jurisdiction;

      (ii) they are denominated in pounds Sterling or, where denominated in a different currency, they count as level 2B only up to the amount to cover *stressed net liquidity outflows* in that currency or in the jurisdiction where the liquidity risk is taken; and

      (iii) they have a proven record as a reliable source of liquidity at all times, including during *stress* periods. This requirement shall be deemed met where the level of decline in the share's stock price or increase in its haircut during a 30 day calendar day market *stress* period did not exceed 40% or 40 percentage points, respectively;

   (d) restricted-use committed liquidity facilities that may be provided by the *Bank of England* or the *central bank of a third country*, provided that the requirements laid down in Article 14 are met;

   (e) exposures in the form of high quality covered bonds which shall comply with all of the following requirements:

      (i) they are CRR covered bonds or meet the requirements to be eligible for the treatment set out in Article 129(4) or (5) of the *CRR*;

      (ii) the credit institution investing in the covered bonds meets the transparency requirement laid down in Article 129(7) of the *CRR*;

(iii) the issuer of the covered bonds makes the information referred to in Article 129(7)(a) of the *CRR* available to investors on at least a quarterly basis;

(iv) their issue size is at least GBP 220 million (or the equivalent amount in domestic currency);

(v) the covered bonds are collateralised exclusively by the assets referred to in points (a) and (d)(i) of Article 129(1) of the *CRR*;

(vi) the pool of underlying assets consists exclusively of exposures which qualify for a 35% or lower risk weight under Article 125 of the *CRR* for credit risk;

(vii) the cover pool meets at all times an *asset coverage requirement* of at least 10% in excess of the amount required to meet the claims attaching to the covered bonds;

(viii) the issuing credit institution needs to publicly disclose on a *monthly* basis that the cover pool meets the 10% *asset coverage requirement*;

(f) for credit institutions which in accordance with their statutes of incorporation are unable for reasons of religious observance from holding interest bearing assets, non-interest bearing assets constituting a claim on or guaranteed by central banks or by the central government or the *central bank of a third country* or by a regional government, local authority or public sector entity in a third country, provided that those assets have a credit assessment by a nominated ECAI of at least credit quality step 5 in accordance with Article 114 of *CRR*, or the equivalent credit-quality step in the event of a short-term credit assessment.

2. The market value of each of the level 2B assets shall be subject to the following minimum haircuts:

(a) the applicable haircut set out in Article 13(14) for level 2B securitisations;

(b) a 50% haircut for corporate debt securities referred to in paragraph (1)(b);

(c) a 50% haircut for shares referred to in paragraph 1(c);

(d) a 30% haircut for covered bond programmes or issues referred to in paragraph (1)(e);

(e) a 50% haircut for non-interest bearing assets referred to in paragraph 1(f).

3. For credit institutions which in accordance with their statutes of incorporation are unable for reasons of religious observance to hold interest bearing assets, the credit institution may apply for permission from the *competent authority* to derogate from points (ii) and (iii) of paragraph 1(b) of this Article where there is evidence of insufficient availability of non-interest bearing assets meeting these requirements and the non-interest bearing assets in question are adequately liquid in private markets.

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

[Note: This rule corresponds to Article 12 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 13 LEVEL 2B SECURITISATIONS

1. Exposures in the form of asset-backed securities as referred to in Article 12(1)(a) shall qualify as level 2B securitisations where the following conditions are satisfied:

   (a) the designation 'STS' or 'simple, transparent and standardised', or a designation that refers directly or indirectly to those terms, is permitted to be used for the securitisation in accordance with Regulation (EU) 2017/2402 of the European Parliament and of the Council and is being so used;

   (b) the criteria laid down in paragraph 2 and paragraphs 10 to 13 of this Article are met.

2. The securitisation position and the exposures underlying the position shall meet all the following requirements:

   (a) the position has been assigned a credit assessment of credit quality step 1 by a nominated ECAI in accordance with Article 264 of *CRR* or the equivalent credit quality step in the event of a short-term credit assessment;

   (b) the position is in the most senior tranche or tranches of the securitisation and possesses the highest level of seniority at all times during the ongoing life of the transaction. For these purposes, a tranche shall be deemed to be the most senior where after the delivery of an enforcement notice and where applicable an acceleration notice, the tranche is not subordinated to other tranches of the same securitisation transaction or scheme in respect of receiving principal and interest payments, without taking into account amounts due under interest rate or currency *derivative contracts*, fees or other similar payments in accordance with Article 242(6) of *CRR*;

   (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):

      (i) residential loans secured with a first-ranking mortgage granted to individuals for the acquisition of their main residence, provided that one of the two following conditions is met:

         — the loans in the pool meet on average the loan-to-value requirement laid down in point (i) of Article 129(1)(d) of *CRR*;

         — the national law of the jurisdiction where the loans were originated provides for a loan-to-income limit on the amount that an obligor may borrow in a residential loan. The loan-to-income limit is calculated on the gross annual income of the obligor, taking into account the tax obligations and other commitments of the obligor and the risk of changes in the interest rates over the term of the loan. For

each residential loan in the pool, the percentage of the obligor's gross income that may be spent to service the loan, including interest, principal and fee payments, does not exceed 45%;

(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*;

(iv) auto loans and leases to borrowers or lessees established or resident in the *United Kingdom*. For these purposes, auto loans and leases shall include loans or leases for the financing of motor vehicles or trailers as defined in provisions implementing points (11) and (12) of Article 3 of Directive 2007/46/EC of the European Parliament and of the Council, tractors as defined in point (8) of Article 3 of Regulation (EU) No 167/2013 of the European Parliament and of the Council (as it had effect immediately before exit day), powered two-wheelers or powered tricycles as defined in points (68) and (69) of Article 3 of Regulation (EU) No 168/2013 of the European Parliament and of the Council (as it had effect immediately before exit day) or tracked vehicles as referred to in provisions implementing point (c) of Article 2(2) of Directive 2007/46/EC. Such loans or leases may include ancillary insurance and service products or additional vehicle parts, and in the case of leases, the residual value of leased vehicles. All loans and leases in the pool shall be secured with a first-ranking charge or security over the vehicle or an appropriate guarantee in favour of the SSPE, such as a retention of title provision;

(v) loans and credit facilities to individuals resident in the *United Kingdom* for personal, family or household consumption purposes.

10. The underlying exposures shall not have been originated by the credit institution holding the securitisation position in its *liquidity buffer*, its subsidiary, its parent undertaking, a subsidiary of its parent undertaking or any other *undertaking* closely linked with that credit institution.

11. The issue size of the tranche shall be at least GBP 88 million (or the equivalent amount in domestic currency).

12. The remaining weighted average life of the tranche shall be 5 years or less, which shall be calculated using the lower of either the transaction's pricing prepayment assumption or a 20% constant prepayment rate, for which the credit institution shall assume that the call is exercised on the first permitted call date.

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 2 to 12 and point 15 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.

14. The market value of level 2B securitisations shall be subject to the following minimum haircuts:

    (a) 25% for securitisations backed by the subcategories of assets referred to in points (g)(i)and (iv) of paragraph 2;

    (b) 35% for securitisations backed by the subcategories of assets referred to in points (g)(iii) and (v) of paragraph 2.

[Note: This rule corresponds to Article 13 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 14 RESTRICTED-USE COMMITTED LIQUIDITY FACILITIES

In order to qualify as level 2B assets, the restricted-use committed liquidity facilities that may be provided by a central bank as referred to in paragraph (1)(d) of Article 12 shall fulfil all of the following criteria:

(a) during a non-*stress* period, the facility is subject to a commitment fee on the total committed amount which is at least the greater of the following:

    (i) 75 basis points per annum; or

    (ii) at least 25 basis points per annum above the difference in yield on the assets used to back the facility and the yield on a representative portfolio of liquid assets, after adjusting for any material differences in credit risk.

    During a *stress* period, the central bank may reduce the commitment fee described in the first subparagraph of this point, provided that the minimum requirements applicable to liquidity facilities under the alternative liquidity approaches in accordance with Article 19 are met;

(b) the facility is backed by *unencumbered assets* of a type specified by the central bank. The assets provided as collateral shall fulfil all of the following criteria:

    (i) they are held in a form which facilitates their prompt transfer to the central bank in the event of the facility being called;

    (ii) their value post-haircut as applied by the central bank is sufficient to cover the total amount of the facility;

    (iii) they are not to be counted as liquid assets for the purposes of the credit institution's *liquidity buffer*;

(c) the facility is compatible with the counterparty policy framework of the central bank;

(d) the commitment term of the facility exceeds the 30 calendar day *stress* period referred to in Article 4;

(e) the facility is not revoked by the central bank prior to its contractual maturity and no further credit decision is taken for as long as the credit institution concerned continues to be assessed as solvent;

(f) there is a formal policy published by the central bank stating its decision to grant restricted-use committed liquidity facilities, the conditions governing the facility and the types of credit institutions that are eligible to apply for those facilities.

[Note: This rule corresponds to Article 14 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 15 CIUS

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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, 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.

2. Credit institutions shall apply the following minimum haircuts to the value of their shares or units in CIUs depending on the category of underlying liquid assets:

(a) 0% for coins and banknotes and exposures to central banks referred to in Article 10(1)(b);

(b) 5% for *level 1 assets* other than extremely high quality covered bonds;

(c) 12% for extremely high quality covered bonds referred to in Article 10(1)(f);

(d) 20% for level 2A assets;

(e) 30% for level 2B securitisations backed by the subcategories of assets referred to in points (i), (ii) and (iv) of Article 13(2)(g);

(f) 35% for level 2B covered bonds referred to in Article 12(1)(e);

(g) 40% for level 2B securitisations backed by the subcategories of assets referred to in points (iii) and (v) of Article 13(2)(g); and

(h) 55% for level 2B corporate debt securities referred to in Article 12(1)(b), shares referred to in Article 12(1)(c) and non-interest bearing assets referred to in Article 12(1)(f).

3. The approach referred to in paragraph 2 shall be applied as follows:

(a) where the credit institution is aware of the exposures underlying the CIU, it may look-through to those underlying exposures to assign them the appropriate haircut in accordance with paragraph 2;

(b) where the credit institution is not aware of the exposures underlying the CIU, it shall assume, for the purposes of determining the liquidity level of the underlying assets and for the purposes of assigning the appropriate haircut to those assets, that the CIU invests in liquid assets, up to the maximum amount allowed under its mandate, in the same ascending order as liquid assets are classified for the purposes of paragraph 2, starting with the assets referred to in point (h) of paragraph 2 and ascending until the maximum total investment limit is reached.

4. Credit institutions shall develop robust methodologies and processes to calculate and report the market value and haircuts for shares or units in CIUs. Where the exposure is not sufficiently material for a credit institution to develop its own methodologies and provided that, in each case, the *competent authority* is satisfied that this condition has been met, a credit institution may only rely on the following third parties to calculate and report the haircuts for shares or units in CIUs:

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

(b) for other CIUs, the CIU management company.

The correctness of the calculations made by the depository institution or by the CIU management company when determining the market value and haircuts for shares or units in CIUs shall be confirmed by an external auditor on at least an annual basis.

5. Where a credit institution fails to comply with the requirements laid down in paragraph 4 of this Article in relation to shares or units in a CIU, it shall cease to recognise them as liquid assets for the purposes of this Chapter 2 of the Liquidity Coverage Ratio (CRR) Part in accordance with Article 18.

[Note: This rule corresponds to Article 15 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 17 COMPOSITION OF THE LIQUIDITY BUFFER BY ASSET LEVEL

1. Credit institutions shall comply at all times with the following requirements on the composition of their *liquidity buffer*:

(a) a minimum of 60% of the *liquidity buffer* is to be composed of *level 1 assets*;

(b) a minimum of 30% of the *liquidity buffer* is to be composed of *level 1 assets* excluding extremely high quality covered bonds referred to in Article 10(1)(f);

(c) a maximum of 15% of the *liquidity buffer* may be held in level 2B assets.

2. The requirements set out in paragraph 1 shall be applied after adjusting for the impact on the stock of liquid assets of secured funding, secured lending or collateral swap transactions using liquid assets on at least one leg of the transaction where the transactions mature within 30

calendar days, after deducting any applicable haircuts and provided that the credit institution complies with the operational requirements laid down in Article 8.

3. Credit institutions shall determine the composition of their *liquidity buffer* in accordance with the formulae laid down in Annex I to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook.

4. Credit institutions may apply to the *competent authority* for permission, on a case-by-case basis, to disapply paragraphs 2 and 3 in full or in part with respect to one or more secured funding, secured lending or collateral swap transactions with the *Bank of England* using liquid assets on at least one leg of the transaction and maturing within 30 calendar days.

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

5. [Note: Provision left blank]

[Note: This rule corresponds to Article 17 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 18 BREACH OF REQUIREMENTS

1. Where a liquid asset ceases to comply with any applicable general requirements laid down in Article 7, the operational requirements laid down in Article 8(2) or any applicable eligibility criteria laid down in this Chapter 2 of Title II (The Liquidity Buffer), the credit institution shall cease to recognise it as a liquid asset no later than 30 calendar days from the date when the breach of requirements occurred.

2. Paragraph 1 shall apply to shares or units in a CIU ceasing to meet eligibility requirements only where they do not exceed 10% of the CIU's overall assets.

[Note: This rule corresponds to Article 18 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 19 ALTERNATIVE LIQUIDITY APPROACHES

1. Where there are insufficient liquid assets in a given currency for credit institutions to meet the liquidity coverage ratio laid down in Article 4, one or more of the following provisions shall apply:

   (a) the requirement on currency consistency set out in Article 8(6) shall not apply in relation to that currency;

   (b) the credit institution may cover the deficit of liquid assets in a currency with credit facilities from the *Bank of England* or the *central banks of third countries* of that currency, provided that the facility complies with all the following requirements:

      (i) it is contractually irrevocably committed for the next 30 calendar days;

(ii) it is priced with a fee which is payable regardless of the amount, if any, drawn down against that facility;

(iii) the fee is set in an amount such that the net yield on the assets used to secure the facility must not be higher than the net yield on a representative portfolio of liquidity assets, after adjusting for any material differences in credit risk;

(c) where there is a deficit of *level 1 assets* but there are sufficient level 2A assets, the credit institution may hold additional level 2A assets in the *liquidity buffer* and the caps by asset level set out in Article 17 shall be deemed amended accordingly. These additional level 2A assets shall be subject to a minimum haircut equal to 20%. Any level 2B assets held by the credit institution shall remain subject to the haircuts applicable in each case in accordance with this Chapter 2 of Title II (The Liquidity Buffer).

2. Credit institutions shall apply the derogations provided for in paragraph 1 on an inversely proportional basis with regard to the availability of the relevant liquid assets. Credit institutions shall assess their liquidity needs for the application of this Article taking into account their ability to reduce, by sound liquidity management, the need for those liquid assets and the holdings of those assets by other market participants.

3. [Note: Provision left blank]

4. The detailed conditions applicable to the use of the derogations laid down in paragraph 1(a) and (b) shall be determined in accordance with Chapter 3 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook.

[Note: This rule corresponds to Article 19 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

TITLE III LIQUIDITY OUTFLOWS AND INFLOWS

CHAPTER 1 NET LIQUIDITY OUTFLOWS

Article 20 DEFINITION OF NET LIQUIDITY OUTFLOWS

1. The *net liquidity outflows* shall be the sum of liquidity outflows in point (a) reduced by the sum of liquidity inflows in point (b), but shall not be less than zero, and shall be calculated as follows:

(a) the sum of the liquidity outflows as defined in Chapter 2 of Title III (Liquidity Outflows and Inflows);

(b) the sum of liquidity inflows as defined in Chapter 3 of Title III (Liquidity Outflows and Inflows), calculated as follows:

(i) the inflows exempted from the cap as referred to in Article 33(2) and (3);

(ii) the lower of the inflows referred to in Article 33(4) and 90% of the outflows referred to in (a) reduced by the exempt inflows in Article 33(2) and (3), but not less than zero;

(iii) the lower of the inflows other than those referred to in Article 33(2), (3) and (4) and 75% of the outflows referred to in (a) reduced by the exempt inflows in Article 33(2) and (3) and the inflows in Article 33(4) divided by 0,9 to allow for the effect of the 90% cap, but not less than zero.

2. Liquidity inflows and liquidity outflows shall be assessed over a 30 calendar day *stress* period, under the assumption of a combined idiosyncratic and market-wide *stress* scenario as referred to in Article 5.

3. The calculation laid down in paragraph 1 shall be performed in accordance with the formula set out in Annex II of Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook.

[Note: This rule corresponds to Article 20 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 21 NETTING OF DERIVATIVES TRANSACTIONS

1. Credit institutions shall calculate liquidity outflows and inflows expected over a 30 calendar day period, for the contracts listed in Annex II to *CRR* and for credit derivatives, on a net basis by counterparty subject to the existence of bilateral netting agreements meeting the conditions laid down in Article 295 of that Regulation.

2. By way of derogation from paragraph 1, credit institutions shall calculate cash outflows and inflows arising from foreign currency derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) on a net basis, even where those transactions are not covered by a bilateral netting agreement.

3. For the purposes of this Article, net basis shall be considered to be net of collateral to be posted or received in the next 30 calendar days. However, in the case of collateral to be received in the next 30 calendar days, net basis shall be considered to be net of that collateral only if both of the following conditions are met:

(a) the collateral, when received, will qualify as a liquid asset under Title II (The Liquidity Buffer);

(b) the credit institution will be legally entitled and operationally able to reuse the collateral, when received.

[Note: This rule corresponds to Article 21 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

CHAPTER 2 LIQUIDITY OUTFLOWS

Article 22 DEFINITION OF LIQUIDITY OUTFLOWS

1. Liquidity outflows shall be calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down as indicated in this Chapter 2 of Title III (Liquidity Outflows and Inflows).

2. Liquidity outflows referred to in paragraph 1 shall include, in each case multiplied by the applicable outflow rate:

   (a) the current outstanding amount for stable *retail deposits* and other *retail deposits* determined in accordance with Articles 24 and 25;

   (b) the current outstanding amounts of other liabilities that become due, can be called for pay-out by the issuer or by the provider of the funding or entail an expectation by the provider of the funding that the credit institution would repay the liability during the next 30 calendar days determined in accordance with Articles 27, 28 and 31a;

   (c) the additional outflows determined in accordance with Article 30;

   (d) the maximum amount that can be drawn down during the next 30 calendar days from undrawn committed credit and liquidity facilities determined in accordance with Article 31;

   (e) the additional outflows identified in the assessment in accordance with Article 23.

3. The calculation of liquidity outflows in accordance with paragraph 1 shall be subject to any netting of interdependent inflows that is permitted under Article 26.

[Note: This rule corresponds to Article 22 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 23 ADDITIONAL LIQUIDITY OUTFLOWS FOR OTHER PRODUCTS AND SERVICES

1. Credit institutions shall regularly assess the likelihood and potential volume of liquidity outflows during 30 calendar days for products or services which are not referred to in Articles 27 to 31a and which they offer or sponsor or which potential purchasers would consider associated with them. Those products or services shall include, but not be limited to:

   (a) other off-balance-sheet and contingent funding obligations, including uncommitted funding facilities;

   (b) undrawn loans and advances to wholesale counterparties;

   (c) mortgage loans that have been agreed but not yet drawn down;

   (d) credit cards;

   (e) overdrafts;

   (f) planned outflows related to the renewal of existing retail or wholesale loans or the extension of new retail or wholesale loans;

(g) derivative payables, other than the contracts listed in Annex II to *CRR* and credit derivatives;

(h) trade finance off-balance-sheet related products.

2. The outflows referred to in paragraph 1 shall be assessed under the assumption of a combined idiosyncratic and market-wide *stress* as referred to in Article 5. For that assessment, credit institutions shall take particular account of material reputational damage that could result from not providing liquidity support to such products or services. Credit institutions shall report at least once a year to the *competent authority* those products and services for which the likelihood and potential volume of the liquidity outflows referred to in paragraph 1 are material and the institutions shall assign appropriate outflows.

[Note: This rule corresponds to Article 23 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 24 OUTFLOWS FROM STABLE RETAIL DEPOSITS

1. Unless the criteria for a higher outflow rate under Article 25(2), (3) or (5) are fulfilled, the amount of *retail deposits* covered by a the *UK deposit guarantee scheme* or an equivalent deposit guarantee scheme in a third country shall be considered as stable and multiplied by 5% where the deposit is either:

(a) part of an established relationship making withdrawal highly unlikely; or

(b) held in a transactional account.

2. For the purpose of paragraph 1(a) a retail deposit shall be considered to be part of an established relationship where the depositor meets at least one of the following criteria:

(a) has an active contractual relationship with the credit institution of at least 12 *months* duration;

(b) has a borrowing relationship with the credit institution for residential loans or other long term loans;

(c) has at least one other active product, other than a loan, with the credit institution.

3. For the purposes of paragraph 1(b) a retail deposit shall be considered as being held in a transactional account where salaries, income or transactions are regularly credited and debited respectively against that account.

4. [Note: Provision left blank]

6. [Note: Provision left blank]

[Note: This rule corresponds to Article 24 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 25 OUTFLOWS FROM OTHER RETAIL DEPOSITS

1. Credit institutions shall multiply by 10% other *retail deposits*, including that part of *retail deposits* not covered by Article 24, unless the conditions laid down in paragraph 2 apply.

2. Other *retail deposits* shall be subject to higher outflow rates, as determined by the credit institution, in accordance with paragraph 3, where the following conditions are met:

   (a) the total deposit balance, including all the client's deposit accounts at that credit institution or group, exceeds GBP 440,000;

   (b) the deposit is an internet access-only account;

   (c) the deposit offers an interest rate that fulfils any of the following conditions:

      (i) the rate significantly exceeds the average rate for similar retail products;

      (ii) its return is derived from the return on a market index or set of indices;

      (iii) its return is derived from any market variable other than a floating interest rate;

   (d) the deposit was originally placed as fixed-term with an expiry date maturing within the 30 calendar day period or the deposit presents a fixed notice period shorter than 30 calendar days, in accordance with contractual arrangements, other than those deposits that qualify for the treatment provided for in paragraph 4;

   (e) for credit institutions established in the *United Kingdom*, the depositor is resident in a third country or the deposit is denominated in a currency other than pounds Sterling. For credit institutions or branches in third countries, the depositor is a non-resident in the third country or the deposit is denominated in another currency than the domestic currency of the third country.

3. Credit institutions shall, subject to any *requirement* imposed by the *competent authority*, apply a higher outflow rate determined as follows:

   (a) where the *retail deposits* fulfil the criterion in point (a) or two of the criteria in points (b) to (e) of paragraph 2, an outflow rate of between 10% and 15% shall be applied;

   (b) where the *retail deposits* fulfil point (a) of paragraph 2 and at least another criterion referred to in paragraph 2, or three or more criteria of paragraph 2, an outflow rate of between 15% and 20% shall be applied.

   Credit institutions shall apply the outflow rate referred to in paragraph 3(b) to *retail deposits* where the assessment referred to paragraph 2 has not been carried out or is not completed.

4. Credit institutions may exclude from the calculation of outflows certain clearly circumscribed categories of *retail deposits* as long as in each and every instance the credit institution rigorously applies the following provisions for the whole category of those deposits, unless an exception can be justified on the basis of circumstances of hardship for the depositor:

   (a) within 30 calendar days, the depositor is not allowed to withdraw the deposit; or

(b) for early withdrawals within 30 calendar days, the depositor has to pay a penalty that includes the loss of interest between the date of withdrawal and the contractual maturity date plus a material penalty that does not have to exceed the interest due for the time that elapsed between the date of deposit and the date of withdrawal.

If a portion of the deposit referred to in the first subparagraph can be withdrawn without incurring such a penalty, only that portion shall be treated as a demand deposit and the remaining balance shall be treated as a term deposit as referred to in this paragraph. An outflow rate of 100% shall be applied to cancelled deposits with a residual maturity of less than 30 calendar days and where pay-out has been agreed to another credit institution.

5. By derogation from paragraphs 1 to 4 and Article 24, credit institutions shall multiply *retail deposits* that they have taken in third countries by a higher percentage outflow rate if such a percentage is provided for by the national law establishing liquidity requirements in that third country.

[Note: This rule corresponds to Article 25 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 26 OUTFLOWS WITH INTER-DEPENDENT INFLOWS

A credit institution may apply to the *competent authority* for permission to calculate the liquidity outflow net of an interdependent inflow. For the purpose of this Article, an interdependent inflow is an inflow which:

(a) is directly linked to the outflow and is not considered in the calculation of liquidity inflows in Chapter 3 of Title III (Liquidity Outflows and Inflows);

(b) is required pursuant to a legal, regulatory or contractual commitment; and

(c) either:

(i) arises compulsorily before the outflow; or

(ii) is received within 10 days and is guaranteed by the central government of the *United Kingdom*.

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

[Note: This rule corresponds to Article 26 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 27 OUTFLOWS FROM OPERATIONAL DEPOSITS

1. Credit institutions shall multiply by 25% liabilities resulting from deposits that are maintained as follows:

(a) by the depositor in order to obtain clearing, custody, cash management or other comparable services in the context of an established operational relationship from the credit institution;

(c) by the depositor in the context of an established operational relationship other than that mentioned in point (a).

(d) [Note: Provision left blank]

2. By derogation from paragraph 1, credit institutions shall multiply by 5% the portion of liabilities resulting from deposits referred to in paragraph 1(a) which is covered by the *UK deposit guarantee scheme* or an equivalent deposit guarantee scheme in a third country.

4. Clearing, custody, cash management or other comparable services referred to in points (a) and (d) of paragraph 1 only cover such services to the extent that they are rendered in the context of an established relationship which is critically important to the depositor. Deposits referred to in points (a), (c) and (d) of paragraph 1 shall have significant legal or operational limitations that make significant withdrawals within 30 calendar days unlikely. Funds in excess of those required for the provision of operational services shall be treated as non-operational deposits.

5. Deposits arising out of a correspondent banking relationship or from the provision of prime brokerage services shall not be treated as an operational deposit and shall receive a 100% outflow rate.

6. In order to identify the deposits referred to in point (c) of paragraph 1, a credit institution shall consider that there is an established operational relationship with a non-*financial customer*, excluding term deposits, savings deposits and brokered deposits, where all of the following criteria are met:

(a) the remuneration of the account is priced at least 5 basis points below the prevailing rate for wholesale deposits with comparable characteristics, but need not be negative;

(b) the deposit is held in specifically designated accounts and priced without creating economic incentives for the depositor to maintain funds in the deposit in excess of what is needed for the operational relationship;

(c) material transactions are credited and debited on a frequent basis on the account considered;

(d) one of the following criteria is met:

(i) the relationship with the depositor has existed for at least 24 *months*;

(ii) the deposit is used for a minimum of 2 active services. These services may include direct or indirect access to national or international payment services, security trading or depository services.

Only that part of the deposit which is necessary to make use of the service of which the deposit is a by-product shall be treated as an operational deposit. The excess shall be treated as non-operational.

[Note: This rule corresponds to Article 27 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 28 OUTFLOWS FROM OTHER LIABILITIES

1. Credit institutions shall multiply liabilities resulting from deposits by clients that are non-*financial customers*, sovereigns, central banks, multilateral development banks, public sector entities, *credit unions* authorised by the *competent authority*, *personal investment companies* or by clients that are *deposit brokers*, to the extent they do not fall under Article 27 by 40%.

   By derogation from the first subparagraph, where the liabilities referred to in that subparagraph are covered by the *UK deposit guarantee scheme* or an equivalent deposit guarantee scheme in a third country they shall be multiplied by 20%.

2. Credit institutions shall multiply liabilities resulting from the institution's own operating expenses by 0%.

3. Credit institutions shall multiply liabilities maturing within 30 calendar days and resulting from secured lending or capital market-driven transactions, as defined in points (2) and (3) respectively of Article 192 of *CRR*, by:

   (a) 0% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 10 as liquid assets of any of the categories of *level 1 asset* referred to in Article 10, with the exception of extremely high quality covered bonds referred to in point (f) of Article 10(1);

   (b) 7% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 10 as liquid assets of the category referred to in point (f) of Article 10(1);

   (c) 15% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 11 as liquid assets of any of the categories of level 2A asset referred to in Article 11;

   (d) 25% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 13 as liquid assets of any of the categories of level 2B asset referred to in point (i), (ii) or (iv) of point (g) of Article 13(2);

   (e) 30% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 12 as liquid assets of the category of level 2B asset referred to in point (e) of Article 12(1);

(f) 35% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 13 as liquid assets of any of the categories of level 2B asset referred to in point (iii) or (v) of point (g) of Article 13(2);

(g) 50% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 12 as liquid assets of any of the categories of level 2B asset referred to in point (b), (c) or (f) of Article 12(1);

(h) the percentage minimum haircut determined in accordance with paragraphs (2) and (3) of Article 15 where they are collateralised by shares or units in CIUs that, but for being used as collateral for those transactions, would qualify in accordance with Articles 7 and 15 as liquid assets of the same level as the underlying liquid assets;

(i) 100% where they are collateralised by assets that do not fall within any of points (a) to (h) of this subparagraph.

By way of derogation from the first subparagraph, where the counterparty to the secured lending or capital market-driven transaction is the domestic central bank of the credit institution, the outflow rate shall be 0%. However, in cases where the transaction is done through a branch with the *Bank of England* or of the third country in which the branch is located, a 0% outflow rate shall be applied only if the branch has the same access to central bank liquidity, including during *stress* periods, as credit institutions incorporated in the *United Kingdom* or third country have.

By way of derogation from the first subparagraph, for secured lending or capital market-driven transactions that would require an outflow rate under that first subparagraph higher than 25%, the outflow rate shall be 25% where the counterparty to the transaction is an eligible counterparty.

4. Collateral swaps, and other transactions with a similar form, that mature within the next 30 calendar days shall lead to an outflow where the asset borrowed is subject to a lower haircut under Chapter 2 of Title III (Liquidity Outflows and Inflows) than the asset lent. The outflow shall be calculated by multiplying the market value of the asset borrowed by the difference between the outflow rate applicable to the asset lent and the outflow rate applicable to the asset borrowed determined in accordance with the rates specified in paragraph 3. For the purposes of this calculation, a 100% haircut shall be applied to assets that do not qualify as liquid assets.

   By way of derogation from the first subparagraph, where the counterparty to the collateral swap or other transaction with a similar form is the domestic central bank of the credit institution, the outflow rate to be applied to the market value of the asset borrowed shall be 0%. However, in cases where the transaction is done through a branch with the *Bank of England* or of the third country in which the branch is located, a 0% outflow rate shall be applied only if the branch has the same access to central bank liquidity, including during *stress* periods, as credit institutions incorporated in the *United Kingdom* or third country have.

By way of derogation from the first subparagraph, for collateral swaps or other transactions with a similar form that would require an outflow rate higher than 25% under that first subparagraph, the outflow rate to be applied to the market value of the asset borrowed shall be 25% where the counterparty is an eligible counterparty.

5. The offsetting balances held in segregated accounts related to client protection regimes imposed by national regulations shall be treated as inflows in accordance with Article 32 and shall be excluded from the stock of liquid assets.

6. Credit institutions shall apply a 100% outflow rate to all notes, bonds and other debt securities issued by the credit institution, unless the bond is sold exclusively in the retail market and held in a retail account, in which case those instruments can be treated as the appropriate *retail deposit* category. Limitations shall be placed such that those instruments cannot be bought and held by parties other than retail customers.

7. Assets borrowed on an unsecured basis and maturing within the next 30 calendar days shall be assumed to run off in full, leading to a 100% outflow of liquid assets, unless the credit institution owns the assets borrowed and the assets borrowed do not form part of the credit institution's *liquidity buffer*.

8. For the purposes of this Article, 'domestic central bank' means any of the following:

   (a) [Note: Provision left blank]

   (b) the *Bank of England*;

   (c) the central bank of the third country in which the credit institution is incorporated.

9. For the purposes of this Article, 'eligible counterparty' means any of the following:

   (a) the central government, a public sector entity, a regional government or a local authority of the *United Kingdom*;

   (b) the central government, a public sector entity, a regional government or a local authority of the *United Kingdom* or of the third country in which the credit institution is incorporated for the transactions undertaken by that credit institution;

   (c) a multilateral development bank.

   However, public sector entities, regional governments and local authorities shall only count as an eligible counterparty where they are assigned a risk weight of 20% or lower in accordance with Article 115 or Article 116 of *CRR*, as applicable.

[Note: This rule corresponds to Article 28 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 29 OUTFLOWS WITHIN A GROUP

1. By way of derogation from Article 31 credit institutions may apply to the *competent authority* for permission to apply a lower outflow rate on a case by case basis for undrawn credit or liquidity facilities with a counterparty who is:

   (a) the parent or subsidiary institution of the credit institution or another subsidiary of the same parent institution or linked to the institution by a common management relationship; and

   (b) established in the *United Kingdom*;

   (c) [Note: Provision left blank];

   (d) [Note: Provision left blank].

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

1A. A credit institution must ensure that the lower outflow rate permitted under paragraph (1) does not fall below the inflow rate applied by the counterparty.

[Note: This rule corresponds to Article 29 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 30 ADDITIONAL OUTFLOWS

1. Collateral other than cash and assets referred to in Article 10 which is posted by the credit institution for contracts listed in Annex II of *CRR* and credit derivatives, shall be subject to an additional outflow of 20%.

   Collateral in assets referred to in Article 10(1)(f) which is posted by the credit institution for contracts listed in Annex II of *CRR* and credit derivatives shall be subject to an additional outflow of 10%.

2. The credit institution shall calculate and notify to the *competent authority* an additional outflow for all contracts entered into, the contractual conditions of which lead, within 30 calendar days and following a material deterioration of the credit institution's credit quality, to additional liquidity outflows or collateral needs. The credit institution shall notify the *competent authority* of that outflow no later than the submission of the reporting in accordance with Article 415 of *CRR*. Where the *competent authority* considers that outflow to be material in relation to the potential liquidity outflows of the credit institution, it shall require the credit institution to add an additional outflow for those contracts corresponding to the additional collateral needs or cash outflows resulting from a material deterioration in the credit institution's credit quality corresponding to a downgrade in its external credit assessment of at least three notches. The credit institution shall apply a 100% outflow rate to those additional collateral or cash outflows. The credit institution shall regularly review the extent of this material deterioration in

the light of what is relevant under the contracts that it has entered into and shall notify the result of its review to the *competent authority*.

3. The credit institution shall add an additional outflow corresponding to collateral needs that would result from the impact of an adverse market scenario on the credit institution's derivatives transactions if material. This calculation shall be made in accordance with Chapter 4 of the Liquidity Coverage Ratio (CRR) Part.

4. Outflows and inflows expected over 30 calendar days from the contracts listed in Annex II to *CRR* and from credit derivatives shall be taken into account on a net basis in accordance with Article 21. In the case of a net outflow, the credit institution shall multiply the result by a 100% outflow rate. Credit institutions shall exclude from such calculations those liquidity requirements that result from the application of paragraphs 1, 2 and 3 of this Article.

5. Where the credit institution has a short position that is covered by an unsecured security borrowing, the credit institution shall add an additional outflow corresponding to 100% of the market value of the securities or other assets sold short, unless the terms upon which the credit institution has borrowed them require their return only after 30 calendar days. Where the short position is covered by a collateralised securities financing transaction, the credit institution shall assume the short position will be maintained throughout the 30 calendar day period and will receive a 0% outflow.

6. The credit institution shall add an additional outflow corresponding to 100% of:

   (a) the excess collateral the credit institution holds that can be contractually called at any times by the counterparty;

   (b) collateral that is due to be posted to a counterparty within 30 calendar days;

   (c) collateral that corresponds to assets that would qualify as liquid assets for the purposes of Title II (The Liquidity Buffer) that can be substituted for assets corresponding to assets that would not qualify as liquid assets for the purposes of Title II (The Liquidity Buffer) without the consent of the credit institution.

7. Deposits received as collateral shall not be considered as liabilities for the purposes of Article 24, 25, 27, 28 or 31a but shall be subject to the provisions of paragraphs 1 to 6 of this Article, where applicable. The amount of cash received exceeding the amount of cash received as collateral shall be treated as deposits in accordance with Article 24, 25, 27, 28 or 31a.

8. Credit institutions shall assume a 100% outflow for loss of funding on asset-backed securities, covered bonds and other structured financing instruments maturing within 30 calendar days, when these instruments are issued by the credit institution itself or by conduits or SPVs sponsored by the credit institution.

9. Credit institutions shall assume a 100% outflow for loss of funding on asset-backed commercial papers, conduits, securities investment vehicles and other such financing facilities. This 100%

outflow rate shall apply to the maturing amount or to the amount of assets that could potentially be returned or the liquidity required.

10. For that portion of financing programs under paragraphs 8 and 9, credit institutions that are providers of associated liquidity facilities do not need to double count the maturing financing instrument and the liquidity facility for consolidated programs.

12. In relation to the provision of prime brokerage services, where a credit institution has covered the short sales of a client by internally matching them with the assets of another client and the assets do not qualify as liquid assets, those transactions shall be subject to a 50% outflow rate for the contingent obligation.

[Note: This rule corresponds to Article 30 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 31 OUTFLOWS FROM CREDIT AND LIQUIDITY FACILITIES

1. For the purpose of this Article, a liquidity facility shall be understood to mean any committed, undrawn back-up facility that would be utilised to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets. Its amount shall be calculated as the amount of the debt issued by the customer currently outstanding and maturing within 30 calendar days that is backstopped by the facility. The portion of the liquidity facility that is backing a debt that does not mature within 30 calendar days shall be excluded from the scope of the definition of the facility. Any additional capacity of the facility shall be treated as a committed credit facility with the associated drawdown rate as specified in this Article. General working capital facilities for corporate entities will not be classified as liquidity facilities, but as credit facilities.

2. Credit institutions shall calculate outflows for credit and liquidity facilities by multiplying the amount of the credit and liquidity facilities by the corresponding outflow rates set out in paragraphs 3 to 5. Outflows from committed credit and liquidity facilities shall be determined as a percentage of the maximum amount that can be drawn down within 30 calendar days, net of any liquidity requirement that would be applicable under Article 23 for the trade finance off-balance sheet items and net of any collateral made available to the credit institution and valued in accordance with Article 9, provided that the collateral fulfils all of the following conditions:

   (a) it may be reused or hypothecated by the credit institution;

   (b) it is held in the form of liquid assets, but is not recognised as part of the *liquidity buffer*; and

   (c) it does not consist in assets issued by the counterparty of the facility or one of its affiliated entities.

   If the necessary information is available to the credit institution, the maximum amount that can be drawn down for credit and liquidity facilities shall be determined as the maximum amount

that could be drawn down given the counterparty's own obligations or given the pre-defined contractual drawdown schedule coming due over 30 calendar days.

3. The maximum amount that can be drawn down from undrawn committed credit facilities and undrawn committed liquidity facilities within the next 30 calendar days shall be multiplied by 5% if they qualify for the *retail deposit* exposure class.

4. The maximum amount that can be drawn down from undrawn committed credit facilities within 30 calendar days shall be multiplied by 10% where they meet the following conditions:

   (a) they do not qualify for the *retail deposit* exposure class;

   (b) they have been provided to clients that are not *financial customers*, including non-financial corporates, sovereigns, central banks, multilateral development banks and public sector entities;

   (c) they have not been provided for the purpose of replacing funding of the client in situations where the client is unable to obtain funding requirements in the financial markets.

5. The maximum amount that can be drawn down from undrawn committed liquidity facilities within the next 30 calendar days shall be multiplied by 30% where they meet the conditions referred to in paragraph 4 points (a) and (b), and by 40% when they are provided to *personal investment companies*.

6. The undrawn committed amount of a liquidity facility that has been provided to an SSPE for the purpose of enabling that SSPE to purchase assets, other than securities, from clients that are not *financial customers* shall be multiplied by 10% to the extent that it exceeds the amount of assets currently purchased from clients and where the maximum amount that can be drawn down is contractually limited to the amount of assets currently purchased.

8. The credit institution shall multiply the maximum amount that can be drawn down from other undrawn committed credit and undrawn committed liquidity facilities within 30 calendar days by the corresponding outflow rate as follows:

   (a) 40% for credit and liquidity facilities extended to credit institutions and for credit facilities extended to other regulated financial institutions, including insurance undertakings and investment firms, CIUs or non-open ended investment scheme;

   (b) 100% for liquidity facilities that the credit institution has granted to SSPEs other than those referred to in paragraph 6 and for arrangements under which the institution is required to buy or swap assets from an SSPE;

   (c) 100% for credit and liquidity facilities to *financial customers* not referred to in points (a) and (b) and paragraphs 1 to 7.

9. By way of derogation from paragraphs 1 to 8, credit institutions which have been set up and are sponsored by the central or regional government of the *United Kingdom* may apply the treatments set out in paragraphs 3 and 4 to credit and liquidity facilities that are extended to

promotional lenders for the sole purpose of directly or indirectly funding promotional loans, provided that those loans meet the requirements for the outflow rates referred to in paragraphs 3 and 4.

By way of derogation from point (g) of Article 32(3), where those promotional loans are extended as pass through loans via another credit institution acting as an intermediary, a symmetric inflow and outflow may be applied by the credit institution acting as an intermediary. That inflow and outflow shall be calculated by applying to the undrawn committed credit or liquidity facility received and extended the rate that is applicable to that facility by virtue of the first subparagraph of this paragraph and respecting the conditions and requirements otherwise imposed in relation to it by this paragraph.

The promotional loans referred to in this paragraph shall be available only to *persons* who are not *financial customers* on a non-competitive, not for profit basis in order to promote public policy objectives of the central or regional government of the *United Kingdom*. It shall only be possible to draw on such facilities following the reasonably expected demand for a promotional loan and up to the amount of such demand provided there is a subsequent reporting on the use of the funds distributed.

[Note: This rule corresponds to Article 31 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 31a OUTFLOWS FROM LIABILITIES AND COMMITMENTS NOT COVERED BY OTHER PROVISIONS OF THIS CHAPTER

1. Credit institutions shall multiply by a 100% outflow rate any liabilities that become due within 30 calendar days, except for the liabilities referred to in Articles 24 to 31.

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, corporates, sovereigns, multilateral development banks and public sector entities, and shall exclude *financial customers* and central banks.

[Note: This rule corresponds to Article 31a of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

CHAPTER 3 LIQUIDITY INFLOWS

Article 32 INFLOWS

1. Liquidity inflows shall be assessed over a period of 30 calendar days. They shall comprise only contractual inflows from exposures that are not past due and for which the credit institution has no reason to expect non-performance within 30 calendar days.

2. Credit institutions shall apply a 100% inflow rate to inflows referred to in paragraph 1, including in particular the following inflows:

   (a) monies due from central banks and *financial customers* with a residual maturity of no more than 30 calendar days;

   (b) monies due from trade finance transactions referred to in point (b) of the second subparagraph of Article 162(3) of *CRR* with a residual maturity of no more than 30 calendar days;

   (c) monies due from securities maturing within 30 calendar days;

   (d) monies due from positions in major indexes of equity instruments, provided there is no double counting with liquid assets. Those monies shall include monies contractually due within 30 calendar days, such as cash dividends from those major indexes and cash due from those equity instruments sold but not yet settled, if they are not recognised as liquid assets in accordance with Title II (The Liquidity Buffer).

3. By way of derogation from paragraph 2, the inflows set out in this paragraph shall be subject to the following requirements:

   (a) monies due from non-*financial customers* with a residual maturity of no more than 30 calendar days, with the exception of monies due from those customers from trade finance transactions or maturing securities, shall be reduced for the purposes of principal payment by 50% of their value. For the purposes of this point, the term 'non-*financial customers*' shall have the same meaning as in Article 31a(2). However, credit institutions acting as intermediaries that have received a commitment as referred to in the second subparagraph of Article 31(9) from a credit institution set up and sponsored by the central or regional government of the *United Kingdom* in order for them to disburse a promotional loan to a final recipient, or have received a similar commitment from a multilateral development bank or a public sector entity, may take an inflow into account up to the amount of the outflow that they apply to the corresponding commitment to extend those promotional loans;

   (b) monies due from secured lending and capital market-driven transactions, as defined in points (2) and (3) respectively of Article 192 of *CRR*, with a residual maturity of no more than 30 calendar days shall be multiplied by:

      (i) 0% where they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 10 as liquid assets of any of the categories of *level 1 asset* referred to in Article 10, with the

exception of extremely high quality covered bonds referred to in point (f) of Article 10(1);

(ii) 7% where they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 10 as liquid assets of the category referred to in point (f) of Article 10(1);

(iii) 15% where they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 11 as liquid assets of any of the categories of level 2A asset referred to in Article 11;

(iv) 25% where they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 13 as liquid assets of any of the categories of level 2B asset referred to in point (i), (ii) or (iv) of point (g) of Article 13(2);

(v) 30% where they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 12 as liquid assets of the category of level 2B asset referred to in point (e) of Article 12(1);

(vi) 35% where they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 13 as liquid assets of any of the categories of level 2B asset referred to in point (iii) or (v) of point (g) of Article 13(2);

(vii) 50% if they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 12 as liquid assets of any of the categories of level 2B asset referred to in point (b), (c) or (f) of Article 12(1);

(viii) the percentage minimum haircut determined in accordance with paragraphs (2) and (3) of Article 15 if they are collateralised by assets that, whether or not they are re-used in another transaction, would qualify in accordance with Articles 7 and 15 as shares or units in CIUs of the same level as the underlying liquid assets;

(ix) 100% where they are collateralised by assets that do not fall within any of points (i) to (viii) of this point.

However, no inflow shall be recognised where the collateral is used by the credit institution to cover a short position in accordance with the second sentence of Article 30(5);

(c) monies due from contractual *margin loans* maturing in the next 30 calendar days made against non-liquid assets collateral may receive a 50% inflow rate. Those inflows may only be considered where the credit institution is not using the collateral it originally received against the loans to cover any short positions;

(d) monies due that the credit institution owing those monies treats in accordance with Article 27 shall be multiplied by a corresponding symmetrical inflow rate. Where the corresponding rate cannot be established, a 5% inflow rate shall be applied;

(e) collateral swaps, and other transactions with a similar form that mature within 30 calendar days shall lead to an inflow where the asset lent is subject to a lower haircut under Chapter 2 of Title III (Liquidity Outflows and Inflows) than the asset borrowed. The inflow shall be calculated by multiplying the market value of the asset lent by the difference between the inflow rate applicable to the asset borrowed and the inflow rate applicable to the asset lent in accordance with the rates specified in point (b). For the purposes of this calculation, a 100% haircut shall apply to assets that do not qualify as liquid assets;

(f) where the collateral obtained through reverse repos, securities borrowings, collateral swaps, or other transactions with a similar form, maturing within 30 calendar days is used to cover short positions that can be extended beyond 30 calendar days, the credit institution shall assume that such reverse repos, securities borrowings, collateral swaps or other transactions with a similar form will be rolled-over and will not give rise to any cash inflows reflecting the need to continue to cover the short position or to re-purchase the relevant securities. Short positions shall include both instances where in a matched book the credit institution sold short a security outright as part of a trading or hedging strategy and instances where in a matched book the credit institution has borrowed a security for a given period and lent the security out for a longer period;

(g) undrawn credit or liquidity facilities, including undrawn committed liquidity facilities from central banks, and other commitments received, other than those referred to in the second subparagraph of Article 31(9) and in Article 34, shall not be taken into account as an inflow;

(h) monies due from securities issued by the credit institution itself or by a SSPE with which the credit institution has close links shall be taken into account on a net basis with an inflow rate applied on the basis of the inflow rate applicable to the underlying assets in accordance with this Article;

(i) loans with an undefined contractual end date shall be taken into account with a 20% inflow rate, provided that the contract allows the credit institution to withdraw or to request payment within 30 calendar days.

4. Point (a) of paragraph 3 shall not apply to monies due from secured lending and capital market-driven transactions as defined in points (2) and (3) of Article 192 of *CRR* that are collateralised by liquid assets in accordance with Title II (The Liquidity Buffer) as referred to in point (b) of paragraph 3. Inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets shall be taken into account in full, provided that those segregated balances are maintained in liquid assets as defined in Title II (The Liquidity Buffer).

5. Outflows and inflows expected over 30 calendar days from the contracts listed in Annex II to *CRR* and from credit derivatives shall be calculated on a net basis in accordance with Article 21 and shall be multiplied by a 100% inflow rate in the event of a net inflow.
6. Credit institutions shall not take into account any inflows from any of the liquid assets referred to in Title II (The Liquidity Buffer) other than payments due on the assets that are not reflected in the market value of the asset.
7. Credit institutions shall not take into account inflows from any new obligations entered into.
8. Credit institutions shall take liquidity inflows which are to be received in third countries where there are transfer restrictions or which are denominated in non-convertible currencies into account only to the extent that they correspond to outflows respectively in the third country or currency in question.

[Note: This rule corresponds to Article 32 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 33 CAP ON INFLOWS

1. Credit institutions shall limit the recognition of liquidity inflows to 75% of total liquidity outflows as defined in Chapter 2 of Title III (Liquidity Outflows and Inflows) unless a specific inflow is exempted as referred to in paragraphs 2, 3 or 4.
2. A credit institution may apply for permission from the *competent authority* fully or partially to exempt from the cap referred to in paragraph 1 the following liquidity inflows:
   (a) inflows where the provider is a parent or a subsidiary of the credit institution or another subsidiary of the same parent or linked to the credit institution by a common management relationship;
   (b) inflows from deposits placed with other credit institutions within a group of entities qualifying for the treatment set out in Article 113(6) of *CRR*;
   (c) inflows referred to in Article 26, including inflows from loans related to mortgage lending, or promotional loans referred to in Article 31(9) or from a multilateral development bank or a public sector entity that the credit institution has passed-through.

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

3. Specialised credit institutions may apply for permission from the *competent authority* to be exempted from the cap on inflows. For the purpose of this paragraph, a specialised credit institution is a credit institution whose:
   (a) main activities are leasing and factoring business, excluding the activities described in paragraph 4;
   (b) business activities exhibit a low liquidity risk profile; and

(c) ratio of main activities, as referred to in (a), exceeds 80% of its total balance sheet at an individual level.

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

4. Specialised credit institutions may apply for permission from the *competent authority* to be subject to a cap on inflows of 90%. For the purpose of this paragraph, a specialised credit institution is a credit institution whose:

   (a) main activities are the following:

      (i) financing for the acquisition of motor vehicles;

      (ii) an activity that immediately before exit day would have amounted to consumer credit for the purposes of provisions implementing Directive 2008/48/EC;

   (b) business activities exhibit a low liquidity risk profile; and

   (c) ratio of main activities, as referred to in (a) exceeds 80% of the total balance sheet at an individual level.

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

5. Credit institutions must disclose the derogations applied in paragraphs 3 and 4 in their annual report.

6. The exemptions laid down in paragraphs 2, 3 4, when permitted by the *competent authority*, may be applied at both the individual and consolidated levels subject to Article 2(3)(e).

7. Credit institutions shall determine the amount of the *net liquidity outflows* under the application of the inflow cap in accordance with the formula laid down in Annex II to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook.

[Note: This rule corresponds to Article 33 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 34 INFLOWS WITHIN A GROUP

1. By way of derogation from Article 32(3)(g), credit institutions may apply to the *competent authority* for permission to apply a higher inflow rate on a case by case basis for undrawn credit and liquidity facilities with a counterparty who:

   (a) is the parent or a subsidiary of the credit institution or another subsidiary of the same parent or linked to the credit institution by a common management relationship;

   (b) applies, by way of derogation from Article 31, a corresponding symmetric outflow rate to any inflow rate that exceeds 40%; and

(c) is established in the *United Kingdom*;

(d) [Note: Provision left blank].

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

[Note: This rule corresponds to Article 34 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

TITLE IV FINAL PROVISIONS

Article 35 UNITED KINGDOM-GUARANTEED BANK ASSETS

1. Assets issued by credit institutions which benefit from a guarantee from the central government of the *United Kingdom* shall qualify as *level 1 assets* only where the guarantee:

   (a) was granted or committed to for a maximum amount prior to 30 June 2014;

   (b) is a direct, explicit, irrevocable and unconditional guarantee and covers the failure to pay principal and interest when due.

2. Where the guarantor is a regional government or local authority in the *United Kingdom*, the guaranteed asset shall qualify as level 1 only where exposures to such regional government or local authority are treated as exposures to their central government in accordance with Article 115(2) of *CRR* and the guarantee complies with the requirements laid down in paragraph 1.

3. The assets referred to in paragraphs 1 and 2 shall continue to qualify as *level 1 assets* for as long as the guarantee remains in force in relation to the relevant issuer or its assets, as applicable, as amended or replaced from time to time. Where the amount of a guarantee in favour of an issuer or its assets is increased at any time after 30 June 2014, the assets shall only qualify as liquid assets up to the maximum amount of the guarantee that was committed prior to that date.

4. The assets referred to in this Article shall be subject to the same requirements applicable under Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook to *level 1 assets* representing claims on or guaranteed by the central or regional governments, local authorities or public sector entities referred to in Article 10(1)(c).

5. Where a credit institution or its assets benefit from a guarantee scheme, the scheme as a whole shall be regarded as a guarantee for the purposes of this Article.

[Note: This rule corresponds to Article 35 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 37 TRANSITIONAL PROVISION FOR SECURITISATIONS BACKED BY RESIDENTIAL LOANS

1. By derogation from Article 13, securitisations issued before 1 October 2015, where the underlying exposures are residential loans as referred to in point (g)(i) of Article 13(2), shall qualify as Level 2B assets if they meet all the requirements set out in Article 13 other than the loan-to-value or loan-to-income requirements set out in that point (g)(i) of Article 13(2).
2. By derogation from Article 13, securitisations issued after 1 October 2015, where the underlying exposures are residential loans as referred to in point (g)(i) of Article 13(2) that do not meet the average loan-to-value or the loan-to-income requirements set out in that point, shall qualify as Level 2B assets until 1 October 2025, provided that the underlying exposures include residential loans that were not subject to a national law regulating loan-to-income limits at the time they were granted and such residential loans were granted at any time prior to 1 October 2015.

[Note: This rule corresponds to Article 37 of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

Article 38 TRANSITIONAL PROVISION FOR THE INTRODUCTION OF THE LIQUIDITY COVERAGE RATIO

1. [Note: Provision left blank]

2. [Note: Provision left blank]

Article 39 ENTRY INTO FORCE

[Note: Provision left blank]

ANNEX I FORMULAE FOR THE DETERMINATION OF THE LIQUIDITY BUFFER COMPOSITION

1. Credit institution shall use the formulae laid down in this Annex to determine the composition of their *liquidity buffer* in accordance with Article 17.
2. Calculation of the *liquidity buffer*: as of the calculation date, the *liquidity buffer* of the credit institution shall be equal to:

   (a) the *level 1 asset* amount; plus

   (b) the level 2A asset amount; plus

   (c) the level 2B asset amount;

   minus the lesser of:

   (d) the sum of (a), (b) and (c); or

(e) the 'excess liquid assets amount' as calculated in accordance with paragraphs 3 and 4 of this Annex.

3. 'Excess liquid assets' amount: this amount shall be comprised of the components defined herein:

(a) the adjusted non-covered bond *level 1 asset* amount, which shall be equal to the value post-haircuts of all level 1 liquid assets, excluding level 1 covered bonds, that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction;

(b) the adjusted level 1 covered bond amount, which shall be equal to the value post-haircuts of all level 1 covered bonds that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction;

(c) the adjusted level 2A asset amount, which shall be equal to the value post-haircuts of all level 2A assets that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction; and

(d) the adjusted level 2B asset amount, which shall be equal to the value post-haircuts of all level 2B assets that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction.

4. Calculation of the 'excess liquid assets amount': this amount shall be equal to:

(a) the adjusted non-covered bond *level 1 asset* amount; plus

(b) the adjusted level 1 covered bond amount; plus

(c) the adjusted level 2A asset amount; plus

(d) the adjusted level 2B asset amount;

minus the lesser of:

(e) the sum of (a), (b), (c) and (d);

(f) 100/30 times (a);

(g) 100/60 times the sum of (a) and (b);

(h) 100/85 times the sum of (a), (b) and (c).

[Note: This rule corresponds to Annex I of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

ANNEX II FORMULA FOR THE CALCULATION OF THE NET LIQUIDITY OUTFLOW

NLO = *Net liquidity outflow*

TO = Total outflows

TI = Total inflows

FEI = Fully exempted inflows

IHC = Inflows subject to higher cap of 90% outflows

IC = Inflows subject to cap of 75% of outflows

Net liquidity outflows equals total outflows less the reduction for fully exempt inflows less the reduction for inflows subject to the 90% cap less the reduction for inflows subject to the 75% cap

NLO = TO – MIN(FEI, TO) – MIN(IHC, 0,9*MAX(TO – FEI, 0)) – MIN(IC, 0,75*MAX(TO – FEI – IHC/0,9, 0))

[Note: This rule corresponds to Annex II of Regulation (EU) No 2015/61 as it applied immediately before revocation by the *Treasury*]

3 RULES ON STANDARDS FOR SPECIFYING THE CONDITIONS FOR THE APPLICATION OF THE DEROGATIONS CONCERNING CURRENCIES WITH CONSTRAINTS ON THE AVAILABILITY OF LIQUID ASSETS (PREVIOUSLY REGULATION (EU) NO 2016/709)

Article 1 SUBJECT MATTER

Chapter 3 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook specifies the conditions for the application of the derogations referred to in Article 419(2) of *CRR* concerning currencies with constraints on the availability of liquid assets.

[Note: This rule corresponds to Article 1 of Regulation (EU) No 2016/709 as it applied immediately before revocation by the *Treasury*]

Article 2 NOTIFICATION OF THE DEROGATION

1. [Note: Provision left blank]

2. [Note: Provision left blank]

Article 3 ASSESSMENT OF JUSTIFIED NEEDS

An institution shall be deemed to have justified needs for liquid assets for the purposes of Article 419(3) of *CRR* only where the following conditions are met:

(a) it has reduced, by sound liquidity management, the need for liquid assets in the full range of business conducted by the institution;

(b) its holdings of liquid assets are consistent with the availability of those assets in the relevant currency.

[Note: This rule corresponds to Article 3 of Regulation (EU) No 2016/709 as it applied immediately before revocation by the *Treasury*]

Article 4 APPLICATION OF THE DEROGATION PROVIDED FOR IN ARTICLE 419(2)(a) OF CRR

1. An institution shall take all reasonable steps to fulfil the liquidity coverage requirement set out in Article 412 of *CRR* before applying the derogation provided for in Article 419(2)(a) of *CRR*.
2. An institution shall ensure that it is at all times able to operationally identify the liquid assets used to meet foreign currency liquidity coverage requirements and the liquid assets held as a result of the application of the derogation provided for in Article 419(2)(a) of *CRR*.
3. An institution shall ensure that its foreign exchange risk management framework meets the following conditions:

   (a) currency mismatches resulting from the use of the derogation provided for in Article 419(2)(a) of *CRR* are adequately measured, monitored, controlled and justified;

   (b) liquid assets inconsistent with the distribution by currency of liquidity outflows after the deduction of inflows can be liquidated in pounds Sterling whenever necessary;

   (c) historical evidence relating to *stress* periods supports the conclusion that the institution is able to promptly liquidate the assets referred to in point (b).

4. An institution which uses liquid assets in a currency other than pounds Sterling to cover liquidity needs in pounds Sterling shall apply a haircut of 8% to the value of those assets in addition to any haircut applied in accordance with Article 418 of *CRR*.

   Where the liquid assets are denominated in a currency that is not actively traded in global foreign exchange markets, the additional haircut shall be the higher of 8% and the largest *monthly* exchange rate movement between both currencies in the 10 years prior to the relevant reporting reference date.

[Note: This rule corresponds to Article 4 of Regulation (EU) No 2016/709 as it applied immediately before revocation by the *Treasury*]

Article 5 APPLICATION OF THE DEROGATION PROVIDED FOR IN ARTICLE 419(2)(B) OF CRR

1. An institution shall take all reasonable steps to fulfil the liquidity coverage requirement set out in Article 412 of *CRR* before applying the derogation provided for in Article 419(2)(b) of *CRR*.

2. An institution shall obtain from the central bank in respect of the currency with constraints on the availability of liquid assets a credit line which complies with the following conditions:

   (a) the credit line specifies that the institution has a legally binding entitlement to access the credit facilities and that entitlement is set out in a written agreement;

   (b) following the decision to provide a credit line, access to the credit facilities is not subject to a credit decision by the central bank;

   (c) the credit facilities can be drawn on by the institution without delay and no later than 1 day after giving notice to the central bank;

   (d) the credit line is at all times available for a period exceeding the 30 day-period of the liquidity coverage requirement specified in Article 412(1) of *CRR*.

3. An institution shall fully post collateral at the central bank, which, after being subject to any haircut applied by the central bank, shall at all times be equal to or greater than the maximum amount that may be drawn on the credit line.

[Note: This rule corresponds to Article 5 of Regulation (EU) No 2016/709 as it applied immediately before revocation by the *Treasury*]

Article 6 FEE PAYABLE FOR THE GRANTING OF A CREDIT LINE

1. An institution shall pay a fee established by the central bank. The fee shall be made up of two components for the credit line referred to in Article 5(2) and shall ensure that there is no economic advantage or disadvantage arising from the application of the derogation provided for in Article 419(2)(b) of *CRR*, when compared to institutions which do not apply the derogation.

2. The fee to be paid by an institution for the credit line shall be the sum of the following components:

   (a) an amount which is based on the amount of the credit line drawn down;

   (b) an amount which approximates the difference between the following:

      (i) the yield on the assets used to secure the credit line;

      (ii) the yield on a representative portfolio of assets of the type provided for in points (a) to (d) of Article 416(1) of *CRR*.

   The amount referred to in point (b) of the first subparagraph may be adjusted to take into account any material differences in credit risk between the sets of assets referred to in that point.

[Note: This rule corresponds to Article 6 of Regulation (EU) No 2016/709 as it applied immediately before revocation by the *Treasury*]

Article 7 LIMITATION ON THE USE OF DEROGATIONS

1. [Note: Provision left blank]

2. [Note: Provision left blank]

Article 8 FINAL PROVISIONS

[Note: Provision left blank]

4 RULES ON STANDARDS FOR ADDITIONAL LIQUIDITY OUTFLOWS CORRESPONDING TO COLLATERAL NEEDS RESULTING FROM THE IMPACT OF AN ADVERSE MARKET SCENARIO ON AN INSTITUTION'S DERIVATIVES TRANSACTIONS (PREVIOUSLY REGULATION (EU) NO 2017/208)

Article 1 MATERIALITY OF AN INSTITUTION'S DERIVATIVES TRANSACTIONS

1. An institution's derivatives transactions shall be considered material for the purposes of the first subparagraph of Article 423(3) of *CRR* where the total of notional amounts of such transactions has exceeded 10% of the *net liquidity outflows* as referred to in Article 412(1) of *CRR* at any time in the previous two years.

2. For the purposes of paragraph 1, the *net liquidity outflows* shall be calculated without the additional outflow component referred to in the first subparagraph of Article 423(3) of *CRR*.

[Note: This rule corresponds to Article 1 of Regulation (EU) No 2017/208 as it applied immediately before revocation by the *Treasury*]

Article 2 CALCULATION OF AN ADDITIONAL OUTFLOW CORRESPONDING TO COLLATERAL NEEDS RESULTING FROM THE IMPACT OF AN ADVERSE MARKET SCENARIO ON AN INSTITUTION'S DERIVATIVE TRANSACTIONS

1. The additional outflow corresponding to collateral needs resulting from the impact of an adverse market scenario on an institution's derivatives transactions considered as material in application of Article 1, shall be the largest absolute net 30-day collateral flow realised during the 24 *months* preceding the date of calculation of the liquidity coverage requirement referred to in Article 412(1) of *CRR*.

2. Institutions may only treat inflows and outflows of transactions on a net basis where they are executed under the same master netting agreement. The absolute net collateral flow shall be based on both realised outflows and inflows, and the netting shall be calculated at the institution's portfolio level.

[Note: This rule corresponds to Article 2 of Regulation (EU) No 2017/208 as it applied immediately before revocation by the *Treasury*]

Article 3 ENTRY INTO FORCE

[Note: Provision left blank]

ANNEX J

Reporting (CRR) Part

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

Part

REPORTING (CRR)

Content

1. **APPLICATION**
2. **LEVEL OF APPLICATION**
3. **ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS**
4. **REPORTING (PART SEVEN A CRR)**

Article 430 **REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION**

Article 430a **SPECIFIC REPORTING OBLIGATIONS**

5. **REPORTING REQUIREMENTS**

Article 1 **SUBJECT MATTER AND SCOPE**

Article 2 **REPORTING REFERENCE DATES**

Article 3 **REPORTING REMITTANCE DATES**

Article 4 **REPORTING THRESHOLDS — ENTRY AND EXIT CRITERIA**

Article 5 **INDIVIDUAL BASIS – QUARTERLY REPORTING**

Article 6 **INDIVIDUAL BASIS – SEMI-ANNUAL REPORTING**

Article 7 **REPORTING ON A CONSOLIDATED BASIS**

Article 8 **ADDITIONAL REPORTING REQUIREMENTS ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

Article 11 **REPORTING ON A CONSOLIDATED BASIS FOR INSTITUTIONS APPLYING REGULATION (EC) NO 1606/2002**

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**

Article 14 **FORMAT AND FREQUENCY OF REPORTING ON LARGE EXPOSURES ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

Article 15 FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

Article 16 REPORTING ON LIQUIDITY COVERAGE REQUIREMENT

Article 17 REPORTING ON STABLE FUNDING

Article 18 FORMAT AND FREQUENCY OF REPORTING ON ADDITIONAL LIQUIDITY MONITORING METRICS ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

Article 19 FORMAT AND FREQUENCY OF REPORTING ON ASSET ENCUMBRANCE ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

Article 20 FORMAT AND FREQUENCY OF SUPPLEMENTARY REPORTING FOR THE PURPOSES OF IDENTIFYING G-SIIS AND ASSIGNING G-SII BUFFER RATES

Article 21 DATA PRECISION AND INFORMATION ACCOMPANYING SUBMISSIONS

6. TEMPLATES AND INSTRUCTIONS

ANNEX I

ANNEX II

ANNEX III PART 1

ANNEX III PART 2

ANNEX III PART 3

ANNEX III PART 4

ANNEX IV PART 1

ANNEX IV PART 2

ANNEX IV PART 3

ANNEX IV PART 4

ANNEX V

ANNEX VI

ANNEX VII

ANNEX VIII

ANNEX IX

ANNEX XII

ANNEX XIII

ANNEX XIV

ANNEX XV

ANNEX XVI PART A

ANNEX XVI PART B

ANNEX XVI PART C

ANNEX XVI PART D

ANNEX XVI PART E

ANNEX XVII

ANNEX XVIII

ANNEX XIX

ANNEX XX

ANNEX XXI

ANNEX XXIV

ANNEX XXV

ANNEX XXVI

ANNEX XXVII

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

Application of requirements on an individual basis

2.1 Subject to rule 2.2, 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 the *CRR* that applies to this Part]

2.2 An institution shall 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.

[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 comply with this Part on the basis of its consolidated situation except that it shall 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).

[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*.

[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.

[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

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.

[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.

[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. REPORTING (PART SEVEN A CRR)

Article 430 REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION

1. Institutions shall report to their *competent authorities* on:

   (a) own funds requirements, as set out in Article 92;

   (b) the requirements laid down in Articles 92a and 92b, for institutions that are subject to those requirements;

   (c) large exposures as set out in Article 394;

   (d) liquidity requirements as set out in Article 415;

   (e) the aggregate data for each national immovable property market as set out in Article 430a(1);

   (f) the requirements and guidance set out in provisions implementing 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;

(g) the level of asset encumbrance, including a breakdown by the type of asset encumbrance, such as repurchase agreements, securities lending, securitised exposures or loans.

[Note: References to leverage ratio are not included]

2. [Note: Provision left blank]

3. In addition to the reporting on prudential requirements referred to in paragraph 1 of this Article, institutions shall report financial information to their *competent authorities* where they are one of the following:

   (a) an institution that is subject to section 403(1) Companies Act 2006;

   (b) a credit institution that prepares its consolidated accounts in accordance with the international accounting standards pursuant to point (b) of Article 5 of Regulation (EC) No 1606/2002.

4. [Note: Provision left blank]

5. The reporting on financial information referred to in paragraph 3 shall only comprise information that is needed to provide a comprehensive view of the institution's risk profile and the systemic risks posed by the institution to the financial sector or the real economy.

6. The reporting requirements laid down in this Article shall be applied to institutions in a proportionate manner, having regard to their size, complexity and the nature and level of risk of their activities.

7. [Note: Provision left blank]

9. [Note: Provision left blank]

10. [Note: Provision left blank]

11. *Competent authorities* may waive the requirement to submit any of the data points set out in the reporting templates specified in these rules where those data points are duplicative. For those purposes, duplicative data points shall refer to any data points which are already available to the *competent authorities* by means other than by collecting those reporting templates, including where those data points can be obtained from data that is already available to the *competent authorities* in different formats or levels of granularity; the *competent authority* may only grant the waivers referred to in this paragraph if data received, collated or aggregated through such alternative methods are identical to those data points which would otherwise have to be reported in accordance with these rules.

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

Article 430a SPECIFIC REPORTING OBLIGATIONS

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).

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.

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 *CRR*.

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 2 REPORTING REFERENCE AND REMITTANCE DATES AND REPORTING THRESHOLDS

Article 2 REPORTING REFERENCE DATES

1. Institutions shall submit information to *competent authorities* as this information stands on the following reporting reference dates:

   (a) monthly reporting – on the last day of each *month*;

   (b) quarterly reporting – 31 March, 30 June, 30 September and 31 December;

   (c) semi-annual reporting – 30 June and 31 December;

   (d) annual reporting – 31 December.

2. Information submitted pursuant to the templates set out in Annex III and Annex IV, in accordance with the instructions in Annex V and referring to a certain period, shall be reported cumulatively from the first day of the accounting year to the reference date.

3. Where institutions are permitted by the law of the *United Kingdom* to report their financial information based on their accounting year-end, which deviates from the calendar year, reporting reference dates may be adjusted accordingly, so that reporting of financial information and of information for the purposes of identifying G-SIIs and assigning G-SII buffer rates is done every 3, 6 or 12 *months* from their accounting year-end, respectively.

Article 3 REPORTING REMITTANCE DATES

1. Institutions shall submit information to *competent authorities* by close of business on the following remittance dates:

   (a) monthly reporting – 15th calendar day after the reporting reference date;

   (b) quarterly reporting – 12 May, 11 August, 11 November and 11 February;

   (c) semi-annual reporting – 11 August and 11 February;

   (d) annual reporting – 11 February.

2. If the remittance day is a public holiday in the part of the *United Kingdom* in which the institution is situated, or a Saturday or a Sunday, data shall be submitted on the following *working day*.

3. Where institutions report their financial information or the information for the purposes of identifying G-SIIs and assigning G-SII buffer rates using adjusted reporting reference dates based on their accounting year-end as set out in paragraph 3 of Article 2, the remittance dates

may also be adjusted accordingly so that the same remittance period from the adjusted reporting reference date is maintained.

4. Institutions may submit unaudited figures. Where audited figures deviate from submitted unaudited figures, the revised, audited figures shall be submitted without undue delay. Unaudited figures are figures that have not received an external auditor's opinion whereas audited figures are figures audited by an external auditor expressing an audit opinion.

5. Other corrections to the submitted reports shall also be submitted to the *competent authorities* without undue delay.

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* 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.

2. Institutions shall commence reporting information subject to the thresholds set out in this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook on the next reporting reference date after these thresholds have been exceeded on two consecutive reporting reference dates. Institutions may stop reporting information subject to the thresholds set out in this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook on the next reporting reference date provided that they have fallen below the relevant thresholds on three consecutive reporting reference dates.

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 *CRR* 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 15 of this Article.

2. Information relating to own funds and own funds requirements shall be submitted as specified in templates C 01.00 to C 05.02 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 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 08.01 and C 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 template C 09.01 of Annex I, in accordance with the instructions in point 3.4 of Part II of Annex II. Information specified in templates C 09.01 and C 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.

6. Information on counterparty credit risk shall be submitted as specified in templates C 34.01 to C 34.05 and C 34.08 to C 34.10 of Annex I, in accordance with the instructions in point 3.9 of Part II of Annex II.

7. Information in template C 34.06 of Annex I on counterparty credit risk shall be submitted by institutions applying the standardised approach or the internal model method for the calculation of counterparty credit risk exposures following Sections 3 and 6 of Chapter 6 of Title II of Part Three of the *CRR*. The information shall be submitted in accordance with the instructions in point 3.9.7 of Part II of Annex II.

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.

9. Information on settlement risk shall be submitted as specified in template C 11.00 of Annex I, in accordance with the instructions in point 3.6 of Part II of Annex II.

10. Information on securitisation exposures shall be submitted as specified in template C 13.01 of Annex I, in accordance with the instructions in point 3.7 of Part II of Annex II.

11. Information on own funds requirements and losses relating to operational risk shall be submitted as specified in template C 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.

13. Information on own funds requirements relating to credit valuation adjustment risk shall be submitted as specified in template C 25.00 of Annex I, in accordance with the instructions in point 5.8 of Part II of Annex II.

14. Information on prudent valuation shall be submitted as specified in template C 32.01 of Annex I in accordance with the instructions in point 6 of Part II, of Annex II as follows:

(a) all institutions shall submit the information specified in template C 32.01 of Annex I in accordance with the instructions in point 6 of Part II of Annex II;

(b) institutions that apply the core approach pursuant to Commission Delegated Regulation (EU) 2016/101 shall also report the information specified in template C 32.02 of Annex I in accordance with the instructions in point 6 of Part II of Annex II;

(c) institutions that apply the core approach pursuant to Commission Delegated Regulation (EU) 2016/101 and which exceed the threshold referred to in Article 4(1) of that Regulation shall also report the information specified in templates C 32.03 and C 32.04 of Annex I in accordance with the instructions in point 6 of Part II of Annex II.

The entry and exit criteria of Article 4 shall not apply for Article 5(14) (c) above.

15. Information on the prudential backstop for non-performing exposures shall be submitted as specified in templates C 35.01 to C 35.03 of Annex I, in accordance with the instructions in point 8 of Part II of Annex II.

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 *CRR* on an 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.

3. Information on sovereign exposures shall be submitted in the following manner:

   (a) Institutions shall submit the information specified in template C 33.00 in accordance with the instructions in Part II point 7 of Annex II where the aggregate carrying amount of financial assets from the counterparty sector 'General governments' is equal to or higher than 1% of the sum of total carrying amount for 'Debt securities' and 'Loans and advances'. To calculate the relevant values, institutions shall follow the instructions in Annex III or Annex IV, as applicable for template C 04.00;

   (b) Institutions that meet the criterion referred to in point (a) and where the value reported for domestic exposures of non-derivative financial assets as defined in row 0010, column

0010 of template C 33.00 is less than 90% of the value reported for domestic and non-domestic exposures for the same data point shall submit the information specified in template C 33.00, in accordance with the instructions in point 7 of Part II of Annex II but with a full country breakdown;

(c) Institutions that meet the criterion referred to in point (a) but do not meet the criterion referred in point (b) shall submit the information specified in template C 33.00, in accordance with the instructions in point 7 of Part II of Annex II but with exposures aggregated at (i) a total level and (ii) a domestic level.

The entry and exit criteria of Article 4(2) shall apply.

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;

(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 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.

The entry and exit criteria of Article 4(2) shall apply.

5. The information in template C 34.06 of Annex I on counterparty credit risk shall be submitted by institutions applying the simplified standardised approach or the original exposure method for the calculation of counterparty credit risk exposures following Sections 4 and 5 of Chapter 6 of Title II of Part Three of the *CRR*. The information shall be submitted in accordance with the instructions in point 3.9.7 of Part II 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 *CRR* on a consolidated basis, institutions shall submit:

(a) the information specified in Articles 5 and 6 on a consolidated basis with the frequency specified therein;

(b) the information specified in template C 06.01 of Annex I, in accordance with the instructions provided in point 2 of Part II of Annex II regarding entities included in the scope of consolidation, with a semi-annual frequency.

Article 8 ADDITIONAL REPORTING REQUIREMENTS ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

1. The information specified in templates C 08.03, C 08.04, C 08.05, C 08.05b, C 08.06, C 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 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.

CHAPTER 4 FORMAT AND FREQUENCY OF REPORTING ON FINANCIAL INFORMATION

Article 11 REPORTING ON A CONSOLIDATED BASIS FOR INSTITUTIONS REGULATION (EC) NO 1606/2002

1. In order to report financial information on a 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, in accordance with the instructions in Annex V.
2. The information referred to in paragraph 1 shall be submitted in accordance with the following specifications:

   (a) the information specified in Part 1 of Annex III with a quarterly frequency;

   (b) the information specified in Part 3 of Annex III with a semi-annual frequency;

   (c) the information specified in Part 4 of Annex III, with the exception of the information specified in template F 47.00, with an annual frequency;

   (d) the information specified in template F 20.01 in Part 2 of Annex III with a quarterly frequency where the institution exceeds the threshold specified in the second sentence of paragraph 5 of Article 5. The entry and exit criteria referred to in Article 4(2) shall apply;

   (e) the information specified in template F 21.00 in Part 2 of Annex III with a quarterly frequency where tangible assets subject to operating leases are equal to or higher than 10% of total tangible assets as reported in template F 01.01 in Part 1 of Annex III. The entry and exit criteria referred to in Article 4(2) shall apply;

   (f) the information specified in template F 22.01 in Part 2 of Annex III with a quarterly frequency where net fee and commission income is equal to or higher than 10% of the sum of net fee and commission income and net interest income as reported in template F 02.00 in Part 1 of Annex III. The entry and exit criteria referred to in Article 4(2) shall apply;

   (g) the information specified in templates F 23.01, F 24.01, F 25.01 and F 26.00 in Part 2 of Annex III with a quarterly frequency where both of the following conditions are fulfilled:

      i. the institution is not a small and non-complex institution;

      ii. the ratio between the institution's gross carrying amount of non-performing loans and advances and the total gross carrying amount of loans and advances falling under the category of non-performing exposures as set out in Section 17 of Part 2 of Annex V to this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook is equal to or higher than 5%. For the purpose of this point, the ratio shall not include loans and advances classified as held for sale, cash balances at central banks and other demand deposits in either the denominator or the numerator.

   The entry and exit criteria referred to in Article 4(2) shall apply.

(h) the information specified in template F 47.00 in Part 4 of Annex III with an annual frequency where both of the conditions set out in points (i) and (ii) of point (g) of this paragraph are fulfilled. The entry and exit criteria referred to in Article 4(2) shall apply.

CHAPTER 5 FORMAT AND FREQUENCY OF SPECIFIC REPORTING OBLIGATIONS ON LOSSES STEMMING FROM LENDING COLLATERALISED BY IMMOVABLE PROPERTY IN ACCORDANCE WITH ARTICLE 430a(1) OF *CRR*

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 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 with an annual frequency.
3. Third country branches shall also submit to the *competent authority* of the *United Kingdom* the information specified in Annex VI related to that branch, in accordance with the instructions in Annex VII, with an annual frequency.

CHAPTER 6 FORMAT AND FREQUENCY OF REPORTING ON LARGE EXPOSURES ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

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 and a 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, 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, 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, and on the 10 largest exposures to shadow banking entities that carry out banking

activities outside the regulated framework on a 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.

CHAPTER 7 FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

Article 15 FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

[Note: Provision left blank]

CHAPTER 8 FORMAT AND FREQUENCY OF REPORTING ON LIQUIDITY AND ON STABLE FUNDING ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

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 *CRR* on an individual and a consolidated basis, institutions shall submit the information specified in Annex XXIV, in accordance with the instructions in Annex XXV, with a monthly frequency.
2. The information set out in Annex XXIV shall take into account the information submitted for the reference date and the information on the cash-flows of the institution over the following 30 calendar days.

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 *CRR* on an individual and a 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:

(a) small and non-complex institutions that have chosen to calculate their net stable funding ratio using the methodology set out in Chapters 6 and 7 of Title IV of Part Six of the *CRR*, with the prior permission of their *competent authority* in accordance with Article 428ai of the *CRR*, shall submit templates C 82.00 and C 83.00 of Annex XII, in accordance with the instructions in Annex XIII;

(b) all other institutions shall submit templates C 80.00 and C 81.00 of Annex XII, in accordance with the instructions in Annex XIII;

(c) all institutions shall submit template C 84.00 of Annex XII, in accordance with the instructions in Annex XIII.

CHAPTER 9 FORMAT AND FREQUENCY OF REPORTING ON ADDITIONAL LIQUIDITY MONITORING METRICS ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

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 *CRR* on an individual and a consolidated basis, institutions shall submit all of the following information with a monthly frequency:

   (a) the information specified in Annex XVIII in accordance with the instructions in Annex XIX;

   (b) the information specified in Annex XX in accordance with the instructions in Annex XXI.

2. By way of derogation from paragraph 1, an institution that meets all the conditions set out in point (145) of Article 4(1) of the *CRR* may report the information on additional liquidity monitoring metrics with a quarterly frequency.

CHAPTER 10 FORMAT AND FREQUENCY OF REPORTING ON ASSET ENCUMBRANCE ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

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 *CRR* on an individual and a 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.

2. The information referred to in paragraph 1 shall be submitted in accordance with the following specifications:

   (a) the information specified in Parts A, B and D of Annex XVI with a quarterly frequency;

   (b) the information specified in Part C of Annex XVI with an annual frequency;

   (c) the information specified in Part E of Annex XVI with a semi-annual frequency.

3. Institutions shall not be required to report the information in Parts B, C and E of Annex XVI where both of the following conditions are met:

   (a) the institution is not considered a large institution;

   (b) the asset encumbrance level of the institution, as calculated in accordance with paragraph 9 of point 1.6 of Annex XVII, is below 15%.

   The entry and exit criteria of Article 4(2) shall apply.

4. Institutions shall be required to report the information specified in Part D of Annex XVI only where they issue bonds referred to in the first subparagraph of provisions implementing Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council.

   The entry and exit criteria of Article 4(2) shall apply.

CHAPTER 11 FORMAT AND FREQUENCY OF SUPPLEMENTARY REPORTING FOR THE PURPOSES OF IDENTIFYING G-SIIS AND ASSIGNING G-SII BUFFER RATES

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 by virtue of Part 4 of Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014, *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 with a quarterly frequency.

2. *UK parent institutions*, *UK parent financial holding companies* and *UK parent mixed financial holding companies* shall submit the information specified in paragraph 1 only where both of the following conditions are met:

   (a) the total exposure measure of the group is equal to or exceeds GBP 170 billion;

   (b) the UK institution is headquartered in the *United Kingdom*.

3. By derogation from point (b) of Article 3(1) of this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook, the information specified in paragraph 1 shall be submitted by close of business on the following remittance dates: 31 July, 31 October, 31 January and 30 April.

4. By derogation from Article 4 of this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook, the following shall apply with regard to the threshold specified in point (a) of paragraph 2:

   (a) the *UK parent institution*, *UK parent financial holding company* or *UK parent mixed financial holding company* shall immediately start reporting the information in accordance with this Article where its leverage ratio exposure measure exceeds the specified threshold as of the end of the accounting year, and shall report this information at least for the end of that accounting year and the subsequent three quarterly reference dates;

   (b) the *UK parent institution*, *UK parent financial holding company* or *UK parent mixed financial holding company* shall immediately stop reporting the information in accordance with this Article where its leverage ratio exposure measure falls below the specified threshold as of the end of their accounting year.

CHAPTER 13 DATA PRECISION AND INFORMATION ACCOMPANYING SUBMISSIONS

Article 21 DATA PRECISION AND INFORMATION ACCOMPANYING SUBMISSIONS

1. Institutions shall submit the information referred to in this Chapter 5 of this Reporting (CRR) Part of the *PRA* Rulebook in the data exchange formats and representations specified by the *competent authorities* and respecting the data point definition of the data point model referred

to in Annex XIV and the validation formulae referred to in Annex XV as well as the following specifications:

(a) information that is not required or not applicable shall not be included in a data submission;

(b) numerical values shall be submitted as facts in accordance with the following specifications:

i. data points with the data type 'Monetary' shall be reported using a minimum precision equivalent to thousands of units;

ii. data points with the data type 'Percentage' shall be expressed as per unit with a minimum precision equivalent to four decimal places;

iii. data points with the data type 'Integer' shall be reported using no decimal places and a precision equivalent to units.

(c) Institutions and insurance undertakings shall be identified solely by their Legal Entity Identifier (LEI). Legal entities and counterparties other than institutions and insurance undertakings shall be identified by their LEI where available.

2. The data submitted by the institutions shall be accompanied by the following information:

(a) reporting reference date and reference period;

(b) reporting currency;

(c) accounting standard;

(d) identifier of the reporting institution (LEI);

(e) scope of consolidation.

6. TEMPLATES AND INSTRUCTIONS

ANNEX I

2.1. Annex I Template C 01.00 can be found here.

2.2. Annex I Template C 02.00 can be found here.

2.3. Annex I Template C 03.00 can be found here.

2.4. Annex I Template C 04.00 can be found here.

2.5. Annex I Template C 05.01 can be found here.

2.6. Annex I Template C 05.02 can be found here.

2.7. Annex I Template C 06.01 can be found here.

2.8. Annex I Template C 06.02 can be found here.

2.9. Annex I Template C 07.00 can be found here.

2.10. Annex I Template C 08.01 can be found here.

2.11. Annex I Template C 08.02 can be found here.

2.12. Annex I Template C 08.03 can be found here.

2.13. Annex I Template C 08.04 can be found here.

2.14. Annex I Template C 08.05 can be found here.

2.15. Annex I Template C 08.05b can be found here.

2.16. Annex I Template C 08.06 can be found here.

2.17. Annex I Template C 08.07 can be found here.

2.18. Annex I Template C 09.01 can be found here.

2.19. Annex I Template C 09.02 can be found here.

2.20. Annex I Template C 09.04 can be found here.

2.21. Annex I Template C 10.01 can be found here.

2.22. Annex I Template C 10.02 can be found here.

2.23. Annex I Template C 11.00 can be found here.

2.24. Annex I Template C 13.01 can be found here.

2.25. Annex I Template C 14.00 can be found here.

2.26. Annex I Template C 14.01 can be found here.

2.27. Annex I Template C 34.01 can be found here.

2.28. Annex I Template C 34.02 can be found here.

2.29. Annex I Template C 34.03 can be found here.

2.30. Annex I Template C 34.04 can be found here.

2.31. Annex I Template C 34.05 can be found here.

2.32. Annex I Template C 34.06 can be found here.

2.33. Annex I Template C 34.07 can be found here.

2.34. Annex I Template C 34.08 can be found here.

2.35. Annex I Template C 34.09 can be found here.

2.36. Annex I Template C 34.10 can be found here.

2.37. Annex I Template C 34.11 can be found here.

2.38. Annex I Template C 16.00 can be found here.

2.39. Annex I Template C 17.01 can be found here.

2.40. Annex I Template C 17.02 can be found here.

2.41. Annex I Template C 18.00 can be found here.

2.42. Annex I Template C 19.00 can be found here.

2.43. Annex I Template C 20.00 can be found here.

2.44. Annex I Template C 21.00 can be found here.

2.45. Annex I Template C 22.00 can be found here.

2.46. Annex I Template C 23.00 can be found here.

2.47. Annex I Template C 24.00 can be found here.

2.48. Annex I Template C 25.00 can be found here.

2.49. Annex I Template C 32.01 can be found here.

2.50. Annex I Template C 32.02 can be found here.

2.51. Annex I Template C 32.03 can be found here.

2.52. Annex I Template C 32.04 can be found here.

2.53. Annex I Template C 33.00 can be found here.

2.54. Annex I Template C 35.01 can be found here.

2.55. Annex I Template C 35.02 can be found here.

2.56. Annex I Template C 35.03 can be found here.

ANNEX II

2.57. Annex II can be found here.

ANNEX III PART 1

2.58. Annex III Template F 01.01 can be found here.

2.59. Annex III Template F 01.02 can be found here.

2.60. Annex III Template F 01.03 can be found here.

2.61. Annex III Template F 02.00 can be found here.

2.62. Annex III Template F 03.00 can be found here.

2.63. Annex III Template F 04.01 can be found here.

2.64. Annex III Template F 04.02.1 can be found here.

2.65. Annex III Template F 04.02.2 can be found here.

2.66. Annex III Template F 04.03.1 can be found here.

2.67. Annex III Template F 04.04.1 can be found here.

2.68. Annex III Template F 04.05 can be found here.

2.69. Annex III Template F 05.01 can be found here.

2.70. Annex III Template F 06.01 can be found here.

2.71. Annex III Template F 07.01 can be found here.

2.72. Annex III Template F 08.01 can be found here.

2.73. Annex III Template F 08.02 can be found here.

2.74. Annex III Template F 09.01.1 can be found here.

2.75. Annex III Template F 09.02 can be found here.

2.76. Annex III Template F 10.00 can be found here.

2.77. Annex III Template F 11.01 can be found here.

2.78. Annex III Template F 11.03 can be found here.

2.79. Annex III Template F 11.04 can be found here.

2.80. Annex III Template F 12.01 can be found here.

2.81. Annex III Template F 12.02 can be found here.

2.82. Annex III Template F 13.01 can be found here.

2.83. Annex III Template F 13.02.1 can be found here.

2.84. Annex III Template F 13.03.1 can be found here.

2.85. Annex III Template F 14.00 can be found here.

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2.87. Annex III Template F 16.01 can be found here.

2.88. Annex III Template F 16.02 can be found here.

2.89. Annex III Template F 16.03 can be found here.

2.90. Annex III Template F 16.04 can be found here.

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2.92. Annex III Template F 16.05 can be found here.

2.93. Annex III Template F 16.06 can be found here.

2.94. Annex III Template F 16.07 can be found here.

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2.96. Annex III Template F 17.01 can be found here.

2.97. Annex III Template F 17.02 can be found here.

2.98. Annex III Template F 17.03 can be found here.

2.99. Annex III Template F 18.00 can be found here.

2.100. Annex III Template F 18.01 can be found here.

2.101. Annex III Template F 18.02 can be found here.

ANNEX III PART 2

2.102. Annex III Template F 19.00 can be found here.

2.103. Annex III Template F 20.01 can be found here.

2.104. Annex III Template F 20.02 can be found here.

2.105. Annex III Template F 20.03 can be found here.

2.106. Annex III Template F 20.04 can be found here.

2.107. Annex III Template F 20.05 can be found here.

2.108. Annex III Template F 20.06 can be found here.

2.109. Annex III Template F 20.07.1 can be found here.

2.110. Annex III Template F 21.00 can be found here.

2.111. Annex III Template F 22.01 can be found here.

2.112. Annex III Template F 22.02 can be found here.

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2.116. Annex III Template F 23.04 can be found here.

2.117. Annex III Template F 23.05 can be found here.

2.118. Annex III Template F 23.06 can be found here.

2.119. Annex III Template F 24.01 can be found here.

2.120. Annex III Template F 24.02 can be found here.

2.121. Annex III Template F 24.03 can be found here.

2.122. Annex III Template F 25.01 can be found here.

2.123. Annex III Template F 25.02 can be found here.

2.124. Annex III Template F 25.03 can be found here.

2.125. Annex III Template F 26.00 can be found here.

ANNEX III PART 3

2.126. Annex III Template F 30.01 can be found here.

2.127. Annex III Template F 30.02 can be found here.

2.128. Annex III Template F 31.01 can be found here.

2.129. Annex III Template F 31.02 can be found here.

ANNEX III PART 4

2.130. Annex III Template F 40.01 can be found here.

2.131. Annex III Template F 40.02 can be found here.

2.132. Annex III Template F 41.01 can be found here.

2.133. Annex III Template F 41.02 can be found here.

2.134. Annex III Template F 42.00 can be found here.

2.135. Annex III Template F 43.00 can be found here.

2.136. Annex III Template F 44.01 can be found here.

2.137. Annex III Template F 44.02 can be found here.

2.138. Annex III Template F 44.03 can be found here.

2.139. Annex III Template F 44.04 can be found here.

2.140. Annex III Template F 45.01 can be found here.

2.141. Annex III Template F 45.02 can be found here.

2.142. Annex III Template F 45.03 can be found here.

2.143. Annex III Template F 46.00 can be found here.

2.144. Annex III Template F 47.00 can be found here.

ANNEX IV PART 1

2.145. Annex IV Template F 01.01 can be found here.

2.146. Annex IV Template F 01.02 can be found here.

2.147. Annex IV Template F 01.03 can be found here.

2.148. Annex IV Template F 02.00 can be found here.

2.149. Annex IV Template F 03.00 can be found here.

2.150. Annex IV Template F 04.01 can be found here.

2.151. Annex IV Template F 04.02.1 can be found here.

2.152. Annex IV Template F 04.02.2 can be found here.

2.153. Annex IV Template F 04.03.1 can be found here.

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2.172. Annex IV Template F 11.02 can be found here.

2.173. Annex IV Template F 11.03 can be found here.

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2.175. Annex IV Template F 11.04 can be found here.

2.176. Annex IV Template F 12.00 can be found here.

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2.178. Annex IV Template F 12.02 can be found here.

2.179. Annex IV Template F 13.01 can be found here.

2.180. Annex IV Template F 13.02.1 can be found here.

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2.184. Annex IV Template F 16.01 can be found here.

2.185. Annex IV Template F 16.02 can be found here.

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2.193. Annex IV Template F 17.01 can be found here.

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2.197. Annex IV Template F 18.01 can be found here.

2.198. Annex IV Template F 18.02 can be found here.

2.199. Annex IV Template F 19.00 can be found here.

ANNEX IV PART 2

2.200. Annex IV Template F 20.01 can be found here.

2.201. Annex IV Template F 20.02 can be found here.

2.202. Annex IV Template F 20.03 can be found here.

2.203. Annex IV Template F 20.04 can be found here.

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2.205. Annex IV Template F 20.06 can be found here.

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2.211. Annex IV Template F 23.02 can be found here.

2.212. Annex IV Template F 23.03 can be found here.

2.213. Annex IV Template F 23.04 can be found here.

2.214. Annex IV Template F 23.05 can be found here.

2.215. Annex IV Template F 23.06 can be found here.

2.216. Annex IV Template F 24.01 can be found here.

2.217. Annex IV Template F 24.02 can be found here.

2.218. Annex IV Template F 24.03 can be found here.

2.219. Annex IV Template F 25.01 can be found here.

2.220. Annex IV Template F 25.02 can be found here.

2.221. Annex IV Template F 25.03 can be found here.

2.222. Annex IV Template F 26.00 can be found here.

ANNEX IV PART 3

2.223. Annex IV Template F 30.01 can be found here.

2.224. Annex IV Template F 30.02 can be found here.

2.225. Annex IV Template F 31.01 can be found here.

2.226. Annex IV Template F 31.02 can be found here.

ANNEX IV PART 4

2.227. Annex IV Template F 40.01 can be found here.

2.228. Annex IV Template F 40.02 can be found here.

2.229. Annex IV Template F 41.01 can be found here.

2.230. Annex IV Template F 41.02 can be found here.

2.231. Annex IV Template F 42.00 can be found here.

2.232. Annex IV Template F 43.00 can be found here.

2.233. Annex IV Template F 44.01 can be found here.

2.234. Annex IV Template F 44.02 can be found here.

2.235. Annex IV Template F 44.03 can be found here.

2.236. Annex IV Template F 44.04 can be found here.

2.237. Annex IV Template F 45.01 can be found here.

2.238. Annex IV Template F 45.02 can be found here.

2.239. Annex IV Template F 45.03 can be found here.

2.240. Annex IV Template F 46.00 can be found here.

2.241. Annex IV Template F 47.00 can be found here.

ANNEX V

2.242. Annex V can be found here.

ANNEX VI

2.243. Annex VI Template C 15.00 can be found here.

ANNEX VII

2.244. Annex VII can be found here.

ANNEX VIII

2.245. Annex VIII Template C 26.00 can be found here.

2.246. Annex VIII Template C 27.00 can be found here.

2.247. Annex VIII Template C 28.00 can be found here.

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ANNEX IX

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ANNEX XII

2.258. Annex XII Template C 80.00 can be found here.

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2.260. Annex XII Template C 82.00 can be found here.

2.261. Annex XII Template C 83.00 can be found here.

2.262. Annex XII Template C 84.00 can be found here.

ANNEX XIII

2.263. Annex XIII can be found here.

ANNEX XIV

2.264. Annex XIV can be found here.

ANNEX XV

2.265. Annex XV can be found here.

ANNEX XVI PART A

2.266. Annex XVI Template F 32.01 can be found here.

2.267. Annex XVI Template F 32.02 can be found here.

2.268. Annex XVI Template F 32.03 can be found here.

2.269. Annex XVI Template F 32.04 can be found here.

ANNEX XVI PART B

2.270. Annex XVI Template F 33.00 can be found here.

ANNEX XVI PART C

2.271. Annex XVI Template F 34.00 can be found here.

ANNEX XVI PART D

2.272. Annex XVI Template F 35.00 can be found here .

ANNEX XVI PART E

2.273. Annex XVI Template F 36.01 can be found here.

2.274. Annex XVI Template F 36.02 can be found here.

ANNEX XVII

2.275. Annex XVII can be found here.

ANNEX XVIII

2.276. Annex XVIII Template C 67.00 can be found here.

2.277. Annex XVIII Template C 68.00 can be found here.

2.278. Annex XVIII Template C 69.00 can be found here.

2.279. Annex XVIII Template C 70.00 can be found here.

ANNEX XIX

2.280. Annex XIX can be found here.

ANNEX XX

2.281. Annex XX Template C 71.00 can be found here.

ANNEX XXI

2.282. Annex XXI can be found here.

ANNEX XXIV

2.283. Annex XXIV Template C 72.00 can be found here.

2.284. Annex XXIV Template C 73.00 can be found here.

2.285. Annex XXIV Template C 74.00 can be found here.

2.286. Annex XXIV Template C 75.01 can be found here.

2.287. Annex XXIV Template C 76.00 can be found here.

2.288. Annex XXIV Template C 77.00 can be found here.

ANNEX XXV

2.289. Annex XXV can be found here.

ANNEX XXVI

2.290. Annex XXVI Template G 01.00 can be found here.

ANNEX XXVII

2.291. Annex XXVII can be found here.

ANNEX K

Disclosure (CRR) Part

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

Part

DISCLOSURE (CRR)

Content

1. APPLICATION
2. LEVEL OF APPLICATION
3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS
4. DISCLOSURE (PART EIGHT CRR)

Article 431	DISCLOSURE REQUIREMENTS AND POLICIES
Article 432	NON-MATERIAL, PROPRIETARY OR CONFIDENTIAL INFORMATION
Article 433	FREQUENCY AND SCOPE OF DISCLOSURES
Article 433a	DISCLOSURES BY LARGE INSTITUTIONS
Article 433b	DISCLOSURES BY SMALL AND NON-COMPLEX INSTITUTIONS
Article 433c	DISCLOSURES BY OTHER INSTITUTIONS
Article 434	MEANS OF DISCLOSURES
Article 434a	UNIFORM DISCLOSURE FORMATS
Article 434b	TIMING AND MEANS OF DISCLOSURES UNDER ARTICLE 441
Article 435	DISCLOSURE OF RISK MANAGEMENT OBJECTIVES AND POLICIES
Article 436	DISCLOSURE OF THE SCOPE OF APPLICATION
Article 437	DISCLOSURE OF OWN FUNDS
Article 437a	DISCLOSURE OF OWN FUNDS AND ELIGIBLE LIABILITIES
Article 438	DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK- WEIGHTED EXPOSURE AMOUNTS
Article 439	DISCLOSURE OF EXPOSURES TO COUNTERPARTY CREDIT RISK
Article 440	DISCLOSURE OF COUNTERCYCLICAL CAPITAL BUFFERS
Article 441	DISCLOSURE OF INDICATORS OF GLOBAL SYSTEMIC IMPORTANCE
Article 442	DISCLOSURE OF EXPOSURES TO CREDIT RISK AND DILUTION RISK

Article 443 DISCLOSURE OF ENCUMBERED AND UNENCUMBERED ASSETS

Article 444 DISCLOSURE OF THE USE OF THE STANDARDISED APPROACH

Article 445 DISCLOSURE OF EXPOSURE TO MARKET RISK

Article 446 DISCLOSURE OF OPERATIONAL RISK MANAGEMENT

Article 447 DISCLOSURE OF KEY METRICS

Article 448 DISCLOSURE OF EXPOSURES TO INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK

Article 449 DISCLOSURE OF EXPOSURE TO SECURITISATION POSITIONS

Article 450 DISCLOSURE OF REMUNERATION POLICY

Article 451 DISCLOSURE OF THE LEVERAGE RATIO

Article 451a DISCLOSURE OF LIQUIDITY REQUIREMENTS

Article 452 DISCLOSURE OF THE USE OF THE IRB APPROACH TO CREDIT RISK

Article 453 DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

Article 454 DISCLOSURE OF THE USE OF THE ADVANCED MEASUREMENT APPROACHES TO OPERATIONAL RISK

Article 455 USE OF INTERNAL MARKET RISK MODELS

5. DISCLOSURE FORMATS AND INSTRUCTIONS

Article 1 SUBJECT MATTER AND SCOPE

Article 2 DISCLOSURE OF KEY METRICS AND OVERVIEW OF RISK-WEIGHTED EXPOSURE AMOUNTS

Article 3 DISCLOSURE OF RISK MANAGEMENT OBJECTIVES AND POLICIES

Article 4 DISCLOSURE OF THE SCOPE OF APPLICATION

Article 5 DISCLOSURE OF OWN FUNDS

Article 6 DISCLOSURE OF COUNTERCYCLICAL CAPITAL BUFFERS

Article 7 DISCLOSURE OF THE LEVERAGE RATIO

Article 8 DISCLOSURE OF LIQUIDITY REQUIREMENTS

Article 9 DISCLOSURE OF EXPOSURES TO CREDIT RISK, DILUTION RISK AND CREDIT QUALITY

Article 10 DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

Article 11 DISCLOSURE OF THE USE OF THE STANDARDISED APPROACH

Article 12 DISCLOSURE OF THE USE OF THE IRB APPROACH TO CREDIT RISK

Article 13	**DISCLOSURE OF SPECIALISED LENDING AND EQUITY EXPOSURES UNDER THE SIMPLE RISK WEIGHT APPROACH**
Article 14	**DISCLOSURE OF EXPOSURES TO COUNTERPARTY CREDIT RISK**
Article 15	**DISCLOSURE OF EXPOSURES TO SECURITISATION POSITIONS**
Article 16	**DISCLOSURE OF USE OF STANDARDISED APPROACH AND INTERNAL MODEL FOR MARKET RISK**
Article 17	**DISCLOSURE OF OPERATIONAL RISK**
Article 17a	**DISCLOSURE OF EXPOSURES TO INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK**
Article 18	**DISCLOSURE OF REMUNERATION POLICY**
Article 19	**DISCLOSURE OF ENCUMBERED AND UNENCUMBERED ASSETS**
Article 20	**GENERAL PROVISIONS**

6. PILLAR 3 TEMPLATES AND INSTRUCTIONS

ANNEX I

ANNEX II

ANNEX III

ANNEX IV

ANNEX V

ANNEX VI

ANNEX VII

ANNEX VIII

ANNEX IX

ANNEX X

ANNEX XIII

ANNEX XIV

ANNEX XV

ANNEX XVI

ANNEX XVII

ANNEX XVIII

ANNEX XIX

ANNEX XX

ANNEX XXI

ANNEX XXII

ANNEX XXIII

ANNEX XXIV

ANNEX XXV

ANNEX XXVI

ANNEX XXVII

ANNEX XXVIII

ANNEX XXIX

ANNEX XXX

ANNEX XXXI

ANNEX XXXII

ANNEX XXXIII

ANNEX XXXIV

ANNEX XXXV

ANNEX XXXVI

ANNEX XXXVII

ANNEX XXXVIII

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

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 *CRR* shall comply with this Part on an 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* shall comply with Article 437a 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 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, 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]

[Note: Provisions relating to the leverage ratio not included]

Application of requirements on a consolidated basis

2.4 A UK parent institution shall comply with this Part on 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 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 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).

[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*.

[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 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]

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 the *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 the *CRR* that applies to this Part]

4 DISCLOSURE (PART EIGHT CRR)

TITLE I GENERAL PRINCIPLES

Article 431 DISCLOSURE REQUIREMENTS AND POLICIES

1. Institutions shall publicly disclose the information referred to in Titles II and III in accordance with the provisions laid down in this Title, subject to the exceptions referred to in Article 432.

2. Institutions that have been granted permission by the competent authorities under Part Three for the instruments and methodologies referred to in Title III of this Part shall publicly disclose the information laid down therein.

3. The management body or senior management shall adopt formal policies to comply with the disclosure requirements laid down in this Part and put in place and maintain internal processes, systems and controls to verify that the institution's disclosures are appropriate and in compliance with the requirements laid down in this Part. At least one member of the management body or senior management shall attest in writing that the relevant institution has made the disclosures required under this Part in accordance with the formal policies and internal processes, systems and controls. The written attestation and the key elements of the institution's formal policies to comply with the disclosure requirements shall be included in the institutions' disclosures.

   Information to be disclosed in accordance with this Part shall be subject to the same level of internal verification as that applicable to the management report included in the institution's financial report.

   Institutions shall also have policies in place to verify that their disclosures convey their risk profile comprehensively to market participants. Where institutions find that the disclosures required under this Part do not convey the risk profile comprehensively to market participants, they shall publicly disclose information in addition to the information required to be disclosed under this Part. Nonetheless, institutions shall only be required to disclose information that is material and not proprietary or confidential in accordance with Article 432.

4. All quantitative disclosures shall be accompanied by a qualitative narrative and any other supplementary information that may be necessary in order for the users of that information to understand the quantitative disclosures, noting in particular any significant change in any given disclosure compared to the information contained in the previous disclosures.

5. Institutions shall, if requested, explain their rating decisions to 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.

[Note: This rule corresponds to Article 431 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 432 NON-MATERIAL, PROPRIETARY OR CONFIDENTIAL INFORMATION

1. With the exception of the disclosures laid down in point (c) of Article 435(2) and in Articles 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 Articles 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.

3. In the exceptional cases referred to in paragraph 2, the institution concerned shall state in its disclosures the fact that the specific items of information are not disclosed and the reason for not disclosing those items, and publish more general information about the subject matter of the disclosure requirement, except where that subject matter is, in itself, proprietary or confidential.

[Note: This rule corresponds to Article 432 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 433 FREQUENCY AND SCOPE OF DISCLOSURES

Institutions shall publish the disclosures required under Titles II and III in the manner set out in Articles 433a, 433b and 433c.

Annual disclosures shall be published on the same date as the date on which institutions publish their financial statements or as soon as possible thereafter.

Semi-annual and quarterly disclosures shall be published on the same date as the date on which the institutions publish their financial reports for the corresponding period where applicable or as soon as possible thereafter.

Any delay between the date of publication of the disclosures required under this Part and the relevant financial statements shall be reasonable.

[Note: This rule corresponds to Article 433 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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:

      (i) point (a) of Article 437;

      (ii) point (e) of Article 438;

      (iii) points (e) to (l) of Article 439;

      (iv) Article 440;

(v) points (c), (e), (f) and (g) of Article 442;

(vi) point (e) of Article 444;

(vii) Article 445;

(viii) point (a) and (b) of Article 448(1);

(ix) point (j) to (l) of Article 449;

(x) [Note: Provisions relating to the leverage ratio not included];

(xi) Article 451a(3);

(xii) point (g) of Article 452;

(xiii) points (f) to (j) of Article 453;

(xiv) points (d), (e) and (g) of Article 455;

(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 Article 447;

(iii) Article 451a(2).

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:

(a) all the information required under this Part on an annual basis;

(b) the key metrics referred to in Article 447 on a semi-annual basis.

3. Large institutions that are subject to Article 92a or 92b shall disclose the information required under Article 437a on a semi-annual basis, except for 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*]

Article 433b DISCLOSURES BY SMALL AND NON-COMPLEX INSTITUTIONS

1. Small and non-complex institutions shall disclose the information outlined below with the following frequency:

(a) on an annual basis the information referred to in:

(i) points (a), (e) and (f) of Article 435(1);

(ii) point (d) of Article 438;

(iii) points (a) to (d), (h), and (i) of Article 450(1);

(b) on a semi-annual basis the key metrics referred to in Article 447.

2. By way of derogation from paragraph 1 of this Article, small and non-complex institutions that are non-listed institutions shall disclose the key metrics referred to in Article 447 on an annual basis.

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:

   (a) all the information required under this Part on an annual basis;

   (b) the key metrics referred to in Article 447 on a semi-annual 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 (f) of Article 435(1);

   (b) points (a), (b) and (c) of Article 435(2);

   (c) point (a) of Article 437;

   (d) points (c) and (d) of Article 438;

   (e) the key metrics referred to in Article 447;

   (f) points (a) to (d), (h) to (k) of Article 450(1).

Article 434 MEANS OF DISCLOSURES

1. Institutions shall disclose all the information required under Titles II and III in electronic format and in a single medium or location. The single medium or location shall be a standalone document that provides a readily accessible source of prudential information for users of that information or a distinctive section included in or appended to the institutions' financial statements or financial reports containing the required disclosures and being easily identifiable to those users.

2. Institutions shall make available on their website or, in the absence of a website, in any other appropriate location an archive of the information required to be disclosed in accordance with this Part. That archive shall be kept accessible for a period of time that shall be no less than the storage period set by national law for information included in the institutions' financial reports.

[Note: This rule corresponds to Article 434 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 434a UNIFORM DISCLOSURE FORMATS

[Note: Provision left blank]

Article 434b TIMING AND MEANS OF DISCLOSURES UNDER ARTICLE 441

1. By way of derogation from the second paragraph of Article 433, G-SIIs shall disclose the information required under Article 441 within four 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 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 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.

TITLE II TECHNICAL CRITERIA ON TRANSPARENCY AND DISCLOSURE

Article 435 DISCLOSURE OF RISK MANAGEMENT OBJECTIVES AND POLICIES

1. Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to in this Title. These disclosures shall include:
   (a) the strategies and processes to manage those categories of risks;
   (b) the structure and organisation of the relevant risk management function including information on the basis of its authority, its powers and accountability in accordance with the institution's incorporation and governing documents;
   (c) the scope and nature of risk reporting and measurement systems;
   (d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;
   (e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;
   (f) a concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy; that statement shall include:
      (i) key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body;
      (ii) information on intragroup transactions and transactions with related parties that may have a material impact of the risk profile of the consolidated group.
2. Institutions shall disclose the following information regarding governance arrangements:

(a) the number of directorships held by members of the management body;

(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;

(c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved;

(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;

(e) the description of the information flow on risk to the management body.

[Note: This rule corresponds to Article 435 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 436 DISCLOSURE OF THE SCOPE OF APPLICATION

Institutions shall disclose the following information regarding the scope of application of the *CRR* as follows:

(a) the name of the institution to which the *CRR* applies;

(b) a reconciliation between the consolidated financial statements prepared in accordance with the applicable accounting framework and the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One; that reconciliation shall outline the differences between the accounting and regulatory scopes of consolidation and the legal entities included within the regulatory scope of consolidation where it differs from the accounting scope of consolidation; the outline of the legal entities included within the regulatory scope of consolidation shall describe the method of regulatory consolidation where it is different from the accounting consolidation method, whether those entities are fully or proportionally consolidated and whether the holdings in those legal entities are deducted from own funds;

(c) a breakdown of assets and liabilities of the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One, broken down by type of risks as referred to under this Part;

(d) a reconciliation identifying the main sources of differences between the carrying value amounts in the financial statements under the regulatory scope of consolidation as defined in Sections 2 and 3 of Title II of Part One, and the exposure amount used for regulatory purposes; that reconciliation shall be supplemented by qualitative information on those main sources of differences;

(e) for exposures from the trading book and the non-trading book that are adjusted in accordance with Article 34 and Article 105, a breakdown of the amounts of the constituent

elements of an institution's prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and non-trading book positions;

(f) any current or expected material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between the parent undertaking and its subsidiaries;

(g) the aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation, and the name or names of those subsidiaries;

(h) where applicable, the circumstances under which use is made of the derogation referred to in Article 7 or the individual consolidation method laid down in Article 9.

[Note: This rule corresponds to Article 436 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 437 DISCLOSURE OF OWN FUNDS

Institutions shall disclose the following information regarding their own funds:

(a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied to own funds of the institution pursuant to Articles 32 to 36, 56, 66 and 79 with the balance sheet in the audited financial statements of the institution;

(b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;

(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;

(d) a separate disclosure of the nature and amounts of the following:

(i) each prudential filter applied pursuant to Articles 32 to 35;

(ii) items deducted pursuant to Articles 36, 56 and 66;

(iii) items not deducted pursuant to Articles 47, 48, 56, 66 and 79;

(e) a description of all restrictions applied to the calculation of own funds in accordance with the *CRR* and the instruments, prudential filters and deductions to which those restrictions apply;

(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*.

[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 subject to Article 92a or 92b shall disclose the following information regarding their own funds and eligible liabilities:

(a) the composition of their own funds and eligible liabilities, their maturity and their main features;

(b) the ranking of 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);

(d) the total amount of excluded liabilities referred to in Article 72a(2).

[Note: This rule corresponds to Article 437a of the *CRR* as it applied immediately before revocation by the *Treasury*]

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 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;

(c) the result of the institution's internal capital adequacy assessment process;

(d) the total risk-weighted exposure amount and the corresponding total own funds requirement determined in accordance with Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds;

(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);

(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, sub-consolidated and consolidated basis;

(g) the supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate calculated in accordance with the provisions implementing Article 6 of Directive 2002/87/EC and Annex I to that Directive where method 1 or 2 set out in that Annex is applied;

(h) the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations.

[Note: This rule corresponds to Article 438 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 439 DISCLOSURE OF EXPOSURES TO COUNTERPARTY CREDIT RISK

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:

(a) a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties;

(b) a description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves;

(c) a description of policies with respect to General Wrong-Way risk and Specific Wrong-Way risk as defined in Article 291;

(d) the amount of collateral the institution would have to provide if its credit rating were downgraded;

(e) for derivative transactions, the amount of segregated and unsegregated collateral received and posted per type of collateral; and for securities financing transactions, the total amount of collateral received and posted per type of collateral; provided in each case that:

  (i) institutions shall not disclose such amounts unless both the fair value of collateral posted in the form of debt securities and the fair value of collateral received in that form exceed GBP 125 billion; and

  (ii) for the purposes of subparagraph (i), institutions shall use the twelve month rolling arithmetic mean of the fair value of collateral received or posted (as the case may be) in the form of debt securities, determined using quarterly data calculated in a manner consistent with data reported under Article 430(g) and covering the twelve months immediately preceding the disclosure reference date;

(f) for derivative transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Sections 3 to 6 of Chapter 6 of Title II of Part Three, whichever method is applicable, and the associated risk exposure amounts broken down by applicable method;

(g) for securities financing transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Chapters 4 and 6 of Title II of Part Three, whichever method is used, and the associated risk exposure amounts broken down by applicable method;

(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;

(i) the exposure value to central counterparties and the associated risk exposures within the scope of Section 9 of Chapter 6 of Title II of Part Three, separately for qualifying and non-qualifying central counterparties, and broken down by types of exposures;

(j) the notional amounts and fair value of credit derivative transactions; credit derivative transactions shall be broken down by product type; within each product type, credit derivative transactions shall be broken down further by credit protection bought and credit protection sold;

(k) the estimate of alpha where the institution has received the permission of the competent authorities to use its own estimate of alpha in accordance with Article 284(9);

(m) for institutions using the methods set out in Sections 4 to 5 of Chapter 6 of Title II Part Three, the size of their on- and off-balance-sheet derivative business as calculated in accordance with Article 273a(1) or (2), as applicable.

[Note: This rule corresponds to Article 439 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 440 DISCLOSURE OF COUNTERCYCLICAL CAPITAL BUFFERS

Institutions shall disclose the following information in relation to their compliance with the requirement for a countercyclical capital buffer referred to in regulation 2 of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014:

(a) the geographical distribution of the exposure amounts and risk-weighted exposure amounts of its credit exposures used as a basis for the calculation of their countercyclical capital buffer;

(b) the amount of their institution-specific countercyclical capital buffer.

[Note: This rule corresponds to Article 440 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 441 DISCLOSURE OF INDICATORS OF GLOBAL SYSTEMIC IMPORTANCE

G-SIIs shall disclose, on an annual basis, the values of the indicators used for determining their score in accordance with the identification methodology referred to in regulation 23 of Part 4 of Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014.

[Note: This rule corresponds to Article 441 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 442 DISCLOSURE OF EXPOSURES TO CREDIT RISK AND DILUTION RISK

Institutions shall disclose the following information regarding their exposure to credit risk and dilution risk:

(a) the scope and definitions that they use for accounting purposes of ‘past due’ and ‘impaired’ and the differences, if any, between the definitions of ‘past due’ and ‘default’ for accounting and regulatory purposes;

(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;

(c) information on the amount and quality of performing, non-performing and forborne exposures for loans, debt securities and off-balance-sheet exposures, including their related accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received;

(d) an ageing analysis of accounting past due exposures;

(e) the gross carrying amounts of both defaulted and non-defaulted exposures, the accumulated specific and general credit risk adjustments, the accumulated write-offs taken against those exposures and the net carrying amounts and their distribution by geographical area and industry type and for loans, debt securities and off-balance-sheet exposures;

(f) any changes in the gross amount of defaulted on- and off-balance-sheet exposures, including, as a minimum, information on the opening and closing balances of those exposures, the gross amount of any of those exposures reverted to non-defaulted status or subject to a write-off;

(g) the breakdown of loans and debt securities by residual maturity.

[Note: This rule corresponds to Article 442 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 443 DISCLOSURE OF ENCUMBERED AND UNENCUMBERED ASSETS

Institutions shall disclose information concerning their encumbered and unencumbered assets. For those purposes, institutions shall use the carrying amount per exposure class broken down by asset

quality and the total amount of the carrying amount that is encumbered and unencumbered. Disclosure of information on encumbered and unencumbered assets shall not reveal emergency liquidity assistance provided by central banks.

[Note: This rule corresponds to Article 443 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 444 DISCLOSURE OF THE USE OF THE STANDARDISED APPROACH

Institutions calculating their risk-weighted exposure amounts in accordance with Chapter 2 of Title II of Part Three shall disclose the following information for each of the exposure classes set out in Article 112:

(a) the names of the nominated ECAIs and export credit agencies and the reasons for any changes in those nominations over the disclosure period;

(b) the exposure classes for which each ECAI or export credit agency is used;

(c) a description of the process used to transfer the issuer and issue credit ratings onto items not included in the trading book;

(d) the association of the external rating of each nominated ECAI or export credit agency with the risk weights that correspond to the credit quality steps as set out in Chapter 2 of Title II of Part Three taking into account that it is not necessary to disclose that information where the institutions comply with the standard association published by the competent authority;

(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step as set out in Chapter 2 of Title II of Part Three, by exposure class, as well as those deducted from own funds.

[Note: This rule corresponds to Article 444 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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*]

Article 446 DISCLOSURE OF OPERATIONAL RISK MANAGEMENT

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;

(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;

(c) in the case of partial use, the scope and coverage of the different methodologies used.

[Note: This rule corresponds to Article 446 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 447 DISCLOSURE OF KEY METRICS

Institutions shall disclose the following key metrics in a tabular format:

(a) the composition of their own funds and their own funds requirements as calculated in accordance with Article 92;

(b) the total risk exposure amount as calculated in accordance with Article 92(3);

(c) where applicable, the amount and composition of additional own funds which the institutions are required to hold in accordance with regulation 34(1) of the *Capital Requirements Regulations*;

(d) their combined buffer requirement which the institutions are required to hold in accordance with regulation 35 of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014;

(e) [Note: Provisions relating to the leverage ratio not included];

(f) the following information in relation to their liquidity coverage ratio as calculated in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook:

(i) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;

(ii) the average or averages, as applicable, of their total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;

(iii) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;

(g) the following information in relation to their net stable funding requirement as calculated in accordance with Title IV of Part Six:

(i) the average or averages, as applicable, of their net stable funding ratio based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the relevant disclosure period;

(ii) the average or averages, as applicable, of their available stable funding based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the relevant disclosure period;

(iii) the average or averages, as applicable, of their required stable funding based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the relevant disclosure period;

(h) their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and 92b and broken down at the level of each resolution group, where applicable.

[Note: Paragraph (h) of this rule corresponds to Article 447(h) of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 448 DISCLOSURE OF EXPOSURES TO INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK

1. Institutions shall disclose the following quantitative and qualitative information on the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of their non-trading book activities referred to in Chapter 9 of the Internal Capital Adequacy Assessment (ICAA) Part of the *PRA* Rulebook:

(a) the changes in the economic value of equity calculated under the following six supervisory shock scenarios referred to in Rule 9.7 of the ICAA Part of the *PRA* Rulebook for the current and previous disclosure periods:

(i) parallel shock up;

(ii) parallel shock down;

(iii) steepener shock (short rates down and long rates up);

(iv) flattener shock (short rates up and long rates down);

(v) short rates shock up;

(vi) short rates shock down;

(b) the changes in the net interest income calculated under the following two supervisory shock scenarios referred to in Rule 9.7 of the ICAA Part of the *PRA* Rulebook for the current and previous disclosure periods:

(i) parallel shock up;

(ii) parallel shock down;

(c) a description of key modelling and parametric assumptions used to calculate changes in the economic value of equity and in the net interest income required under points (a) and (b) of this paragraph;

(d) an explanation of the significance of the risk measures disclosed under points (a) and (b) of this paragraph and of any significant variations of those risk measures since the previous disclosure reference date;

(e) the description of how institutions define, measure, mitigate and control the interest rate risk of their non-trading book activities for the purposes of the competent authorities' review in accordance with Chapter 9 of the ICAA Part of the *PRA* Rulebook, including:

  (i) a description of the specific risk measures that the institutions use to evaluate changes in their economic value of equity and in their net interest income;

  (ii) a description of the key modelling and parametric assumptions used in the institutions' internal measurement systems for the purpose of calculating changes in the economic value of equity and in net interest income, as required under points (a) and (b) of this paragraph, if those assumptions differ from those used for the purposes of Chapter 9 of the ICAA Part of the *PRA* Rulebook or from those specified in Annex XXXVIII of Chapter 6 of this Disclosure (CRR) Part of the *PRA* Rulebook, including the rationale for those differences;

  (iii) a description of the interest rate shock scenarios that institutions use to estimate the interest rate risk;

  (iv) the recognition of the effect of hedges against those interest rate risks, including internal hedges that meet the requirements laid down in Article 106(3);

  (v) an outline of how often the evaluation of the interest rate risk occurs;

(f) the description of the overall risk management and mitigation strategies for those risks;

(g) average and longest repricing maturity assigned to non-maturing deposits.

2. By way of derogation from paragraph 1 of this Article, the requirements set out in points (c) and (e)(i) to (e)(iv) of paragraph 1 of this Article for descriptions relating to economic value of equity shall not apply to institutions that use the standardised framework referred to in Rule 9.1B of the ICAA Part of the *PRA* Rulebook.

[Note: This rule corresponds to Article 448 of the *CRR* as it applied immediately before revocation by the *Treasury*]

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 activities, including their risk management and investment objectives in connection with those activities, their role in securitisation and re-securitisation 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 activities by level of seniority of the relevant securitisation positions providing a distinction between STS and non-STS positions and:

(i) the risk retained in own-originated transactions;

(ii) the risk incurred in relation to transactions originated by third parties;

(c) their approaches for calculating the risk-weighted exposure amounts that they apply to their securitisation activities, including the types of securitisation positions to which each approach applies and with a distinction between STS and non-STS positions;

(d) a list of SSPEs falling into any of the following categories, with a description of their types of exposures to those SSPEs, including derivative contracts:

(i) SSPEs which acquire exposures originated by the institutions;

(ii) SSPEs sponsored by the institutions;

(iii) SSPEs and other legal entities for which the institutions provide securitisation-related services, such as advisory, asset servicing or management services;

(iv) SSPEs included in the institutions' regulatory scope of consolidation;

(e) a list of any legal entities in relation to which the institutions have disclosed that they have provided support in accordance with Chapter 5 of Title II of Part Three;

(f) a list of legal entities affiliated with the institutions and that invest in securitisations originated by the institutions or in securitisation positions issued by SSPEs sponsored by the institutions;

(g) a summary of their accounting policies for securitisation activity, including where relevant a distinction between securitisation and re-securitisation positions;

(h) the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;

(i) where applicable, a description of the Internal Assessment Approach as set out in Chapter 5 of Title II of Part Three, including the structure of the internal assessment process and relation between internal assessment and external ratings of the relevant ECAI disclosed in accordance with point (h), the control mechanisms for the internal assessment process

including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels;

(j) separately for the trading book and the non-trading book, the carrying amount of securitisation exposures, including information on whether institutions have transferred significant credit risk in accordance with Articles 244 and 245, for which institutions act as originator, sponsor or investor, separately for traditional and synthetic securitisations, and for STS and non-STS transactions and broken down by type of securitisation exposures;

(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 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 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;

(l) for exposures securitised by the institution, the amount of exposures in default and the amount of the specific credit risk adjustments made by the institution during the current period, both broken down by exposure type.

[Note: This rule corresponds to Article 449 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 450 DISCLOSURE OF REMUNERATION POLICY

1. Institutions shall disclose the following information regarding their *remuneration* policy and practices for those categories of staff whose professional activities have a material impact on risk profile of the institutions:

(a) information concerning the decision-making process used for determining the *remuneration* policy, as well as the number of meetings held by the main body overseeing *remuneration* during the financial year, including, where applicable, information about the composition and the mandate of a *remuneration* committee, the external consultant whose

services have been used for the determination of the *remuneration* policy and the role of the relevant stakeholders;

(b) information about the link between pay of the staff and their performance;

(c) the most important design characteristics of the *remuneration* system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;

(d) the ratios between fixed and variable *remuneration* set in accordance with rules 15.9 to 15.13 of the Remuneration Part of the *PRA* Rulebook;

(e) information on the performance criteria on which the entitlement to shares, options or variable components of *remuneration* is based;

(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits;

(g) aggregate quantitative information on *remuneration*, broken down by business area;

(h) aggregate quantitative information on *remuneration*, broken down by senior management and members of staff whose professional activities have a material impact on the risk profile of the institutions, indicating the following:

    (i) the amounts of *remuneration* for the financial year, split into fixed *remuneration* including a description of the fixed components, and variable *remuneration*, and the number of beneficiaries;

    (ii) the amounts and forms of awarded variable *remuneration*, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and the deferred part;

    (iii) the amounts of deferred *remuneration* awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years;

    (iv) the amount of deferred *remuneration* due to vest in the financial year, and the number of beneficiaries of those awards;

    (v) the guaranteed variable *remuneration* awards during the financial year, and the number of beneficiaries of those awards;

    (vi) severance payments awarded in previous periods, that have been paid out during the financial year;

    (vii) the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payment that has been awarded to a single person;

(i) the number of individuals that have been remunerated EUR 1 million or more per financial year, with the *remuneration* between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and with the *remuneration* of EUR 5 million and above broken down into pay bands of EUR 1 million;

(j) [Note: Provision deleted]

(k) information on whether the institution benefits from a derogation laid down in the Remuneration Part of the *PRA* Rulebook at 5.3, and/or 12.2 (second subparagraph), and 15.A1(3).

For the purposes of point (k) of the first subparagraph of this paragraph, institutions that benefit from such a derogation shall indicate whether they benefit from that derogation on the basis of the Remuneration Part of the *PRA* Rulebook at 5.3, and/or 12.2 (second subparagraph), and 15.A1(3). They shall also indicate for which of the *remuneration* principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their total *remuneration*, split into fixed and variable *remuneration*.

2. For large institutions, the quantitative information on the *remuneration* of institutions' collective management body referred to in this Article shall also be made available to the public, differentiating between executive and non-executive members.

Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the GDPR.

[Note: This rule corresponds to Article 450 of the *CRR* as it applied immediately before revocation by the *Treasury*]

Article 451 DISCLOSURE OF THE LEVERAGE RATIO

[Note: Provisions relating to the leverage ratio not included]

Article 451a DISCLOSURE OF LIQUIDITY REQUIREMENTS

1. Institutions that are subject to Part Six shall disclose information on their liquidity coverage ratio, net stable funding ratio and liquidity risk management in accordance with this Article.

2. Institutions shall disclose the following information in relation to their liquidity coverage ratio as calculated in accordance with the Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook:

(a) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;

(b) the average or averages, as applicable, of their total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the Chapter 2 of the Liquidity

Coverage Ratio (CRR) Part of the *PRA* Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period, and a description of the composition of that liquidity buffer;

(c) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated in accordance with the Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the *PRA* Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period and the description of their composition.

3. Institutions shall disclose the following information in relation to their net stable funding ratio as calculated in accordance with Title IV of Part Six:

(a) averages of their net stable funding ratio calculated in accordance with Chapter 2 of Title IV of Part Six for each quarter of the relevant disclosure period, based on end-of-the-quarter observations over the preceding four quarters;

(b) an overview of the amount of available stable funding calculated in accordance with Chapter 3 of Title IV of Part Six for each quarter of the relevant disclosure period, comprising averages based on end-of-the-quarter observations over the preceding four quarters;

(c) an overview of the amount of required stable funding calculated in accordance with Chapter 4 of Title IV of Part Six for each quarter of the relevant disclosure period, comprising averages based on end-of-the-quarter observations over the preceding four quarters.

4. Institutions shall disclose the arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor their liquidity risk in accordance with the Internal Liquidity Adequacy Assessment Part of the *PRA* Rulebook.

TITLE III QUALIFYING REQUIREMENTS FOR THE USE OF PARTICULAR INSTRUMENTS OR METHODOLOGIES

Article 452 DISCLOSURE OF THE USE OF THE IRB APPROACH TO CREDIT RISK

Institutions calculating the risk-weighted exposure amounts under the IRB Approach to credit risk shall disclose the following information:

(a) the competent authority's permission of the approach or approved transition;

(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 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;

(c) the control mechanisms for rating systems at the different stages of model development, controls and changes, which shall include information on:

  (i) the relationship between the risk management function and the internal audit function;

  (ii) the rating system review;

  (iii) the procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models;

  (iv) the procedure to ensure the accountability of the functions in charge of developing and reviewing the models;

(d) the role of the functions involved in the development, approval and subsequent changes of the credit risk models;

(e) the scope and main content of the reporting related to credit risk models;

(f) a description of the internal ratings process by exposure class, including the number of key models used with respect to each portfolio and a brief discussion of the main differences between the models within the same portfolio, covering:

  (i) the definitions, methods and data for estimation and validation of PD, which shall include information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods;

  (ii) where applicable, the definitions, methods and data for estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure;

  (iii) where applicable, the definitions, methods and data for estimation and validation of conversion factors, including assumptions employed in the derivation of those variables;

(g) as applicable, the following information in relation to each exposure class referred to in Article 147:

  (i) their gross on-balance-sheet exposure;

  (ii) their off-balance-sheet exposure values prior to the relevant conversion factor;

  (iii) their exposure after applying the relevant conversion factor and credit risk mitigation;

  (iv) any model, parameter or input relevant for the understanding of the risk weighting and the resulting risk exposure amounts disclosed across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk;

  (v) separately for those exposure classes in relation to which institutions have received permission to use own LGDs and conversion factors for the calculation of risk-

weighted exposure amounts, and for exposures for which the institutions do not use such estimates, the values referred to in points (i) to (iv) subject to that permission;

(h) institutions' estimates of PDs against the actual default rate for each exposure class over a longer period, with separate disclosure of the PD range, the external rating equivalent, the weighted average and arithmetic average 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.

For the purposes of point (b) of this Article, institutions shall use the exposure value as defined in Article 166.

[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

Institutions using credit risk mitigation techniques shall disclose the following information:

(a) the core features of the policies and processes for on- and off-balance-sheet netting and an indication of the extent to which institutions make use of balance sheet netting;

(b) the core features of the policies and processes for eligible collateral evaluation and management;

(c) a description of the main types of collateral taken by the institution to mitigate credit risk;

(d) for guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purpose of reducing capital requirements, excluding those used as part of synthetic securitisation structures;

(e) information about market or credit risk concentrations within the credit mitigation taken;

(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, the total exposure value not covered by any eligible credit protection and the total exposure value covered by eligible credit protection after applying volatility adjustments; the disclosure set out in this point shall be made separately for loans and debt securities and including a breakdown of defaulted exposures;

(g) the corresponding conversion factor and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect;

(h) for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the on- and off-balance-sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation;

(i) for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the risk-weighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure; the disclosure set out in this point shall be made separately for each exposure class;

(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 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

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.

[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;

(b) the scope of permission by the competent authority;

(c) a description of the extent and methodologies for compliance with the requirements set out in 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 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;

(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*]

5. DISCLOSURE FORMATS AND INSTRUCTIONS

Article 1 SUBJECT MATTER AND SCOPE

1. This Chapter 5 of the Disclosure (CRR) Part of the *PRA* Rulebook lays down uniform disclosure formats, and associated instructions in accordance with which institutions shall make the disclosures required under Titles II and III of Part Eight of the *CRR*.

2. Annexes referred to in this Chapter 5 can be found at Chapter 6 (Pillar 3 Templates and Instructions) of this Disclosure (CRR) Part of the *PRA* Rulebook.

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 UK 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 UK OV1 of Annex I and the relevant instructions set out in Annex II.

3. Institutions shall make the disclosures required in points (a) and (c) of Article 438 of the *CRR* in accordance with the Table UK OVC in Annex I and the relevant instructions set out in Annex II.

4. Institutions shall make the disclosures required in points (f) and (g) of Article 438 of the *CRR* in accordance with the Template UK INS1 and UK INS2 of Annex I and the relevant instructions set out in Annex II.

Article 3 DISCLOSURE OF RISK MANAGEMENT OBJECTIVES AND POLICIES

Institutions shall make the disclosures required in Article 435 of the *CRR* in accordance with the Tables UK OVA and UK OVB of Annex III and the relevant instructions set out in Annex IV.

Article 4 DISCLOSURE OF THE SCOPE OF APPLICATION

1. Institutions shall make the disclosures required in points (b) and (c) of Article 436 of the *CRR* in accordance with the Templates UK LI1 and UK LI3 of Annex V and the relevant instructions set out in Annex VI.

2. Institutions shall make the disclosures required in points (b) and (d) of Article 436 of the *CRR* in accordance with the Template UK LI2 and Table UK LIA of Annex V and the relevant instructions set out in Annex VI.

3. Institutions shall make the disclosures required in point (e) of Article 436 of the *CRR* in accordance with the Template UK PV1 of Annex V and the relevant instructions set out in Annex VI.

4. Institutions shall make the disclosures required in points (f), (g) and (h) of Article 436 of the *CRR* in accordance with the Table UK LIB of Annex V and the relevant instructions set out in Annex VI.

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 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 in accordance with the Template UK CCA of Annex VII and the relevant instructions set out in Annex VIII.

Article 6 DISCLOSURE OF COUNTERCYCLICAL CAPITAL BUFFERS

Institutions shall make the disclosures on the countercyclical capital buffer required in Article 440 of the *CRR* as follows:

(a) For the disclosures required in point (a) of Article 440 in accordance with the Template UK CCyB1 of Annex IX and the relevant instructions set out in Annex X.

(b) For the disclosures required in point (b) of Article 440 in accordance with the Template UK CCyB2 of Annex IX and the relevant instructions set out in Annex X.

Article 7 DISCLOSURE OF THE LEVERAGE RATIO

[Note: Provisions relating to the leverage ratio not included]

Article 8 DISCLOSURE OF LIQUIDITY REQUIREMENTS

Institutions shall make the disclosures on the liquidity requirements required in Articles 435(1) and 451a of the *CRR* as follows:

(a) For the disclosures required in Article 435 (1) and in Article 451a(4) of the *CRR*, in accordance with the Table UK LIQA of Annex XIII and the relevant instructions set out in Annex XIV.

(b) For the disclosures required in Article 451a(2) of the *CRR*, in accordance with the Template UK LIQ1 and Table UK LIQB of Annex XIII and the relevant instructions set out in Annex XIV.

(c) For the disclosures required in Article 451a(3) of the *CRR*, in accordance with the Template UK LIQ2 of Annex XIII and the relevant instructions set out in Annex XIV.

Article 9 DISCLOSURE OF EXPOSURES TO CREDIT RISK, DILUTION RISK AND CREDIT QUALITY

1. Institutions shall make the disclosures on credit risk and dilution risk required in Articles 435 and 442 of the *CRR* as follows:

(a) For the disclosures required in points (a), (b), (d), and (f) of Article 435 (1) regarding credit risk of the *CRR*, in accordance with the Table UK CRA of Annex XV and the relevant instructions set out in Annex XVI.

(b) For the disclosures required in points (a) and (b) of Article 442 of the *CRR*, in accordance with the Table UK CRB of Annex XV and the relevant instructions set out in Annex XVI.

(c) For the disclosures required in points (d) of Article 442 of the *CRR*, in accordance with the Template UK CQ3 of Annex XV and the relevant instructions set out in Annex XVI.

(d) For the disclosures required in point (g) of Article 442 of the *CRR*, in accordance with the Template UK CR1-A of Annex XV and the relevant instructions set out in Annex XVI.

(e) For the disclosures required in point (f) of Article 442 of the *CRR*, in accordance with the Template UK CR2 of Annex XV and the relevant instructions set out in Annex XVI.

2. Institutions shall make the disclosures required in points (c), (e), and (f) of Article 442 of the *CRR* in accordance with Templates UK CR1, UK CQ1 and UK CQ7, columns a, c, e, f, and g of Template UK CQ4 and columns a, c, e, and f of Template UK CQ5 set out in Annex XV and with the instructions set out in Annex XVI.

3. In addition to the templates referred to in paragraph 2 and in order to convey sufficiently comprehensive and comparable information for users of that information to assess the risk profiles of institutions, large institutions with a ratio of gross carrying amount of non-performing loans and advances divided by the total gross carrying amount of loans and advances subject to the definition of non-performing according to Article 47a of the *CRR* equal to or higher than 5% shall make the disclosure required in points (c) and (f) of Article 442 of the *CRR* also in accordance with templates UK CR2a, UK CQ2, CQ6 and UK CQ8, columns b and d of Templates UK CQ4 and UK CQ5 set out in Annex XV and with the instructions set out in Annex XVI, on an annual basis.

4. For the purpose of paragraph (3), loans and advances classified as held for sale, cash balances at central banks and other demand deposits shall be excluded both from the denominator and the numerator of the ratio.

5. Institutions shall commence disclosure in accordance with paragraph 3 where they have reached or exceeded the 5% threshold in two consecutive quarters during the four quarters prior to the reference date of the disclosure. For the reference date of the first disclosure, institutions shall disclose the templates subject to the 5% threshold if they comply with the threshold on that disclosure reference date.

6. Institutions shall stop having the obligation to disclose in accordance with paragraph 3 where they have fallen below the threshold in three consecutive quarters during the four quarters prior to the disclosure reference date.

Article 10 DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

Institutions shall make the disclosures on the use of credit risk mitigation techniques required in points (a) to (f) of Article 453 of the *CRR* as follows:

(a) For the disclosures required in points (a) to (e) of Article 453 of the *CRR*, in accordance with the Table UK CRC of Annex XVII and the relevant instructions set out in Annex XVIII.

(b) For the disclosures required in point (f) of Article 453 of the *CRR*, in accordance with the Template UK CR3 of Annex XVII and the relevant instructions set out in Annex XVIII.

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 UK CRD of Annex XIX and the relevant instructions set out in Annex XX.

(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 UK 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 UK 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 UK CRE and Template UK 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 UK 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 UK 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 UK CR10 of Annex XXIII and the relevant instructions set out in Annex XXIV.

Article 14 DISCLOSURE OF EXPOSURES TO COUNTERPARTY CREDIT RISK

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 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 of the *CRR*, in accordance with the Template UK 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.

(d) For the disclosures required in point (l) of Article 439 of the *CRR*, in accordance with the Templates UK CCR3 and UK CCR4 of Annex XXV and the relevant instructions set out in Annex XXVI.

(e) For the disclosures required in point (e) of Article 439 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 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 Article 439 of the *CRR*, in accordance with the Template UK CCR8 of Annex XXV and the relevant instructions set out in Annex XXVI.

Article 15 DISCLOSURE OF EXPOSURES TO SECURITISATION POSITIONS

Institutions shall make the disclosures on the exposures to securitisation positions required in Article 449 of the *CRR* as follows:

(a) For the disclosures required in points (a) to (i) of Article 449 of the *CRR*, in accordance with the Table UK-SECA of Annex XXVII and the relevant instructions set out in Annex XXVIII.

(b) For the disclosures required in point (j) of Article 449 of the *CRR*, in accordance with the Templates UK-SEC1 and UK-SEC2 of Annex XXVII and the relevant instructions set out in Annex XXVIII.

(c) For the disclosures required in point (k) of Article 449 of the *CRR* in accordance with the Templates UK-SEC3 and UK-SEC4 of Annex XXVII and the relevant instructions set out in Annex XXVIII.

(d) For the disclosures required in point (l) of Article 449 of the *CRR* in accordance with the Templates UK-SEC5 of Annex XXVII and the relevant instructions set out in Annex XXVIII.

Article 16 DISCLOSURE OF USE OF STANDARDISED APPROACH AND INTERNAL MODEL FOR MARKET RISK

1. Institutions shall make the disclosures required in Article 445 of the *CRR* in accordance with the Template 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, and 455 of the *CRR* as follows:

(a) For the disclosures required in points (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.

(b) For the disclosures required in points (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 Annex XXX.

(c) For the disclosures required in point (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.

(d) For the disclosures required in point (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.

(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.

(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.

Article 17 DISCLOSURE OF OPERATIONAL RISK

Institutions shall disclose the information on operational risk required in Articles 435, 438 (d), 446, and 454 of the *CRR* in accordance with the Table UK ORA and Template UK OR1 of Annex XXXI and the relevant instructions set out in Annex XXXII.

Article 17a DISCLOSURE OF EXPOSURES TO INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK

Institutions shall make the disclosures required in Article 448 of the *CRR* as follows:

(a) For the disclosures required in points (c), (d), (e), (f), and (g) of Article 448(1) of the *CRR*, in accordance with the Table UK IRRBBA of Annex XXXVII and the relevant instructions set out in Annex XXXVIII.

(b) For the disclosures required in points (a) and (b) of Article 448(1) of the *CRR*, in accordance with the Template UK IRRBB1 of Annex XXXVII and the relevant instructions set out in Annex XXXVIII.

Article 18 DISCLOSURE OF REMUNERATION POLICY

Institutions shall make the disclosures on the *remuneration* policy required in Article 450 of the *CRR* as follows:

(a) For the disclosures required in points (a) to (f), and (k) of Article 450(1) and in Article 450(2) of the *CRR*, in accordance with the Table UK REMA of Annex XXXIII and the relevant instructions set out in Annex XXXIV.

(b) For the disclosures required in points (h)(i) and (h)(ii) of Article 450(1) of the *CRR*, in accordance with the Template UK REM1 of Annex XXXIII and the relevant instructions set out in Annex XXXIV.

(c) For the disclosures required in points (h)(v), (h)(vi), and (h)(vii) of Article 450(1) of the *CRR*, in accordance with the Template UK REM2 of Annex XXXIII and the relevant instructions set out in Annex XXXIV.

(d) For the disclosures required in points (h)(iii) and (h)(iv) of Article 450(1) of the *CRR*, in accordance with the Template UK REM3 of Annex XXXIII and the relevant instructions set out in Annex XXXIV.

(e) For the disclosures required in points (g) and (i) of Article 450(1) of the *CRR*, in accordance with the Templates UK REM4 and UK REM5 of Annex XXXIII and the relevant instructions set out in Annex XXXIV.

Article 19 DISCLOSURE OF ENCUMBERED AND UNENCUMBERED ASSETS

Institutions shall disclose the information regarding their encumbered and unencumbered assets required in Article 443 of the *CRR* in accordance with the Templates UK AE1, UK AE2, and UK AE3, and Table UK AE4 of Annex XXXV and the relevant instructions set out in Annex XXXVI.

Article 20 GENERAL PROVISIONS

1. Where Article 432 of the *CRR* applies, the institution shall not be obliged to populate the relevant rows or columns of the templates and tables referred to in this Chapter 5 of the Disclosure (CRR) Part of the *PRA* Rulebook. In this case the numbering of subsequent rows or columns shall not be altered.

2. Institutions shall make a clear note in the relevant template or table of the rows or columns not populated and of the reason of the omission of the disclosure.

3. The qualitative narrative and any other necessary supplementary information accompanying quantitative disclosures in accordance with Article 431 of the *CRR* shall be adequately clear and comprehensive, enabling users of information to understand the quantitative disclosures and shall be placed next to the templates, which they describe.

4. Numerical values shall be presented as follows:

    (a) quantitative monetary data shall be disclosed using a minimum precision equivalent to millions of units;

    (b) quantitative data disclosed as ‘Percentage’ shall be expressed as per unit with a minimum precision equivalent to four decimals.

5. Institutions 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.

6. PILLAR 3 TEMPLATES AND INSTRUCTIONS

3.2. Annex I Template UK OV1 can be found here.

3.3. Annex I Template UK KM1 can be found here.

3.4. Annex I Template UK INS1 can be found here.

3.5. Annex I Template UK INS2 can be found here.

3.6. Annex I Table UK OVC can be found here.

3.7. Annex II can be found here.

3.8. Annex III Table UK OVA can be found here.

3.9. Annex III Table UK OVB can be found here.

3.10. Annex IV can be found here.

3.11. Annex V Template UK LI1 can be found here.

3.12. Annex V Template UK LI2 can be found here.

3.13. Annex V Template UK LI3 can be found here.

3.14. Annex V Table UK LIA can be found here.

3.15. Annex V Table UK LIB can be found here.

3.16. Annex V Template UK PV1 can be found here.

3.17. Annex VI can be found here.

3.18. Annex VII Template UK CC1 can be found here.

3.19. Annex VII Template UK CC2 can be found here.

3.20. Annex VII Template UK CCA can be found here.

3.21. Annex VIII can be found here.

3.22. Annex IX Template UK CCyB1 can be found here.

3.23. Annex IX Template UK CCyB2 can be found here.

3.24. Annex X can be found here.

3.25. [Note: Provision left blank]

3.26. [Note: Provision left blank]

3.27. Annex XIII Table UK LIQA can be found here.

3.28. Annex XIII Template UK LIQ1 can be found here.

3.29. Annex XIII Table UK LIQB can be found here.

3.30. Annex XIII Template UK LIQ2 can be found here.

3.31. Annex XIV Table UK CRA can be found here.

3.32. Annex XV Table UK CRB can be found here.

3.33. Annex XV Template UK CR1 can be found here.

3.34. Annex XV Template UK CR1-A can be found here.

3.35. Annex XV Template UK CR2 can be found here.

3.36. Annex XV Template UK CR2a can be found here.

3.37. Annex XV Template UK CQ1 can be found here.

3.38. Annex XV Template UK CQ2 can be found here.

3.39. Annex XV Template UK CQ3 can be found here.

3.40. Annex XV Template UK CQ4 can be found here.

3.41. Annex XV Template UKCQ5 can be found here.

3.42. Annex XV Template UK CQ6 can be found here.

3.43. Annex XV Template UK CQ7 can be found here.

3.44. Annex XV Template UK CQ8 can be found here.

3.45. Annex XVI can be found here.

3.46. Annex XVII Table UK CRC can be found here.

3.47. Annex XVII Template UK CR3 can be found here.

3.48. Annex XVIII can be found here.

3.49. Annex XIX Table UK CRD can be found here.

3.50. Annex XIX Template UK CR4 can be found here.

3.51. Annex XIX Template UK CR5 can be found here.

3.52. Annex XX can be found here.

3.53. Annex XXI Table UK CRE can be found here.

3.54. Annex XXI Template UK CR6 can be found here.

3.55. Annex XXI Template UK CR6-A can be found here.

3.56. Annex XXI Template UK CR7 can be found here.

3.57. Annex XXI Template UK CR7-A can be found here.

3.58. Annex XXI Template UK CR8 can be found here.

3.59. Annex XXI Template UK CR9 can be found here.

3.60. Annex XXI Template UK CR9.1 can be found here.

3.61. Annex XXII can be found here.

3.62. Annex XXIII Template UK CR10 can be found here.

3.63. Annex XXIV can be found here.

3.64. Annex XXV Table UK CCRA can be found here.

3.65. Annex XXV Template UK CCR1 can be found here.

3.66. Annex XXV Template UK CCR2 can be found here.

3.67. Annex XXV Template UK CCR3 can be found here.

3.68. Annex XXV Template UK CCR4 can be found here.

3.69. Annex XXV Template UK CCR5 can be found here.

3.70. Annex XXV Template UK CCR6 can be found here.

3.71. Annex XXV Template UK CCR7 can be found here.

3.72. Annex XXV Template UK CCR8 can be found here.

3.73. Annex XXVI can be found here.

3.74. Annex XXVII Table UK-SECA can be found here.

3.75. Annex XXVII Template UK-SEC1 can be found here.

3.76. Annex XXVII Template UK-SEC2 can be found here.

3.77. Annex XXVII Template UK-SEC3 can be found here.

3.78. Annex XXVII Template UK-SEC4 can be found here.

3.79. Annex XXVII Template UK-SEC5 can be found here.

3.80. Annex XXVIII can be found here.

3.81. Annex XXIX Table UK MRA can be found here.

3.82. Annex XXIX Template UK MR1 can be found here.

3.83. Annex XXIX Table UK MRB can be found here.

3.84. Annex XXIX Template UK MR2-A can be found here.

3.85. Annex XXIX Template UK MR2-B can be found here.

3.86. Annex XXIX Template UK MR3 can be found here.

3.87. Annex XXIX Template UK MR4 can be found here.

3.88. Annex XXX can be found here.

3.89. Annex XXXI Table UK ORA can be found here.

3.90. Annex XXXII Template UK OR1 can be found here.

3.91. Annex XXXIII Table UK REMA can be found here.

3.92. Annex XXXIII Template UK REM1 can be found here.

3.93. Annex XXXIII Template UK REM2 can be found here.

3.94. Annex XXXIII Template UK REM3 can be found here.

3.95. Annex XXXIII Template UK REM4 can be found here.

3.96. Annex XXXIII Template UK REM5 can be found here.

3.97. Annex XXXIV can be found here.

3.98. Annex XXXV Template UK AE1 can be found here.

3.99. Annex XXXV Template UK AE2 can be found here.

3.100. Annex XXXV Template UK AE3 can be found here.

3.101. Annex XXXV Table UK AE4 can be found here.

3.102. Annex XXXVI can be found here.

3.103. Annex XXXVII Template UK IRRBB1 can be found here.

3.104. Annex XXXVII Table UK IRRBBA can be found here.

3.105. Annex XXXVIII can be found here.

EXTERNALLY DEFINED TERMS

Term	Definition source
Treasury	Schedule 1, Interpretation Act 1978

PRA RULEBOOK: CRR FIRMS: LEVERAGE INSTRUMENT 2021

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);

(4) section 144H(1) and (2) (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.

Pre-conditions to making

C. In accordance with sections 144C(3) and 144E of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C (4) of the Act.

D. In accordance with section 138J(1)(a) of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.

E. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

F. The PRA had regard to representations made.

PRA RULEBOOK: CRR FIRMS: LEVERAGE INSTRUMENT 2021

G. The PRA makes the rules in the Annexes to this instrument. The PRA makes this instrument immediately after the PRA Rulebook (CRR) Instrument 2021.

Part	Annex
Glossary	A
Disclosure (CRR)	B
Internal Capital Adequacy Assessment	C
Leverage Ratio (CRR)	D
Leverage Ratio	E
Public Disclosure	F
Reporting (CRR)	G
Reporting Leverage Ratio	H
Leverage Ratio – Capital Requirements and Buffers	I

Notes

H. 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

I. Annexes A to H to this instrument come into force on 1 January 2022.

J. Annex I to this instrument comes into force on 1 January 2023.

Citation

K. This instrument may be cited as the PRA Rulebook: CRR Firms: Leverage Instrument 2021.

By order of the Prudential Regulation Committee

5 October 2021

Annex A

Amendments to the Glossary Part

In the Glossary Part of the PRA Rulebook the following new definitions are inserted.

In this Annex, new text is underlined.

…

countercyclical leverage ratio buffer

means the amount of common equity tier 1 capital as defined in Article 50 of the *CRR* 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.

…

leverage ratio

has the meaning given in Article 429(2) of Chapter 3 of the Leverage Ratio (CRR) Part.

…

LREQ basis

means, in respect of an *LREQ firm,* the basis or bases of application on which the Leverage Ratio – Capital Requirements and Buffers Part applies to that *LREQ firm*.

LREQ firm

means a *firm* or *CRR consolidation entity* to which the Leverage Ratio – Capital Requirements and Buffers Part applies in accordance with rule 1.1 of that Part.

…

tier 1 capital (leverage)

means tier 1 capital as defined in Article 25 of the *CRR* except that an additional tier 1 capital instrument can only be counted as *tier 1 capital (leverage)* if it either:

(a) converts into 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*;

(b) 'common equity tier 1 capital' has the meaning given in Article 50 of the *CRR*; and

(c) 'common equity tier 1 capital ratio' has the meaning given in Article 92(2)(a) of the *CRR.*

…

total exposure measure

has the meaning given in Article 429(4) of Chapter 3 of the Leverage Ratio (CRR) Part.

…

Annex B

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:

additional leverage disclosure requirements

means the requirements specified in:

(a) Articles 447(e)(ii), 451(2) and (3) of Chapter 4;
(b) paragraph 4a of Annex II of Chapter 6; and
(c) paragraph 4a of Annex XII of Chapter 6.

average exposure measure

means the average *total exposure measure* calculated in accordance with Articles 451(4)(a) or 451(5) of Chapter 4, as applicable.

average leverage ratio

means the average *leverage ratio* calculated in accordance with Articles 451(4)(b) of Chapter 4.

central bank claim

means the following exposures of a *firm* to a *central bank*, provided these are denominated in the national currency of such *central bank*:

(1) banknotes and coins constituting legal currency in the jurisdiction of the *central bank*;

(2) reserves held by a *firm* at the *central bank*; and

(3) any assets representing debt claims on the *central bank* with a maturity of no longer than 3 months.

standard leverage disclosure requirements

means the requirements specified in Articles 447(e)(i) and 451(1) of Chapter 4, and related requirements in Article 7 of Chapter 5 and annexes XI and XII of Chapter 6.

…

2 LEVEL OF APPLICATION

Application of requirements on an individual basis

…

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 or on a sub-consolidated basis.

…

~~[Note: Provisions relating to the leverage ratio not included]~~

…

Application of leverage disclosure requirements to *LREQ firms*

2.10 An *LREQ firm* shall comply with:

(a) the *standard leverage disclosure requirements* on the *LREQ basis* and any other basis on which this Part applies to the *LREQ firm* under rules 2.1 to 2.9;

(b) the *additional leverage disclosure requirements* on the *LREQ basis* only.

…

4 DISCLOSURE (PART EIGHT CRR)

…

Article 433a DISCLOSURES BY LARGE INSTITUTIONS

1. Large institutions shall disclose the information outlined below with the following frequency:

…

(b) on a semi-annual basis the information referred to in:

…

(x) ~~[Note: Provisions relating to the leverage ratio not included]~~points (a) and (c) of Article 451(1);

…

4. Large institutions that are *LREQ firms* shall disclose the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis.

…

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.;

(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.

…

Article 447 DISCLOSURE OF KEY METRICS

Institutions shall disclose the following key metrics in a tabular format:

…

(e) [Note: Provisions relating to the leverage ratio not included.]the following information in relation to their *leverage ratio*:

(i) for all institutions, their *leverage ratio* and *total exposure measure*;

(ii) for *LREQ firms*, the information in Article 451(1)(b) and (g) and 451(2)(b) to (d)

…

Article 451 DISCLOSURE OF THE LEVERAGE RATIO

[Note: Provisions relating to the leverage ratio not included]

1. Institutions shall disclose the following information regarding their *leverage ratio* as calculated in accordance with Article 429 of Chapter 3 of the Leverage Ratio (CRR) Part and their management of the risk of excessive leverage:

(a) the *leverage ratio*;

(b) the *leverage ratio* calculated as if *central bank claims* were required to be included in the *total exposure measure*;

(c) a breakdown of the *total exposure measure*, as well as a reconciliation of the *total exposure measure* with the relevant information disclosed in published financial statements;

(d) a description of the processes used to manage the risk of excessive leverage;

(e) a description of the factors that had an impact on the *leverage ratio* during the period to which the disclosed *leverage ratio* refers;

(f) in relation to the quarterly periods up to 31 December 2022, the *leverage ratio* calculated as if Article 468 of the *CRR* did not apply for purposes of the capital measure under Article 429(3) of Chapter 3 of the Leverage Ratio (CRR) Part;

(g) in relation to the quarterly periods up to 31 December 2024, the *leverage ratio* calculated as if Article 473a of the *CRR* did not apply for purposes of the capital measure under Article 429(3) of Chapter 3 of the Leverage Ratio (CRR) Part.

2. An *LREQ firm* must disclose each of the following:

(a) the *average exposure measure*;

(b) the *average leverage ratio*;

(c) the *average leverage ratio* calculated as if *central bank claims* were required to be included in the *total exposure measure*; and

(d) the *countercyclical leverage ratio buffer*.

3. An *LREQ firm* must disclose such information as is necessary to enable users to understand changes in the *firm's total exposure measure* and *tier 1 capital (leverage)* over the quarter that have affected the *firm's average leverage ratio*.

4. Subject to paragraph 5:

(a) for the purposes of paragraph 2(a) an *LREQ firm* must calculate its *average exposure measure* for a quarter as the sum of:

(i) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets and securities financing transactions on each day in the quarter; and

(ii) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter; and

(b) for the purposes of paragraphs 2(a) and 3, an *LREQ firm* must calculate its *average leverage ratio* for a quarter as its capital measure divided by its exposure measure where the:

(i) capital measure is the arithmetic mean of the *firm's tier 1 capital (leverage)* on the last day of each month in the quarter; and

(ii) exposure measure is the sum derived in accordance with (a), unless paragraph 5 applies in which case it shall be the sum derived in accordance with that paragraph.

5. In relation to the quarterly periods up to 1 January 2023 an *LREQ firm* must calculate its *average exposure measure* for a quarter as the sum of:

(a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter; and

(b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter.

[Note: This rule corresponds to Article 451 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

…

5. DISCLOSURE FORMATS AND INSTRUCTIONS

…

Article 7 DISCLOSURE OF THE LEVERAGE RATIO

~~[Note: Provisions relating to the leverage ratio not included]~~

Institutions shall make the disclosures on the *leverage ratio*, required in Article 451 of the *CRR* as follows:

(a) For the disclosures required in Article 451 of the *CRR*, other than those required in points (d) and (e) of Article 451(1), in accordance with the Templates UK LR1, UK LR2 and UK LR3 of Annex XI and the relevant instructions set out in Annex XII.

(b) For the disclosures required in points (d) and (e) of Article 451(1) of the *CRR*, in accordance with the Table UK LRA of Annex XI and the relevant instructions set out in Annex XII.

…

6. PILLAR 3 TEMPLATES AND INSTRUCTIONS

...

3.3. Annex I Template UK KM1 can be found ~~here~~here.

...

3.7. Annex II can be found ~~here~~here.

…

3.25. ~~[Note: Provision left blank]~~Annex XI can be found here.

3.26. ~~[Note: Provision left blank]~~Annex XII can be found here.

Annex C

Amendments to the Internal Capital Adequacy Assessment Part

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

...

11 RISK OF EXCESSIVE LEVERAGE

…

11.2 Those policies and procedures must include, as an indicator for the *risk of excessive leverage*, the ~~leverage ratio~~*leverage ratio* determined in accordance with Article 429(2) of ~~the *CRR*~~Chapter 3 of the Leverage Ratio (CRR) Part and mismatches between assets and obligations.

…

Annex D

Leverage Ratio (CRR) Part

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

Part

LEVERAGE RATIO (CRR)

Content

1. **APPLICATION AND DEFINITIONS**

2. **LEVEL OF APPLICATION**

3. **LEVERAGE RATIO (PART SEVEN CRR)**

Article 429 **CALCULATION OF THE LEVERAGE RATIO**

Article 429a **EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE**

Article 429b **CALCULATION OF THE EXPOSURE VALUE OF ASSETS**

Article 429c **CALCULATION OF THE EXPOSURE VALUE OF DERIVATIVES**

Article 429d **ADDITIONAL PROVISIONS ON THE CALCULATION OF THE EXPOSURE VALUE OF WRITTEN CREDIT DERIVATIVES**

Article 429e **COUNTERPARTY CREDIT RISK ADD-ON FOR SECURITIES FINANCING TRANSACTIONS**

Article 429f **CALCULATION OF THE EXPOSURE VALUE OF OFF-BALANCE SHEET ITEMS**

Article 429g **CALCULATION OF THE EXPOSURE VALUE OF REGULAR-WAY PURCHASES AND SALES AWAITING SETTLEMENT**

1 APPLICATION AND DEFINITIONS

1.1 This Part applies when a *CRR firm* or *CRR consolidation entity* is calculating its *leverage ratio*, or components of its *leverage ratio*.

1.2 In this Part, the following definitions shall apply:

central bank claim

means the following exposures of a *firm* to a *central bank*, provided these are denominated in the national currency of such *central bank*:

(1) banknotes and coins constituting legal currency in the jurisdiction of the *central bank*;

(2) reserves held by a *firm* at the *central bank*; and

(3) any assets representing debt claims on the *central bank* with a maturity of no longer than 3 months.

clearing member

means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.

client

means a client as defined in point (15) of Article 2 of Regulation (EU) No 648/2012 or an undertaking that has established *indirect clearing arrangements* with a *clearing member* in accordance with Article 4(3) of that Regulation.

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 immediately before *IP completion day*.

higher-level client

means an entity providing clearing services to a *lower-level client*.

indirect clearing arrangement

means an arrangement that meets the conditions set out in the second subparagraph of Article 4(3) of Regulation (EU) No 648/2012.

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.

lower-level client

means an entity accessing the services of a central counterparty through a *higher-level client*.

multi-level client structure

means an *indirect clearing arrangement* under which clearing services are provided to an institution by an entity which is not a *clearing member*, but is itself a *client* of a *clearing member* or of a *higher-level client*.

net independent collateral amount

means the sum of the volatility-adjusted value of net collateral received or posted, as applicable, to the netting set other than variation margin.

original exposure method

means the method set out in Section 5 of Chapter 3 of the Counterparty Credit Risk (CRR) Part.

simplified standardised approach for counterparty credit risk

means the method set out in Section 4 of Chapter 3 of the Counterparty Credit Risk (CRR) Part.

standardised approach for counterparty credit risk

means the method set out in Section 3 of Chapter 3 of the Counterparty Credit Risk (CRR) Part.

2 LEVEL OF APPLICATION

2.1 When applying this Part in accordance with 1.1 the *firm* or *CRR consolidation entity* shall apply it on the same basis of application as required by the *PRA* rule or other provision for the purpose of which the calculation is being performed.

3 LEVERAGE RATIO (PART SEVEN CRR)

Article 429 CALCULATION OF THE LEVERAGE RATIO

1. Institutions shall calculate their *leverage ratio* in accordance with the methodology set out in paragraphs 2, 3 and 4.

2. The *leverage ratio* shall be calculated as an institution's capital measure divided by that institution's *total exposure measure* and shall be expressed as a percentage.

3. For the purposes of paragraph 2, the capital measure shall be *tier 1 capital (leverage)*.

4. For the purposes of paragraph 2, the *total exposure measure* shall be the sum of the exposure values of:

   (a) assets, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives and the add-ons for counterparty credit risk for securities financing transactions referred to in Article 429e of this Chapter, calculated in accordance with Article 429b(1) of this Chapter;

   (b) derivative contracts listed in Annex II of the *CRR* and credit derivatives, including those contracts and credit derivatives that are off-balance-sheet, calculated in accordance with Articles 429c and 429d of this Chapter;

   (c) add-ons for counterparty credit risk of securities financing transactions, including those that are off-balance- sheet, calculated in accordance with Article 429e of this Chapter;

   (d) off-balance-sheet items, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives, securities financing transactions and positions referred to in Articles 429d and 429g of this Chapter, calculated in accordance with Article 429f of this Chapter; and

   (e) regular-way purchases or sales awaiting settlement, calculated in accordance with Article 429g of this Chapter.

   Institutions shall treat *long settlement transactions* in accordance with points (a) to (d) of the first subparagraph, as applicable.

   Institutions may reduce the exposure values referred to in points (a) and (d) of the first subparagraph by the corresponding amount of general credit risk adjustments to on- and off-balance-sheet items, respectively, subject to a floor of 0 where the credit risk adjustments have reduced the *tier 1 capital (leverage)*.

5. Point (d) of paragraph 4 applies subject to the following provisions:

   (a) an off-balance-sheet item in accordance with point (d) of paragraph 4 that is treated as a derivative in accordance with the applicable accounting framework shall be subject to the treatment set out in point (b) of that paragraph;

   (b) where a *client* of an institution acting as a *clearing member* enters directly into a derivative transaction with a central counterparty and the institution guarantees the performance of its *client's* trade exposures to the central counterparty arising from that transaction, the institution shall calculate its exposure resulting from the guarantee in accordance with point (b) of paragraph 4, as if that institution had entered directly into the transaction with the *client*, including with regard to the receipt or provision of cash variation margin.

   The treatment set out in point (b) of the first subparagraph shall also apply to an institution acting as a *higher-level client* that guarantees the performance of its client's trade exposures.

For the purposes of point (b) of the first subparagraph and of the second subparagraph of this paragraph, institutions may consider an affiliated entity as a *client* only where that entity is outside the regulatory scope of consolidation at the level at which the requirement set out in point (d) of Article 92(3) of the *CRR* is applied.

6. For the purposes of point (e) of paragraph 4 of this Article and Article 429g of this Chapter, 'regular-way purchase or sale' means a purchase or a sale of a security under contracts for which the terms require delivery of the security within the period established generally by law or convention in the marketplace concerned.

7. Unless otherwise expressly provided for in this Part, institutions shall calculate the total exposure measure in accordance with the following principles:

   (a) physical or financial collateral, guarantees or credit risk mitigation purchased shall not be used to reduce the total exposure measure;

   (b) assets shall not be netted with liabilities.

[Note: This rule corresponds to Article 429 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

Article 429a EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE

A1 By way of derogation from Article 429(4) of this Chapter, a *central bank claim* of a *firm* shall be netted off against a liability, provided that:

   (a) the *central bank claim* and liability are denominated in the same currency; and

   (b) where applicable, the date of contractual maturity of the *central bank claim* is the same as, or is before, the date of contractual maturity of the liability.

   For the purposes of point (b) of the first subparagraph, and in relation to liabilities which are not *deposits*, institutions shall take into account existing options in determining the residual maturity of the liability in a prudent manner. Institutions shall do so on the assumption that the counterparty will redeem call options at the earliest possible date. For options exercisable at the discretion of the institution, the institution shall take into account reputational factors that may limit an institution's ability not to exercise the option, in particular market expectations that institutions should redeem certain liabilities before their maturity.

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;

   (b) any items, other than liabilities, deducted in the calculation of the capital measure referred to in Article 429(3) of this Chapter;

(c) exposures that are assigned a risk weight of 0% in accordance with Article 113(6) of the *CRR* provided that the *PRA* has also given permission to the institution under this rule.

The *PRA* may grant that permission only where all the conditions set out in points (a) to (e) of Article 113(6) of the *CRR* are met and where the *PRA* has given the approval laid down in Article 113(6) of the *CRR*.

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

(d) [Note: Provision left blank]

(e) [Note: Provision left blank]

(f) [Note: Provision left blank]

(g) where the institution is a *clearing member* of a qualifying central counterparty, the trade exposures of that institution, provided that they are cleared with that qualifying central counterparty and meet the conditions set out in point (c) of Article 306(1) of Chapter 3 of the Counterparty Credit Risk (CRR) Part;

(h) where the institution is a *higher-level client* within a *multi-level client structure*, the trade exposures to the *clearing member* or to an entity that serves as a *higher-level client* to that institution, provided that the conditions set out in Article 305(2) of Chapter 3 of the Counterparty Credit Risk (CRR) Part are met and provided that the institution is not obligated to reimburse its *client* for any losses suffered in the event of default of either the *clearing member* or the qualifying central counterparty;

(i) fiduciary assets which meet all the following conditions:

  (i) they are recognised on the institution's balance sheet;

  (ii) they meet the criteria for non-recognition set out in International Financial Reporting Standard (IFRS) 9, as applied under UK-adopted international accounting standards;

  (iii) they meet the criteria for non-consolidation set out in IFRS 10, as applied under UK-adopted international accounting standards, where applicable;

(j) exposures that meet all the following conditions:

  (i) they are exposures to a public sector entity;

  (ii) they are treated in accordance with Article 116(4) of the *CRR*;

  (iii) they arise from deposits that the institution is legally obliged to transfer to the public sector entity referred to in point (i) for the purpose of funding general interest investments;

provided that the *PRA* has also granted permission under this rule.

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

(k) the excess collateral deposited at tri-party agents that has not been lent out;

(l) where under the applicable accounting framework an institution recognises the variation margin paid in cash to its counterparty as a receivable asset, the receivable asset, provided that the conditions set out in points (a) to (e) of Article 429c(3) of this Chapter are met;

(m) the securitised exposures from traditional securitisations that meet the conditions for significant risk transfer set out in Article 244(2) of the *CRR*;

(n) [Note: Provision left blank]

(o) [Note: Provision left blank]

(p) [Note: Provision left blank]

(q) loans made by the *firm* pursuant to:

(i) the Bounce Back Loan scheme announced by Her Majesty's Government on 27 April 2020; or

(ii) schemes supporting lending to small and medium-sized businesses which are located in an *EEA State* in the course of the Coronavirus pandemic, provided that such loans were created before 1 January 2022, do not exceed €60,000 per loan and are subject to a 100% guarantee provided by an *EEA State* or central bank of an *EEA State* or the European Central Bank.

For the purposes of point (m) of the first subparagraph, institutions shall include any retained exposure in the *total exposure measure*.

2. [Note: Provision left blank]

3. [Note: Provision left blank]

4. Institutions shall not exclude the trade exposures referred to in points (g) and (h) of paragraph 1 of this Article, where the condition set out in the third subparagraph of Article 429(5) of this Chapter is not met.

5. [Note: Provision left blank]

6. [Note: Provision left blank]

7. [Note: Provision left blank]

Article 429b CALCULATION OF THE EXPOSURE VALUE OF ASSETS

1. Institutions shall calculate the exposure value of assets, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives and the add-ons for counterparty credit risk for securities

financing transactions referred to in Article 429e of this Chapter, in accordance with the following principles:

(a) the exposure values of assets means an exposure value as referred to in the first sentence of Article 111(1) of the *CRR*;

(b) securities financing transactions shall not be netted.

2. Subject to the remaining paragraphs of this Article, a cash pooling arrangement offered by an institution does not violate the condition set out in point (b) of Article 429(7) of this Chapter only where the arrangement meets both of the following conditions:

(a) the institution offering the cash pooling arrangement transfers the credit and debit balances of several individual accounts of entities of a group included in the arrangement ('original accounts') into a separate, single account and thereby sets the balances of the original accounts to zero;

(b) the institution carries out the actions referred to in point (a) of this subparagraph on a daily basis.

For the purposes of this paragraph and paragraph 3, cash pooling arrangement means an arrangement whereby the credit or debit balances of several individual accounts are combined for the purposes of cash or liquidity management.

3. By way of derogation from paragraph 2 of this Article, a cash pooling arrangement that does not meet the condition set out in point (b) of that paragraph, but meets the condition set out in point (a) of that paragraph, does not violate the condition set out in point (b) of Article 429(7) of this Chapter, provided that the arrangement meets all the following conditions:

(a) the institution has a legally enforceable right to set off the balances of the original accounts through the transfer into a single account at any point in time;

(b) there are no maturity mismatches between the balances of the original accounts;

(c) the institution charges or pays interest based on the combined balance of the original accounts;

(d) the frequency by which the balances of all original accounts are transferred is adequate for the purpose of including only the combined balance of the cash pooling arrangement in the total exposure measure.

4. By way of derogation from point (b) of paragraph 1, institutions may calculate the exposure value of cash receivable and cash payable under securities financing transactions with the same counterparty on a net basis only where all the following conditions are met:

(a) the transactions have the same explicit final settlement date;

(b) the right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable in the normal course of business and in the event of default, insolvency and bankruptcy;

(c) the counterparties intend to settle on a net basis or to settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement.

5. For the purposes of point (c) of paragraph 4, institutions may consider that a settlement mechanism results in the functional equivalent of net settlement only where, on the settlement date, the net result of the cash flows of the transactions under that mechanism is equal to the single net amount under net settlement and all the following conditions are met:

(a) the transactions are settled through the same settlement system or settlement systems using a common settlement infrastructure;

(b) the settlement arrangements are supported by cash or intraday credit facilities intended to ensure that the settlement of the transactions will occur by the end of the business day;

(c) any issues arising from the securities legs of the securities financing transactions do not interfere with the completion of the net settlement of the cash receivables and payables.

The condition set out in point (c) of the first subparagraph is met only where the failure of any securities financing transaction in the settlement mechanism may delay settlement of only the matching cash leg or may create an obligation to the settlement mechanism, supported by an associated credit facility.

Where there is a failure of the securities leg of a securities financing transaction in the settlement mechanism at the end of the window for settlement in the settlement mechanism, institutions shall split out this transaction and its matching cash leg from the netting set and treat them on a gross basis.

Article 429c CALCULATION OF THE EXPOSURE VALUE OF DERIVATIVES

1. Institutions shall calculate the exposure value of derivative contracts listed in Annex II of the *CRR* and of credit derivatives, including those that are off-balance-sheet, in accordance with the *standardised approach for counterparty credit risk*.

When calculating the exposure value, institutions may take into account the effects of contracts for novation and other netting agreements in accordance with Article 295 of the *CRR*. Institutions shall not take into account cross-product netting, but may net within the product category as referred to in point (25)(c) of Article 272 of the *CRR* and credit derivatives where they are subject to a contractual cross-product netting agreement as referred to in point (c) of Article 295 of the *CRR*.

Institutions shall include in the total exposure measure sold options even where their exposure value can be set to zero in accordance with the treatment laid down in Article 274(5) of Chapter 3 of the Counterparty Credit Risk (CRR) Part.

2. Where the provision of collateral related to derivative contracts reduces the amount of assets under the applicable accounting framework, institutions shall reverse that reduction.

3. For the purposes of paragraph 1 of this Article, institutions calculating the replacement cost of derivative contracts in accordance with Article 275 of Chapter 3 of the Counterparty Credit Risk (CRR) Part may recognise only collateral received in cash from their counterparties as the variation margin referred to in that Article 275, where the applicable accounting framework has not already recognised the variation margin as a reduction of the exposure value and where all the following conditions are met:

   (a) for trades not cleared through a qualifying central counterparty, the cash received by the recipient counterparty is not segregated;

   (b) the variation margin is calculated and exchanged at least daily based on a mark-to-market valuation of derivatives positions;

   (c) the variation margin received is in a currency specified in the derivative contract, governing master netting agreement, credit support annex to the qualifying master netting agreement or as defined by any netting agreement with a qualifying central counterparty;

   (d) the variation margin received is the full amount that would be necessary to extinguish the mark-to-market exposure of the derivative contract subject to the threshold and minimum transfer amounts that are applicable to the counterparty;

   (e) the derivative contract and the variation margin between the institution and the counterparty to that contract are covered by a single netting agreement that the institution may treat as risk-reducing in accordance with Article 295 of the *CRR*.

   Where an institution provides cash collateral to a counterparty and that collateral meets the conditions set out in points (a) to (e) of the first subparagraph, the institution shall consider that collateral as the variation margin posted with the counterparty and shall include it in the calculation of the replacement cost.

   For the purposes of point (b) of the first subparagraph, an institution shall be considered to have met the condition set out therein where the variation margin is exchanged on the morning of the trading day following the trading day on which the derivative contract was stipulated, provided that the exchange is based on the value of the contract at the end of the trading day on which the contract was stipulated.

   For the purposes of point (d) of the first subparagraph, where a margin dispute arises, institutions may recognise the amount of non-disputed collateral that has been exchanged.

4. For the purposes of paragraph 1 of this Article, institutions shall not include collateral received in the calculation of the *net independent collateral amount*, except in the case of derivative contracts with *clients* where those contracts are cleared by a qualifying central counterparty.

5. For the purposes of paragraph 1 of this Article, institutions shall set the value of the multiplier used in the calculation of the potential future exposure in accordance with Article 278(1) of Chapter 3 of the Counterparty Credit Risk (CRR) Part to one, except in the case of derivative contracts with *clients* where those contracts are cleared by a qualifying central counterparty.

6. By way of derogation from paragraph 1 of this Article, institutions 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*, 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.

[Note: This rule corresponds to paragraphs (1) to (4) and (8) of Article 429a of the *CRR* as it applied immediately before revocation by the *Treasury*.]

Article 429d ADDITIONAL PROVISIONS ON THE CALCULATION OF THE EXPOSURE VALUE OF WRITTEN CREDIT DERIVATIVES

1. For the purposes of this Article, ‘written credit derivative’ means any financial instrument through which an institution effectively provides credit protection including credit default swaps, total return swaps and options where the institution has the obligation to provide credit protection under conditions specified in the options contract.

2. In addition to the calculation laid down in Article 429c of this Chapter, institutions shall include in the calculation of the exposure value of written credit derivatives the effective notional amounts referenced in the written credit derivatives reduced by any negative fair value changes that have been incorporated in *tier 1 capital (leverage)* with respect to those written credit derivatives.

   Institutions shall calculate the effective notional amount of written credit derivatives by adjusting the notional amount of those derivatives to reflect the true exposure of the contracts that are leveraged or otherwise enhanced by the structure of the transaction.

3. Institutions may fully or partly reduce the exposure value calculated in accordance with paragraph 2 by the effective notional amount of purchased credit derivatives, provided that all the following conditions are met:

   (a) the remaining maturity of the purchased credit derivative is equal to or greater than the remaining maturity of the written credit derivative;

(b) the purchased credit derivative is otherwise subject to the same or more conservative material terms as those in the corresponding written credit derivative;

(c) the purchased credit derivative is not purchased from a counterparty that would expose the institution to Specific Wrong-Way risk, as defined in point (b) of Article 291(1) of the *CRR*;

(d) where the effective notional amount of the written credit derivative is reduced by any negative change in fair value incorporated in the institution's *tier 1 capital (leverage)*, the effective notional amount of the purchased credit derivative is reduced by any positive fair value change that has been incorporated in *tier 1 capital (leverage)*;

(e) the purchased credit derivative is not included in a transaction that has been cleared by the institution on behalf of a *client* or that has been cleared by the institution in its role as a *higher-level client* in a *multi-level client structure* and for which the effective notional amount referenced by the corresponding written credit derivative is excluded from the *total exposure measure* in accordance with point (g) or (h) of the first subparagraph of Article 429a(1) of this Chapter, as applicable.

For the purpose of calculating the potential future exposure in accordance with Article 429c(1), institutions may exclude from the netting set the portion of a written credit derivative which is not offset in accordance with the first subparagraph of this paragraph and for which the effective notional amount is included in the *total exposure measure*.

4. For the purposes of point (b) of paragraph 3:

(a) if an institution provides written protection via some type of credit derivative, the institution may only recognise offsetting from another purchased credit derivative to the extent that the purchased protection is certain to deliver a payment in all potential future states;

(b) 'material term' means any characteristic of the credit derivative that is relevant to the valuation thereof, including the level of subordination, the optionality, the credit events, the underlying reference entity or pool of entities, and the underlying reference obligation or pool of obligations, with the exception of the notional amount and the residual maturity of the credit derivative; and

(c) two reference names shall be the same only where they refer to the same legal entity.

5. By way of derogation from point (b) of paragraph 3, institutions may use purchased credit derivatives on a pool of reference names to offset written credit derivatives on individual reference names within that pool where the pool of reference entities and the level of subordination in both transactions are the same.

6. Institutions shall not reduce the effective notional amount of written credit derivatives where they buy credit protection through a total return swap and record the net payments received as net income, but do not record any offsetting deterioration in the value of the written credit derivative in *tier 1 capital (leverage)*.

7. In the case of purchased credit derivatives on a pool of reference obligations:

   (a) institutions may reduce the effective notional amount of written credit derivatives on individual reference obligations by the effective notional amount of purchased credit derivatives in accordance with paragraph 3 only where the protection purchased is economically equivalent to buying protection separately on each of the individual obligations in the pool;

   (b) if an institution purchases credit protection on a pool of reference names through credit derivatives, but the credit protection purchased does not cover the entire pool, then the written credit derivatives on the individual reference names may not be offset;

   (c) by way of derogation from (a) and (b), purchased credit protection may offset written credit derivatives on a pool where the credit protection purchased through credit derivatives covers the entirety of the subset of the pool on which the credit protection has been sold.

[Note: This rule corresponds to paragraphs (5) to (7) of Article 429a of the *CRR* as it applied immediately before revocation by the *Treasury*.]

Article 429e COUNTERPARTY CREDIT RISK ADD-ON FOR SECURITIES FINANCING TRANSACTIONS

1. In addition to the calculation of the exposure value of securities financing transactions, including those that are off-balance-sheet in accordance with Article 429b(1) of this Chapter, institutions shall include in the *total exposure measure* an add-on for counterparty credit risk calculated in accordance with paragraph 2 or 3 of this Article, as applicable.

2. Institutions shall calculate the add-on for transactions with a counterparty that are not subject to a master netting agreement that meets the conditions set out in Article 206 of the *CRR* on a transaction-by-transaction basis in accordance with the following formula:

$$E_i^* = \max\{0, E_i - C_i\}$$

   where:

   E_i^* = the add-on;

   i = the index that denotes the transaction;

   E_i = the fair value of securities or cash lent to the counterparty under transaction i; and

   C_i = the fair value of securities or cash received from the counterparty under transaction i.

   Institutions may set E_i^* equal to zero where E_i is the cash lent to a counterparty and the associated cash receivable is not eligible for the netting treatment set out in Article 429b(4) of this Chapter.

3. Institutions shall calculate the add-on for transactions with a counterparty that are subject to a master netting agreement that meets the conditions set out in Article 206 of the *CRR* on an agreement-by-agreement basis in accordance with the following formula:

$$E_i^* = \max\left\{0, \sum_i E_i - \sum_i C_i\right\}$$

where:

E_i^* = the add-on;

i = the index that denotes the netting agreement;

E_i = the fair value of securities or cash lent to the counterparty for the transactions that are subject to master netting agreement i; and

C_i = the fair value of securities or cash received from the counterparty that is subject to master netting agreement i.

4. For the purposes of paragraphs 2 and 3, the term counterparty includes also tri-party agents that receive collateral in deposit and manage the collateral in the case of tri-party transactions.

5. By way of derogation from paragraph 1 of this Article, institutions may use the method set out in Article 222 of the *CRR*, subject to a 20% floor for the applicable risk weight, to determine the add-on for securities financing transactions including those that are off-balance-sheet. Institutions may use that method only where they also use it for calculating the exposure value of those transactions for the purpose of meeting the own funds requirements as set out in points (a), (b) and (c) of Article 92(1) of the *CRR*.

6. Where sale accounting is achieved for a repurchase transaction under the applicable accounting framework, the institution shall reverse all sales-related accounting entries.

7. Where an institution acts as an agent between two parties in a securities financing transaction, including an off-balance-sheet transaction, the following provisions shall apply to the calculation of the institution's *total exposure measure*:

   (a) where the institution provides an indemnity or guarantee to one of the parties in the securities financing transaction and the indemnity or guarantee is limited to any difference between the value of the security or cash the party has lent and the value of collateral the borrower has provided, the institution shall only include the add-on calculated in accordance with paragraph 2 or 3, as applicable, in the *total exposure measure*;

   (b) where the institution does not provide an indemnity or guarantee to any of the involved parties, the transaction shall not be included in the *total exposure measure*;

   (c) where the institution is economically exposed to the underlying security or the cash in the transaction to an amount greater than the exposure covered by the add-on, it shall include

in the *total exposure measure* also the full amount of the security or the cash to which it is exposed;

(d) where the institution acting as agent provides an indemnity or guarantee to both parties involved in a securities financing transaction, the institution shall calculate its total exposure measure in accordance with points (a), (b) and (c) separately for each party involved in the transaction.

[Note: This rule corresponds to Article 429b of the *CRR* as it applied immediately before revocation by the *Treasury*.]

Article 429f CALCULATION OF THE EXPOSURE VALUE OF OFF-BALANCE SHEET ITEMS

1. Institutions shall calculate, in accordance with Article 111(1) of the *CRR*, the exposure value of off-balance-sheet items, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives, securities financing transactions and positions referred to in Article 429d of this Chapter.

   Where a commitment refers to the extension of another commitment, Article 166(9) of the *CRR* shall apply.

2. By way of derogation from paragraph 1, institutions may reduce the credit exposure equivalent amount of an off-balance-sheet item by the corresponding amount of specific credit risk adjustments. The calculation shall be subject to a floor of zero.

3. By way of derogation from paragraph 1 of this Article, institutions shall apply a conversion factor of 10% to low-risk off-balance-sheet items referred to in point (d) of Article 111(1) of the *CRR*.

Article 429g CALCULATION OF THE EXPOSURE VALUE OF REGULAR-WAY PURCHASES AND SALES AWAITING SETTLEMENT

1. Institutions shall treat cash related to regular-way sales and securities related to regular-way purchases which remain on the balance sheet until the settlement date as assets in accordance with point (a) of Article 429(4) of this Chapter.

2. Institutions that, in accordance with the applicable accounting framework, apply trade date accounting to regular-way purchases and sales which are awaiting settlement shall reverse out any offsetting between cash receivables for regular-way sales awaiting settlement and cash payables for regular-way purchase awaiting settlement allowed under that framework. After institutions have reversed out the accounting offsetting, they may offset between those cash receivables and cash payables where both the related regular-way sales and purchases are settled on a delivery-versus-payment basis.

3. Institutions that, in accordance with the applicable accounting framework, apply settlement date accounting to regular-way purchases and sales which are awaiting settlement shall include in the total exposure measure the full nominal value of commitments to pay related to regular-way purchases.

   Institutions may offset the full nominal value of the commitments to pay related to regular-way purchases by the full nominal value of cash receivables related to regular-way sales awaiting settlement only where both of the following conditions are met:

   (a) both the regular-way purchases and sales are settled on a delivery-versus-payment basis;

   (b) the financial assets bought and sold that are associated with cash payables and receivables are fair valued through profit and loss and included in the institution's trading book.

[Note: This rule corresponds to Article 500d of the *CRR* as it applied immediately before revocation by the *Treasury*.]

Annex E

Amendments to the Leverage Ratio Part

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

Part

LEVERAGE RATIO – CAPITAL REQUIREMENTS AND BUFFERS

1 APPLICATIONS AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

(1) every *firm* that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion either on an individual basis;:

(a) an individual basis;[deleted]

(b) if the *firm* is a *UK parent institution*, on the basis of its *consolidated situation*; or[deleted]

(c) 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 the basis of the *consolidated situation* of that holding company; and[deleted]

(1A) every *CRR consolidation entity* that is, or that controls, a *UK bank* or a *building society* and that, on the *CRR consolidation entity's* last accounting reference date, had *retail deposits* equal to or greater than £50 billion on the basis of its *consolidated situation*; and

(2) a *ring-fenced body* that is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis* and is a member of a *group* containing a *firm* an entity falling within 1.1(1)1.1(1) or 1.1(1A).

1.2 In this Part, the following definitions shall apply:

…

central bank claims

~~means the following exposures of a *firm* to a *central bank*, provided these are denominated in the national currency of such *central bank*:~~

~~(1) banknotes and coins constituting legal currency in the jurisdiction of the *central bank*;~~

~~(2) reserves held by a *firm* at the *central bank*; and~~

~~(3) any assets representing debt claims on the *central bank* with a maturity of no longer than 3 months.~~

~~*countercyclical leverage ratio buffer*~~

~~means the amount of *common equity tier 1 capital* a *firm* must calculate in accordance with 4.1 and 4.2.~~

deposit

has the meaning given in ~~30, Part 1, Annex V (Reporting on financial information) for the purposes 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~~ <u>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*</u>.

…

~~*leverage ratio*~~

~~means a *firm's tier 1 capital* divided by its *total exposure measure*, with this ratio expressed as a percentage.~~

retail deposit

means *deposits* from "households" as defined in <u>paragraph 42(f) of Part 1 of Annex V to the Reporting (CRR) Part</u> ~~35(f), Part 1, Annex V (Reporting on financial information) for the purposes 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~~.

~~*tier 1 capital*~~

~~has the meaning given by Article 25 of the *CRR* except that:~~

~~(1) an *additional tier 1 capital* instrument can only be counted as *tier 1 capital* if it either:~~

~~(a) converts into *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; and~~

~~(2) instruments that qualify for grandfathering under Article 483 of the *CRR* can be counted as *tier 1 capital*.~~

~~*total exposure measure*~~

~~has the meaning given by Article 429(4) of the *CRR*, as amended by the Commission Delegated Regulation (EU) 2015/62, save that a *central bank claim* of a *firm* shall be netted off against a *deposit* accepted by the *firm*, provided that:~~

~~(1) the *central bank claim* and *deposit* are denominated in the same currency; and~~

~~(2) where applicable, the date of contractual maturity of the *central bank claim* is the same as, or is before, the date of contractual maturity of the *deposit*.~~

…

2 BASIS OF APPLICATION

2.1 A *firm* that is not a member of a *consolidation group* in relation to which 2.2 ~~or 2.3~~ applies must comply with this Part on an individual basis.

2.1A ~~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 Seven of the *CRR*.~~ 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.

2.2 A *CRR consolidation entity* ~~*firm* that is a *UK parent institution*~~ must comply with this Part on 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*.

[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*.

2.3 ~~A *firm* that is controlled by a *UK parent financial holding company* or a *UK parent mixed financial holding company* for which the *PRA* is responsible for supervision on a *consolidated basis* must comply with this Part on the basis of the *consolidated situation* of that holding company.~~ [deleted]

2.4 A *ring-fenced body* ~~must comply with this Part on an *RFB sub-consolidated basis* whether or not under 2.2 or 2.3 it also applies to the *ring-fenced body* on a *consolidated basis*~~ which is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis*, must comply with this Part on the same basis.

3 MINIMUM LEVERAGE RATIO

3.1 A *firm* must hold sufficient ~~*tier 1 capital*~~ *tier 1 capital (leverage)* to maintain, at all times, a minimum *leverage ratio* of 3.25%.

3.2 For the purposes of complying with 3.1, at least 75% of the *firm's* ~~*tier 1 capital*~~ *tier 1 capital (leverage)* must consist of *common equity tier 1 capital*.

…

Annex F

Amendments to the Public Disclosure 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:~~ [deleted]

~~*average exposure measure*~~

~~means the average exposure measure calculated in accordance with 3.7(1) or 3.8(1), as applicable.~~

~~*average leverage ratio*~~

~~means the average *leverage ratio* calculated in accordance with 3.7(2) or 3.8(2), as applicable.~~

~~*countercyclical leverage ratio buffer*~~

~~has the meaning given in Leverage Ratio 1.2.~~

~~*CRR leverage ratio*~~

~~means the leverage ratio disclosed by the *firm* in accordance with Article 451 of the *CRR*.~~

~~*leverage ratio*~~

~~has the meaning given in Leverage Ratio 1.2.~~

~~*retail deposit*~~

~~has the meaning given in Leverage Ratio 1.2.~~

~~*tier 1 capital*~~

~~has the meaning given in Leverage Ratio 1.2.~~

~~*total exposure measure*~~

~~has the meaning given in Leverage Ratio 1.2.~~

…

3 ~~PUBLIC DISCLOSURE OF LEVERAGE RATIO~~ [deleted]

~~3.1 This Chapter applies to;~~

~~(1) every firm that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had retail deposits equal to or greater than £50 billion either on:~~

~~(a) an individual basis;~~

~~(b) if the *firm* is a *UK parent institution* on the basis of its *consolidated situation*; or~~

~~(c) 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 the basis of the *consolidated situation* of that holding company; and~~

~~(2) a *ring-fenced body* that is a member of a *group* containing a *firm* falling within 3.1(1).~~

~~Application on an individual or consolidated basis~~

~~3.2 A *firm* that is:~~

~~(1) not a member of a *consolidation group* in relation to which (2) or (3) applies must comply with this Chapter on an individual basis;~~

~~(2) a *UK parent institution* must comply with this Chapter on the basis of its *consolidated situation*;~~

~~(3) controlled by a *UK parent financial holding company* or a *UK parent mixed financial holding company* for which the *PRA* is responsible for supervision on a *consolidated basis* must comply with this Chapter on the basis of the *consolidated situation* of that holding company;~~

~~(4) a *ring-fenced body* must comply with this Chapter on an *RFB sub-consolidated basis* whether or not under 3.2(2) or 3.2(3) it also applies to the *ring-fenced body* on a *consolidated basis.*~~

~~Disclosure requirements~~

~~3.3 A *firm* must disclose each of the following quarterly as at the relevant quarterly end date:~~

~~(1) *leverage ratio*;~~

~~(2) *average exposure measure*;~~

~~(3) *average leverage ratio*; and~~

~~(4) *countercyclical leverage ratio buffer.*~~

~~3.4 A *firm* must disclose quarterly such information as is necessary to enable users to understand changes in the firm's total exposure measure and tier 1 capital over the quarter that have affected the firm's average leverage ratio.~~

~~3.5 Subject to 3.6, a *firm* must disclose the items specified in 3.3 and 3.4 in the medium or locationthat the *firm* considers appropriate.~~

~~3.6 When a *firm* discloses its *CRR leverage ratio*, the *firm* must disclose:~~

~~(1) the items specified in 3.3 and 3.4 as at the same reference date as the firm's *CRR leverage ratio* disclosure; and~~

~~(2) the reasons for any differences between the firm's leverage ratio and the *firm's CRR leverage ratio* as at that reference date,~~

~~in the same media or location as the firm discloses its *CRR leverage ratio*.~~

~~3.7 Subject to 3.8:~~

~~(1) for the purposes of 3.3(2) a *firm* must calculate its *average exposure measure* for a quarter as the sum of:~~

~~(a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter; and~~

~~(b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter; and~~

~~(2) for the purposes of 3.3(3) and 3.4 a *firm* must calculate its *average leverage ratio* for a quarter as its capital measure divided by its exposure measure where the:~~

~~(a) capital measure is the arithmetic mean of the firm's *tier 1 capital* on the last day of each month in the quarter; and~~

~~(b) exposure measure is the sum of:~~

~~(i) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter; and~~

~~(ii) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter.~~

~~Transitional~~

~~3.8 For 24 months from the date that this Chapter comes into force, a *firm* must:~~

~~(1) for the purposes of 3.3(2), calculate its average exposure measure for a quarter as the arithmetic mean of the *firm's total exposure measure* on the last day of each month in the quarter; and~~

~~(2) for the purposes of 3.3(3) and 3.4, calculate its *average leverage ratio* for a quarter as its capital measure divided by its exposure measure where the:~~

~~(a) capital measure is the arithmetic mean of the *firm's tier 1 capital* on the last day of each month in the quarter; and~~

~~(b) exposure measure is the arithmetic mean of the *firm's total exposure measure* on the last day of each month in the quarter.~~

Annex G

Amendments to the Reporting (CRR) Part

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

---

1. APPLICATION

…

1.2 In this Part, the following definitions shall apply:

additional leverage reporting requirements

means the requirements specified in:

(a) paragraphs (2) and (2A) of Article 430 of Chapter 4; and
(b) paragraphs 14a and 14b of Part II of Annex XI of Chapter 6.

standard leverage reporting requirements

means the requirements specified in paragraph (1) of Article 430 of Chapter 4 and related requirements in Article 15 of Chapter 5 and annexes X and XI of Chapter 6.

…

2. LEVEL OF APPLICATION

Application of requirements on an individual basis

2.1 Subject to rule 2.2, an institution shall comply with this Part on an individual basis.

…

Application of leverage reporting requirements to LREQ firms

2.8 An *LREQ firm* shall comply with:

(a) the *standard leverage reporting requirements* on the *LREQ basis* and any other basis on which this Part applies to the *LREQ firm* under rules 2.1 to 2.7;

(b) the *additional leverage reporting requirements* on the *LREQ basis* only.

…

4. REPORTING (PART SEVEN A CRR)

Article 430 REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION

1. Institutions shall report to their competent authorities on:

(a) own funds requirements, as set out in Article 92, and the *leverage ratio* and if applicable the *countercyclical leverage ratio buffer*;

…

~~[Note: References to leverage ratio are not included]~~

2. ~~[Note: Provision left blank.]~~In addition to the reporting on the *leverage ratio* referred to in point (a) of the first subparagraph of paragraph 1 and in order to enable the competent authorities to monitor *leverage ratio* volatility, in particular around reporting reference dates, *LREQ firms* shall report specific components of the *leverage ratio* to their competent authorities based on averages over the reporting period and the data used to calculate those averages.

2A. For the purposes of paragraph 2, the average *leverage ratio* for a quarter must be calculated by an *LREQ firm* as its capital measure divided by its exposure measure where:

(1) the capital measure is the arithmetic mean of the *firm's tier 1 capital (leverage)* on the last day of each month in the quarter ending on the relevant reporting reference date; and

(2) subject to (3), the exposure measure is the sum of:

(a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets and securities financing transactions on each day in the quarter ending on the relevant reporting reference date; and

(b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter ending on the relevant reporting reference date.

(3) Until 1 January 2023 the exposure measure is the sum of:

(a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter ending on the relevant reporting reference date; and

(b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter ending on the relevant reporting reference date.

…

5. REPORTING REQUIREMENTS

…

Article 15 FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND A CONSOLIDATED BASIS

~~[Note: Provision left blank]~~

1. In order to report information on the *leverage ratio* and the *countercyclical leverage ratio buffer* in accordance with point (a) of Article 430(1) of the Chapter 4 and, for *LREQ firms*, the information specified in Article 430(2) and (2A) of Chapter 4, institutions shall submit the information specified in Annex X of Chapter 6, in accordance with the instructions in Annex XI of Chapter 6, with a quarterly frequency and on the basis required by Chapter 2 of this Chapter.

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 regulated market with a semi-annual frequency;

   (b) large institutions other than G-SIIs that are not listed institutions with an 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 regulated market with an annual frequency.

3. Institutions shall calculate the *leverage ratio* at the reporting reference date in accordance with Article 429 of the Leverage Ratio (CRR) Part.

4. Institutions shall report the information referred to in paragraph 13 of Part II of Annex XI of Chapter 6 if one of the following conditions is met:

   (a) the derivatives share referred to in paragraph 5 of Part II of Annex XI of Chapter 6 is more than 1.5%;

   (b) the derivatives share referred to in paragraph 5 of Part II of Annex XI of Chapter 6 exceeds 2.0%.

   The entry and exit criteria of Article 4(2) of Chapter 2 of this Chapter shall apply, except in relation to point (b), in which case institutions shall start reporting information from the next reporting reference date where they have exceeded the threshold on one reporting reference date.

5. Institutions for which the total notional value of derivatives as defined in paragraph 8 of Part II of Annex XI exceeds GBP 8.8 billion shall report the information referred to in paragraph 13 of Part II of Annex XI of Chapter 6 even if their derivatives share does not fulfil the conditions set out in paragraph 4.

   The entry criteria of Article 4(2) of Chapter 2 of this Chapter shall not apply. Institutions shall start reporting information from the next reporting reference date where they have exceeded the threshold on one reporting reference date.

6. Institutions are required to report the information referred to in paragraph 14 of Part II of Annex XI of Chapter 6 where one of the following conditions is met:

   (a) the credit derivatives volume referred to in paragraph 9 of Part II of Annex XI of Chapter 6 is more than GBP 260 million;

(b) the credit derivatives volume referred to in paragraph 9 of Part II of Annex XI of Chapter 6 exceeds GBP 440 million.

The entry and exit criteria of Article 4(2) of Chapter 2 of this Chapter shall apply, except in relation to point (b), in which case institutions shall start reporting information from the next reporting reference date where they have exceeded the threshold on one reporting reference date.

…

6. TEMPLATES AND INSTRUCTIONS

…

ANNEX IX

2.247. Annex IX can be found here.

2.248. [Note: Provision left blank]

2.249. [Note: Provision left blank]

~~2.250. [Note: Provision left blank]~~

~~2.251. [Note: Provision left blank]~~

~~2.252. [Note: Provision left blank]~~

~~2.253. [Note: Provision left blank]~~

~~2.254. [Note: Provision left blank]~~

~~2.255. [Note: Provision left blank]~~

ANNEX X

2.250 Annex X Template LV 40.00 can be found here.

2.251 Annex X Template LV 41.00 can be found here.

2.252 Annex X Template LV 43.00 can be found here.

2.253 Annex X Template LV 44.00 can be found here.

2.254 Annex X Template LV 47.00 can be found here.

ANNEX XI

2.255 Annex XI can be found here.

…

Annex H

Amendment of the Reporting Leverage Ratio Part

The Reporting Leverage Ratio Part is repealed and is shown in the PRA Rulebook as follows.

Part

REPORTING LEVERAGE RATIO [deleted]

Content

REPORTING LEVERAGE RATIO PART [deleted]

ANNEX I

AMENDMENTS TO THE LEVERAGE RATIO – CAPITAL REQUIREMENTS AND BUFFERS PART

This Annex amends the Leverage Ratio – Capital Requirements and Buffers Part as amended on 1 January 2022 by the changes made in Annex E. New text is underlined and deleted text is struck through.

1 APPLICATIONS AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

(1) every *CRR firm*~~*firm* that is a *UK bank* or a *building society*~~ that~~,~~:

(a1) on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion on an 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;

(a) [deleted]

(b) [deleted]

(c) [deleted]

(1A) every *CRR consolidation entity* that ~~is, or that controls, a *UK bank* or a *building society* and that,~~:

(a) on the *CRR consolidation entity's* last accounting reference date, had *retail deposits* equal to or greater than £50 billion~~ on the basis of its *consolidated situation*~~; ~~and~~ or

(b) has *foreign assets* equal to or greater than £10 billion, as determined in accordance with 1.1A,

in each case, on the basis of its *consolidated situation*; and

(2) a *ring-fenced body* that is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis* and that:

(a) on its last *accounting reference date,* had *retail deposits* equal to or greater than £50 billion; or

(b) has *foreign assets* equal to or greater than £10 billion, as determined in accordance with 1.1A,

in each case, on an *RFB sub-consolidated basis*. is a member of a *group* containing a *firm* an entity falling within 1.1(1) or 1.1(1A).

1.1A The *foreign assets* thresholds referred to in 1.1 above are determined on the basis of the arithmetic mean of the value of *foreign assets* held as at the three most recent *accounting reference dates* of the *firm* or *CRR consolidation entity* (as applicable). If the *firm* or *CRR consolidation entity* has been in existence for less than three years, the period for the calculation is the period during which the *firm* or *CRR consolidation entity* has existed.

1.2 In this Part, the following definitions shall apply:

…

foreign assets

means assets for which the counterparty is resident in a country or territory outside the *UK* that a *firm* is required to report on row 0050 of Annex X Template LV 44.00 of Chapter 6 of the Reporting (CRR) Part.

…

2 BASIS OF APPLICATION

2.1 A *firm* that is not a member of a *consolidation group* in relation to which 2.2 appliesthat is in scope of this Part by virtue of 1.1(1) must comply with this Part on an 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.

2.1B A *firm* may apply to the *PRA* for a permission that:

(a) disapplies 2.1; and

(b) provides for the requirements in this Part to apply on a *sub-consolidated basis* in relation to the *firm*, with such modifications as may be specified in that permission.

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

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 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*.

[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*.

2.3 [deleted]

2.4 A *ring-fenced body* ~~which is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis*~~ which is in scope of this Part by virtue of 1.1(2), must comply with this Part on the same ~~basis~~ *sub-consolidated basis* as it is required to comply with Parts Two and Three of the *CRR*.

…

EXTERNALLY DEFINED TERMS

Term	**Definition source**
central bank	Article 4(1)(46) *CRR*.
Treasury	Schedule 1, Interpretation Act 1978

CRR FIRMS: NON-PERFORMING EXPOSURES SECURITISATION (CRR 2 MODIFICATIONS) INSTRUMENT 2021

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) and (2) (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.

Pre-conditions to making

C. In accordance with sections 144C (3) of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C (4) of the Act.

D. In accordance with section 138J(1)(a) of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.

E. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

F. The PRA had regard to representations made.

PRA Rulebook: CRR Firms: Non-Performing Exposures Securitisation (CRR 2 Modifications) Instrument 2021

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

Commencement

H. This instrument comes into force on 1 January 2022.

Citation

I. This instrument may be cited as the PRA Rulebook: CRR Firms: Non-Performing Exposures Securitisation (CRR2 Modifications) Instrument 2021.

By order of the Prudential Regulation Committee

18 October 2021

Annex

Non-Performing Exposures Securitisation (CRR) Part

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

Part

Non-Performing Exposures Securitisation (CRR)

Chapter content

1. **APPLICATION AND DEFINITIONS**
2. **CALCULATION OF RISK WEIGHT**

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.

(2) A *CRR consolidation entity* must comply with this Part on a 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*.

1.2 In this Part, the following definitions apply:

non-performing exposure or NPE

means an exposure that meets any of the conditions set out in Article 47a(3) of the *CRR*.

non-refundable purchase price discount

means the amount arrived at by subtracting the amount referred to in point (b) from the amount referred to in point (a), where:

(a) is the outstanding amount of the underlying exposures of the *NPE securitisation* at the time those exposures were transferred to the *SSPE*; and

(b) is the sum of the following:

(i) the initial sale price of the tranches or, where applicable, parts of the tranches of the *NPE securitisation* sold to third party investors; and

(ii) the outstanding amount, at the time the underlying exposures were transferred to the *SSPE*, of the tranches or, where applicable, parts of tranches of that securitisation held by the originator.

Where a discount is structured in such a way that it can be refunded in whole or in part to the originator or the original lender, such discount shall not count as a non-refundable purchase price discount.

NPE securitisation

means a securitisation backed by a pool of 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.

Qualifying NPE securitisation

means an *NPE securitisation* that is a traditional securitisation as defined in point (9) of Article 2 of Regulation (EU) 2017/2402 where the *non-refundable purchase price discount* is at least 50% of the outstanding amount of the underlying exposures at the time they were transferred to the *SSPE.*

SSPE

has the meaning given by point (2) of Article 2 of Regulation (EU) 2017/2402.

2 CALCULATION OF RISK WEIGHT

2.1 Subject to 2.2 and 2.4, the risk weight for a position in an *NPE securitisation* calculated by a *firm* in accordance with Article 254 or 267 of the *CRR* is subject to a floor of 100%, save where Article 263 of the *CRR* applies.

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, save where Article 263 of the *CRR* applies.

2.3 A *firm* that applies the IRB Approach to any exposures in the pool of underlying exposures in accordance with Chapter 3 of Title II of Part Three of the *CRR* and that is not permitted to use, or does not use, own estimates of LGD and conversion factors for such exposures, must not use the SEC-IRBA for the calculation of risk-weighted exposure amounts for a position in an *NPE securitisation*.

2.4 By way of derogation from 2.1 and 2.2, save where 2.3 applies, a *firm* may calculate the maximum capital requirement for a position in an *NPE securitisation* in accordance with Article 268 of the *CRR*.

PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS: REGULATORY REPORTING AMENDMENT INSTRUMENT 2021

Powers exercised

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

(1) section 137G (The PRA's general rules); and
(2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms, Non CRR Firms: Regulatory Reporting Amendment Instrument 2021

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

Part	Annex
Amendments to the Regulatory Reporting Part	A
Further amendments to the Regulatory Reporting Part	B

Commencement

E. Annex A to this instrument comes into force on 10 November 2021.
F. Annex B to this instrument comes into force on 31 May 2022.

Citation

G. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms: Regulatory Reporting Amendment Instrument 2021.

By order of the Prudential Regulation Committee
2 November 2021

Annex A

Amendments to the Regulatory Reporting Part

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

…

10 REGULATED ACTIVITY GROUP 4

…

10.2 The applicable *data items* referred to in the table in 6.1 are set out in the table below:

RAG **4**	
Description of *data item*	Applicable *data items* [1]
…	
UCITS (2)[deleted.]	FSA042[deleted.]

…

(2) Only applicable to *firms* that have *permission* for *establishing, operating or winding up a regulated collective investment scheme*.[deleted]

10.3 The applicable reporting frequencies for submission of *data items* referred to in 10.2 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

RAG **4**	
Data item	Reporting frequency
…	
FSA042[deleted.]	Quarterly[deleted.]

10.4 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 10.3, unless indicated otherwise.

RAG **4**						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
…						

~~FSA042~~ [deleted.]	-	-	-	~~20 *business days*~~ [deleted.]	-	-

…

16 DATA ITEMS AND OTHER FORMS

…

16.13 ~~FSA042 can be found here.~~ [deleted.]

…

Annex B

Further amendments to the Regulatory Reporting Part

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

…

22 BRANCH REPORTING

…

22.3 The Branch Return Form can be found ~~here~~here.

…

PRA RULEBOOK: CRR FIRMS: REPORTING PILLAR 2 (AMENDMENT) INSTRUMENT 2021

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.

Pre-conditions to making

C. In accordance with section 144C(3) of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C(4) of the Act.

D. In accordance with section 138J of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.

E. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

F. No representations were received on the proposed rules pursuant to C and D.

PRA Rulebook: CRR Firms: Reporting Pillar 2 (Amendment) Instrument 2021

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

Commencement

H. This instrument comes into force on 1 December 2021.

Citation

I. This instrument may be cited as PRA Rulebook: CRR Firms: Reporting Pillar 2 (Amendment) Instrument 2021.

By order of the Prudential Regulation Committee

2 November 2021

Annex

Amendments to the Reporting Pillar 2 Part of the PRA Rulebook

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

…

4 DATA ITEMS

…

4.9 FSA081 can be found ~~here~~here.

…

PRA RULEBOOK: CRR FIRMS AND SII FIRMS: AUDIT COMMITTEE (AMENDMENT) INSTRUMENT 2021

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
   (1) section 137G (The PRA's general rules); and
   (2) section 137T (General supplementary powers).

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

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority.

D. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2).

E. No representations were made on the proposed rules pursuant to C or D above.

PRA Rulebook: CRR Firms and SII Firms: Audit Committee (Amendment) Instrument 2021

F. The PRA makes the rules in the Annex to this Instrument.

Commencement

G. This instrument comes into force on 1 January 2022.

Citation

H. This instrument may be cited as PRA Rulebook: CRR Firms and SII Firms: Audit Committee (Amendment) Instrument 2021.

By order of the Prudential Regulation Committee

2 November 2021

Annex

Amendments to the Audit Committee Part of the PRA Rulebook

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

...

2 AUDIT COMMITTEE

...

2.4 A *firm* must ensure that its *audit committee* performs at least the following functions:

…

(5) reviews and monitors the independence of the statutory auditor or the audit firm in accordance with, where applicable, paragraphs 2(3), 2(4), 3, 4(1), 4(2), 5 to 8 and 10 to 12 of Schedule 1 to the ~~Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/XXX)~~Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) and, where applicable, Article 6 of the *Statutory Audit Regulation*, and in particular the suitability of the provision of non-audit services to the firm in accordance with Article 5 of the *Statutory Audit Regulation*; and

…

PRA RULEBOOK: CRR FIRMS: DEFINITION OF CAPITAL (AMENDMENT) INSTRUMENT 2021

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.

Pre-conditions to making

C. In accordance with section 144C (3) of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C(4) of the Act.

D. In accordance with section 138J of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.

E. The PRA published a draft of the proposed rules in accordance with section 138J(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

F. No representations were received on the proposed rules pursuant to D and E.

PRA Rulebook: CRR Firms: Definition of Capital (Amendment) Instrument 2021

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

Commencement

H. This instrument comes into force on 1 January 2022.

Citation

I. This instrument may be cited as PRA Rulebook: CRR Firms: Definition of Capital (Amendment) Instrument 2021

By order of the Prudential Regulation Committee

2 November 2021

Annex

Amendments to the Definition of Capital Part

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

4 CONNECTED FUNDING OF A CAPITAL NATURE

4.1 ~~This Chapter applies to every *firm* that is a *UK bank*.~~ [deleted]

…

PRA RULEBOOK (CRR NO. 2) INSTRUMENT 2021

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); and

(4) section 144H(1) and (2) (Relationship with the CRR).

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

C. The PRA makes the direction set out in 2.3A of Annex B Liquidity (CRR) Part under Regulation 40(2)(a) of the Capital Requirements Regulations 2013.

Pre-conditions to making

D. In accordance with sections 144C(3) and 144E of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C(4) of the Act.

E. In accordance with section 138J(1)(a) of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.

F. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

G. The PRA had regard to representations made.

PRA Rulebook (CRR No. 2) Instrument 2021

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

CRR Firms: Part	Annex
Glossary	A
Liquidity (CRR)	B
Internal Liquidity Adequacy Assessment	C

Notes

I. 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

J. This instrument comes into force on 1 January 2022.

Citation

K. This instrument may be cited as the PRA Rulebook (CRR No. 2) Instrument 2021.

By order of the Prudential Regulation Committee

2 November 2021

ANNEX A

Amendments to the Glossary

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

…

domestic liquidity sub-group

means the *firms* supervised by the *PRA* for liquidity purposes as if they formed a single entity as a result of a permission granted to those *firms* under 2.2 of the Liquidity (CRR) Part of the *PRA* Rulebook ~~Article 8(2) of the CRR~~.

…

ANNEX B

Amendments to the Liquidity (CRR) Part

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

1 APPLICATION AND DEFINITIONS

…

1.2 In the *Liquidity Parts*, the following definitions shall apply:

…

immediate parent undertaking

means a parent undertaking within the meaning of section 1162 of the Companies Act 2006 disregarding for this purpose section 1162(5) of that Act.

…

2 LEVEL OF APPLICATION

Application of requirements on an individual basis

2.1 An institution shall comply with the *Liquidity Parts* on an individual basis.

[Note: This rule sets out Article 6(4) of the *CRR* as it applies to the *Liquidity Parts*]

~~[Note: Rules for domestic liquidity sub-groups to be finalised]~~

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 or a 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]

2.3 For the purpose of 2.2(b)(ii), the *qualifying parent undertaking* must be the *immediate parent undertaking* of one or more of the institutions referred to in 2.2(b)(ii).

2.3A If more than one institution subject to the *Liquidity Parts* is to be included in a *domestic liquidity sub-group*, the *PRA* directs that the application for permission must be made jointly by each such institution.

[Note: This is a direction under regulation 40(2) of the *Capital Requirements Regulations*]

…

ANNEX C

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 unless (2) applies.

(2) ~~Where the *PRA* has waived in full the application of Part Six of the CRR to a *firm* and to all or some of its *subsidiaries* pursuant to a *permission* granted under Article 8(2) of the CRR, a *firm* must comply with this Part at the level of its *domestic liquidity sub-group*.~~ A *firm* must comply with this Part at the level of its *domestic liquidity sub-group* where the *PRA* has granted the 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*.

~~[Note: Art 8(5) of the CRR and Art 109(1) of the CRD]~~

…

Externally defined terms

Term	Definition source
Treasury	Schedule 1, Interpretation Act 1978

PRA RULEBOOK: CRR FIRMS: INVESTMENT FIRMS PRUDENTIAL REGIME INSTRUMENT 2021

Powers exercised

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

   (1) section 137G (The PRA's general rules); and
   (2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms: Investment Firms Prudential Regime Instrument 2021

D. The PRA makes the rules in the Annex.

Commencement

E. This instrument comes into force on 1 January 2022.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms: Investment Firms Prudential Regime Instrument 2021.

By order of the Prudential Regulation Committee

23 November 2021

Annex

Amendments to the Definition of Capital Part

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

…

12 BASE CAPITAL RESOURCES REQUIREMENT

12.1 A *CRR firm* must maintain at all times capital resources equal to or in excess of the base capital resources requirement set out in the table below:

Firm category	**Amount: Currency equivalent**
bank	€5 million
small specialist bank	The higher of €1 million and £1 million
building society	The higher of €1 million and £1 million
designated investment firm	~~€730,000~~£750,000

PRA RULEBOOK: CRR FIRMS: REMUNERATION AND CERTIFICATION INSTRUMENT 2021

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 137H (General rules about remuneration);
   (3) section 137T (General supplementary powers);
   (4) section 192V (Rules imposing consolidated requirements); and
   (5) 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.

Pre-conditions to making

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

D. In accordance with sections 144C(3) and 144E of the Act, the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C (4) of the Act.

PRA Rulebook: CRR FIRMS: REMUNERATION AND CERTIFICATION INSTRUMENT 2021

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

Commencement

F. Annex A comes into force on 30 December 2021.

G. Annex B comes into force on 1 March 2022.

Citation

H. This instrument may be cited as the PRA Rulebook: CRR Firms: Remuneration and Certification Instrument 2021.

By order of the Prudential Regulation Committee

14 December 2021

Annex A

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:

…

business unit

means any separate organisational or legal entities, business lines, or geographical locations.

…

control function~~s~~

~~has the meaning provided in Article 3 of the *Material Risk Takers Regulation*~~means a function that is independent from the *business units* it controls and that is responsible for providing an objective assessment of the *firm's* risks or to review or report on those and which includes (but is not limited to) the risk management function, the compliance function and the internal audit function.

core business line

means business lines and associated services which represent material sources of revenue, profit or franchise value for a *firm* or for its *group*.

...

managerial responsibility

~~has the meaning provided in Article 2 of the *Material Risk Takers Regulation*~~means a situation in which an *employee*:

(1) heads a *business unit* or a *control function* and is directly accountable to the *management body* as a whole or to a member of the *management body* or to the *senior management*;

(2) heads one of the functions set out in 3.2A(1); or

(3) heads a subordinated *business unit* or a subordinated *control function* in a *large institution* and reports to an *employee* that has the responsibilities referred to in (1).

material business unit

~~has the meaning provided in Article 4 of the *Material Risk Takers Regulation*~~means a *business unit* that meets either of the following criteria:

(a) it has allocated internal capital of at least 2% of the internal capital of the *firm* as set out in Internal Capital Adequacy Assessment 3.1(1) or is otherwise assessed by the *firm* as having a material impact on the *firm's* internal capital; or

(b) it is a *core business line*.

…

~~*Material Risk Takers Regulation*~~

~~means the draft regulatory technical standards on criteria to define managerial responsibility and control functions, a material business unit and a significant impact on its risk profile, and categories of staff whose professional activities have a material impact on an institution's risk profile published by the *EBA* on 18 June 2020.~~

…

~~*significant impact on the relevant business unit's risk profile*~~

~~has the meaning provided in Article 5 of the *Material Risk Takers Regulation.*~~

…

3 MATERIAL RISK TAKERS

3.1 A *firm* must, save where otherwise stated, apply the requirements of this Part in relation to a *person* (a "material risk taker") who is:

(1) an *employee* of a *CRR firm* whose professional activities have a material impact on the *firm's* risk profile, including:

...

(c) *employees* entitled to a significant total *remuneration* in the preceding financial year, where:

…

(ii) the *employee* performs the professional activity within a *material business unit~~s~~* and the activity is a kind that has a ~~*significant impact on the relevant business unit's risk profile*~~ significant impact on the risk profile of a *material business unit*;

(d) *employees* whose professional activities are deemed to have a material impact on the *firm*'s risk profile under ~~Articles 6 and 7 of the *Material Risk Takers Regulation*~~3.2A and 3.3A; or

…

[Note: Article 92 of the *CRD* ~~and the *Material Risk Takers Regulation*~~]

3.1A For the purposes of 3.1(1)(c) and (d), a *firm* must calculate all amounts of variable and fixed *remuneration* on a gross and full-time equivalent basis.

3.1B For the purposes of 3.1(1)(c)(i):

(1) a *firm* must calculate the average total *remuneration* of all members of the *firm's management body* and *senior management* by taking into account the total of the fixed and variable *remuneration* of all members of the *firm's management body* in its management function and *supervisory function* as well as all members of *senior management*; and

(2) a *firm* must value variable *remuneration* that has been awarded but has not yet been paid as at the date of the award without taking into account the application of the discount rate referred to in 15.13 or reductions in pay-outs through clawback, malus or otherwise.

3.1C For the purposes of 3.1(1)(c)(ii), in determining whether the professional activity of an *employee* has a significant impact on the risk profile of a *material business unit* a *firm* must apply all of the following criteria within its *remuneration* policies, practices and procedures:

(1) the risk profile of the *material business unit*;

(2) the distribution of internal capital to cover the nature and level of the risks, as referred to in Internal Capital Adequacy Assessment 3.1(1);

(3) the risk limits of the *material business unit*;

(4) the risk and performance indicators used by the *firm* to identify, manage and monitor risks of the *material business unit* in accordance with General Organisational Requirements 2.1;

(5) the relevant performance criteria set by the *firm* in accordance with 15.4 and 15.6; and

(6) the duties and authorities of *employees* or categories of *employee* in the *material business unit* concerned.

…

3.2A In addition to *employees* identified under the criteria set out in 3.1(1)(a) to (c), a *firm* must deem an *employee* to have a material impact on a *firm's* risk profile where one or more of the following qualitative criteria are met:

(1) the *employee* has *managerial responsibility* for any of the following:

(a) legal affairs;

(b) the soundness of accounting policies and procedures;

(c) finance, including taxation and budgeting;

(d) performing economic analysis;

(e) the prevention of money laundering and terrorist financing;

(f) human resources;

(g) the development or implementation of the *remuneration* policy;

(h) information technology;

(i) information security; or

(j) managing *outsourcing* arrangements of a function, where a defect or failure in the performance of that function would materially impair the continuing compliance of the *firm* with the conditions and obligations of its authorisation, financial performance, or the soundness or continuity of its services and activities;

(2) the *employee* has *managerial responsibility* for any of the risk categories set out in Internal Capital Adequacy Assessment 3.1(2) (a) to (g), (i) and (j) or is a voting member of a committee responsible for the management of such a risk category;

(3) with regard to credit risk exposures of a nominal amount per transaction, representing 0.5% of the *firm's* common equity tier 1 capital and which is at least £4.5 million, the *employee* member meets either of the following criteria:

(a) the *employee* has the authority to take, approve or veto decisions on such credit risk exposures; or

(b) the *employee* is a voting member of a committee which has the authority to take the decisions as referred to in (a);

(4) in relation to a *firm* for which the derogation for *small trading book* businesses set out in Article 94 of the *CRR* does not apply, the *employee* meets either of the following criteria:

(a) the *employee* has the authority to take, approve or veto decisions on transactions on the trading book that in aggregate represent one of the following thresholds:

(i) where the standardised approach is used, an *own funds* requirement for *market risk* that represents 0.5% or more of the *firm's* common equity tier 1 capital;

(ii) where an internal model based approach is approved for regulatory purposes, 5% or more of the *firm's* internal value-at-risk limit for trading book exposures at a 99th percentile (one-tailed confidence interval level); or

(b) the *employee* is a voting member of a committee that has the authority to take the decisions referred to in (a);

(5) the *employee* heads a group of *employees* who have individual authorities to commit the *firm* to transactions and either of the following conditions is met:

(a) the sum of those authorities equals or exceeds the threshold referred to in 3.2A(3)(a) or 3.2A(4)(a)(i); or

(b) where an internal model based approach is approved for regulatory purposes, those authorities amount to 5% or more of the *firm's* internal value-at-risk limit for trading book exposures at a 99th percentile (one-tailed confidence interval level): where the *firm* does not calculate a value-at-risk at the level of that *employee*, the value-at-risk limits of *employees* under the management of that *employee* must be aggregated; or

(6) the *employee* meets either of the following criteria with regard to decisions on approving or vetoing the introduction of new products:

(a) the *employee* has authority to take such decisions; or

(b) the *employee* is a voting member of a committee that has authority to take such decisions.

…

3.3A In addition to *employees* identified under the criteria set out in 3.1(1)(a) and (b), a *firm* must deem an *employee* to have a material impact on a *firm's* risk profile where either of the following quantitative criteria are met:

(1) the *employee*, including an *employee* referred to in 3.1(1)(c), has been awarded in or for the preceding performance year a total *remuneration* that is equal to or greater than £660,000; or

(2) where the *firm* has over 1,000 *employees*, the *employee* is within the 0.3% of *employees* within the *firm* (which is to be calculated on an individual entity basis only and rounded to the next higher integral figure) who have been awarded the highest total *remuneration* in or for the preceding performance year.

…

6 REMUNERATION POLICIES

6.1 In this Chapter, 6.2 ~~and~~ , 6.5 and 6.6 apply to *firms* in relation to *firms' remuneration* policies, practices and procedures generally, not only in relation to *material risk takers*.

…

6.6 A *firm* must ensure that its *remuneration* policy sets out the reference year for the variable *remuneration* that it takes into account when calculating total *remuneration* and that reference year must be either:

(1) the year preceding the financial year in which the variable *remuneration* is awarded; or

(2) the year preceding the financial year for which the variable *remuneration* is awarded.

…

15 REMUNERATION STRUCTURES

…

15.17 …

(2) A *firm* must not award, pay or provide a variable *remuneration* component to a *higher paid material risk taker* unless a substantial portion of it, which is at least 40%, is deferred over a period which is not less than:

(a) in the case of a *higher paid material risk taker* who does not perform a *PRA senior management function*, but;

(i) who meets the criteria in 3.1(1)(a) or (b); or

(ii) whose professional activities meet the qualitative criteria set out in ~~Article 6(1), 6(2) or 6(5) of the *Material Risk Takers Regulation*~~3.2A(1), 3.2A(2) or 3.2A(5)

five years vesting no faster than on a pro-rata basis; or

…

Annex B

Amendments to the Certification 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:

…

Material Risk Takers Regulation

means Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

significant risk taker

means

(1) an *employee* of a *CRR firm* whose professional activities have a material impact on the *firm's* risk profile, including any *employee* who is deemed to have a material impact on the *firm's* risk profile in accordance with criteria set out in Articles 3 to 5 of the *Material Risk Takers Regulation*falls within Remuneration 3.1(1);

…

(3) any *employee* of a *third country CRR firm* who would fall within (1) if it had applied in relation to him or her, unless the *firm* has deemed the *employee* not to be a material risk taker under Remuneration 3.2.

...

PRA RULEBOOK: SOLVENCY II FIRMS: MINIMUM CAPITAL REQUIREMENT INSTRUMENT 2021

Powers exercised

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

   (1) section 137G (The PRA's general rules); and
   (2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: Solvency II Firms: Minimum Capital Requirement Instrument 2021

D. The PRA amends the rule in the Annex to this instrument.

Commencement

E. This instrument comes into force on 31 December 2021.

Citation

F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Minimum Capital Requirement Instrument 2021.

By order of the Prudential Regulation Committee

14 December 2021

ANNEX

Amendment to the Minimum Capital Requirement Part

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

…

4 FREQUENCY AND REPORTING IN RELATION TO THE MINIMUM CAPITAL REQUIREMENT

4.1 A *firm* must calculate the *MCR* at least quarterly and report the results of that calculation to the *PRA* ~~at least quarterly~~ in accordance with the requirements laid down in Reporting 2.1 to 2.5.

..