

10		Concentration risk requirements	
10.1		Application and Purpose	
		Application	
10.1.1	R	<p><u>This chapter applies to a BIPRU firm. It applies irrespective of whether the firm adopts the standardised approach or the IRB approach. If it adopts the IRB approach, it applies irrespective of whether the firm adopts the foundation IRB approach or the advanced IRB approach.</u></p>	
		Purpose	
10.1.2	G	(1)	<p>BIPRU 10 <u>This chapter</u> sets out <i>rules and guidance for large exposures</i> and implements <u>the concentration risk capital component (the CNCOM), implementing</u> the <i>large exposures</i> requirements of articles <u>66(3) (in part) and 106 to 117</u> and paragraph 7 of Annex V of the <i>Banking Consolidation Directive</i> and articles 28 to 32 <u>and Annex VI</u> of the <i>Capital Adequacy Directive</i>.</p>
<u>10.1.3</u>	<u>G</u>	(2)	<p>A <i>large exposure</i> may be in the form of a loan to a single borrower, or it may arise across many transactions involving different types of financial instruments with several <i>counterparties</i> within the same group of companies. Where a <i>firm's exposure</i> to its <i>counterparty</i> is large, it risks a large loss should the <i>counterparty</i> default. Such a loss may be sufficient on its own to threaten the solvency of the <i>firm</i>.</p>
<u>10.1.4</u>	<u>G</u>	(3)	<p>The purpose of BIPRU 10 <u>this chapter</u> is to ensure that a <i>firm</i> manages its <i>exposure to counterparties</i> within appropriate limits set in relation to its <i>capital resources</i>.</p>
		<u>Restricted application for UCITS investment firms</u>	
<u>10.1.5</u>	R		<p><u>This chapter only applies to a UCITS investment firm with respect to its designated investment business. For this purpose scheme management activity is excluded from designated investment business.</u></p>

10.2 Identification of exposures

10.2 R ~~(1) Unless BIPRU 10.2.2R applies, an~~
.1 ~~exposure is any of the items included in~~
~~BIPRU 3.2.9R (Exposure classes for the~~
~~purposes of the *standardised approach*) or~~
~~the table in BIPRU 3.7.2R (Classification~~
~~of off-balance-sheet items for the~~
~~purposes of the *standardised approach*),~~
~~whether held in the *trading book* or the~~
~~*non-trading book*, without application of~~
~~the *risk weight* or degrees of risk there~~
~~provided for.~~

~~Unless BIPRU 10.2.2R applies, an~~
~~*exposure* is any of the items included~~
~~in ~~BIPRU 3.2.XR [xx: standardised~~~~
~~credit risk] or the table in BIPRU~~
~~3.7.2R, whether held in the *trading*~~
~~*book* or the *non-trading book*, without~~
~~application of the *risk weight* or~~
~~degrees of risk there provided for.~~

~~(2) An *exposure* includes a *trading book* position in accordance with~~
~~BIPRU 10.4.6R and a notional position as described in BIPRU~~
~~10.4.7R.~~

10.2.2 R An *exposure* does not include:

- (1) an *exposure* which is entirely deducted from a *firm's capital resources*;
- (2) in the case of *foreign currency* transactions, *exposures* incurred in the ordinary course of settlement during the 48 hours following payment; or
- (3) in the case of transactions for the purchase or sale of *securities*, *exposures* incurred in the ordinary course of settlement during the five working days following payment or delivery of the *securities*, whichever is earlier.

10.2.3 G An *exposure* does not include:

- (1) a transaction entered into by a *firm* as trustee or agent without personal liability on the part of the *firm*;
- (2) indemnities for lost share certificates; or
- (3) (where the *firm* acts as lessor, mortgagee or owner of goods under a hire-purchase arrangement) contingent liabilities for injuries, damage or loss on the part of the *counterparty* to that arrangement in respect of the goods that are the subject of that arrangement.

10.2.4 G If a *firm* takes a credit risk charge against an *exposure* equal to the value of that *exposure*, this can count as a capital deduction for the purposes of BIPRU 10.2.2R(1).

10.3 Identification of counterparties

10.3.1 R An individual *counterparty* may be a natural or legal *person*.

10.3.2 G Examples of a *counterparty* include:

- (1) the *customer* or borrower; this includes governments, local authorities, public sector entities, individual trusts, corporations, unincorporated businesses (whether as *sole traders* or *partnerships*) and non-profit making bodies;
- (2) where the *firm* is providing a guarantee, the *person* guaranteed;
- (3) for a *derivatives* contract, the *person* with whom the contract was made;
- (4) for exchange traded contracts novated through a central clearing mechanism, that central clearing mechanism;
- (5) where a bill held by a *firm* has been accepted by a *credit institution*, the acceptor; and
- (6) where a *firm* is funding the activities of a *company* that trades on an exchange (whether as principal or on behalf of clients), that *company*.

Identification of counterparties for guaranteed exposures

- 10.3.3 R
- (1) ~~Subject to a firm meeting the conditions in relation to credit risk management in BIPRU 5.X.XR where~~ Where an *exposure* to a *counterparty* is guaranteed by a third party, a *firm* may treat the *exposure* as an *exposure* to the third party and not to the *counterparty*.
 - (2) In deciding whether or not to treat the *exposure* as an *exposure* to the third party a *firm* must ensure that the identification of *counterparties* for concentration risk purposes is applied in a consistent manner.
 - (3) Where the guarantee is denominated in a currency different from that in which the *exposure* is denominated, the amount of the *exposure* deemed to be covered must be calculated in accordance with the provisions on the treatment of currency mismatch for *unfunded credit protection* in BIPRU 5 ([Credit risk mitigation](#)) and, if applicable, ~~BIPRU 4.10.4.10~~ [\(The IRB approach: Credit risk mitigation\)](#).
 - (4) A mismatch between the maturity of the *exposure* and the maturity of the protection must be treated in accordance with the provisions on the treatment for maturity mismatch in BIPRU 5 and, if applicable, BIPRU 4.10.

- (5) Partial coverage must be treated in accordance with *BIPRU 5* and, if applicable, *BIPRU 4.10*.
- (6) A guarantee may only be treated in accordance with (1) if the *firm* complies with the eligibility requirements and other minimum requirements set out in *BIPRU 5* and, if applicable, *BIPRU 4.10* for the purposes of calculating *risk-weighted exposure amounts* ~~under the *standardised approach*~~.
- (7) For the purpose of this *rule*, guarantee includes a credit derivative recognised under *BIPRU 5* and, if applicable, *BIPRU 4.10*, other than a credit linked note.

10.3.4

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An example of the eligibility requirements and other minimum requirements set out in *BIPRU 5* as referred to in *BIPRU 10.3.3R(6)* is the requirement for a legal review in *BIPRU 5.2.3R*.

Groups of connected clients

~~10.3.4~~
~~10.3.5~~

G The *Glossary* defines a *group of connected clients*.

~~10.3.5~~
~~10.3.6~~

G ~~(1)~~ Relationships between individual *counterparties* which might be considered to constitute a single risk for the purposes of the definition of *group of connected clients* include:

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) ~~(a)~~ undertakings in the same group;

~~undertakings in the same group;~~

(
2
) ~~(b)~~ companies whose ultimate owner (whether wholly or significantly) is the same individual or individuals, and which do not have a formal group structure;

~~companies whose ultimate owner (whether wholly or significantly) is the same individual or individuals, and which do not have a formal group structure;~~

(
3
) ~~(c)~~ companies having common directors or management; and

~~companies having common directors or management; and~~

(
4
) ~~(d)~~ counterparties linked by cross guarantees

~~counterparties linked by cross guarantees~~

[10.3.7](#) [G](#) ~~(2)~~ The FSA would not regard the normal business relationships between companies which are competitors, and to which none of the relationships listed in ~~(4)~~ [BIPRU 10.3.6G](#) apply, as falling within the definition of *group of connected clients*.

Connected counterparties

~~10.3.6~~[10.3.8](#) [R](#) For the purposes of BIPRU 10, and in relation to a *firm*, a *connected counterparty* means another *person* ('P') to whom the *firm* has an *exposure* and who fulfils at least one of the following conditions:

- (1) P is *closely related* to the *firm*; or
- (2) P is an *associate* of the *firm*; or
- (3) the same *persons* significantly influence the *governing body* of P and of the *firm*; or
- (4) the *firm* has an *exposure* to P that was not incurred for the clear commercial advantage of the *firm* or the *firm's group* and which is not on an arm's length basis.

Exposures to counterparties, groups of connected clients and connected counterparties

~~10.3.7~~[10.3.9](#) [R](#) A *firm's total exposure* to a *counterparty* must be calculated by summing its *exposures* to that *counterparty*, including both trading book exposures and non-trading book exposures.

~~10.3.8~~[10.3.10](#) [R](#) A *firm's total exposure* to a *group of connected clients* must be calculated by summing its *exposures* to the individual *persons* within that *group of connected clients*, including both trading book exposures and non-trading book exposures.

~~10.3.9~~[10.3.11](#) [R](#) A *firm's total exposure* to *connected counterparties* must be calculated by summing its *exposures* to all the *firm's connected counterparties*, including both trading book exposures and non-trading book exposures.

Exposures to trustees

~~10.3.10~~[10.3.12](#) [R](#) If a *firm* has an *exposure* to a *person* ('A') when A is acting on his own behalf, and also an *exposure* to A when A acts in his capacity as trustee, custodian or general partner of an investment trust ~~or~~, unit trust ~~or~~, venture capital or other investment fund ~~or~~, pension fund or a similar fund (a "fund"), the *firm* may treat the latter *exposure* as if it was ~~an exposure to a different person~~ to the fund, unless such a treatment would be misleading.

~~10.3.11~~[10.3.13](#) [G](#) When considering whether the treatment described in BIPRU ~~10.3.10~~[10.3.12](#)R is misleading, factors a *firm* should consider include:

- (1) the degree of independence of control of the fund, including the

relation of the fund's board and senior management to the *firm* or to other funds or to both;

(2) the terms on which the *counterparty*, when acting as trustee, is able to satisfy its obligation to the *firm* out of the fund of which it is trustee;

(23) whether the beneficial owners of the fund are connected to the *firm*, or related to other funds managed within the *firm's* group, or both; and

(34) for a *connected counterparty*, whether the ~~loan is made~~ exposure arises from a transaction entered into on an arm's length basis.

~~10.3.121~~ 0.3.14 G In deciding whether a transaction is at arm's length for the purposes of *BIPRU* ~~10.3.6R~~ 10.3.8R(4) and *BIPRU* ~~10.3.11G~~ (310.3.13G)(4), the following factors should be taken into account:

- (1) the extent to which the *person* to whom the *firm* has an *exposure* ('A') can influence ~~at~~ the *firm's* operations, through e.g. the exercise of voting rights;
- (2) the management role of A where A is also a director of the *firm*; and
- (3) whether the ~~loan~~ exposure would be subject to the *firm's* usual monitoring and recovery procedures if repayment difficulties emerged.

10.4 Measurement of exposures to counterparties and issuers

General

10.4.1	R	Unless specifically mentioned, <i>BIPRU</i> 10.4 applies both to <i>non-trading book</i> and <i>trading book exposures</i> .
10.4.2	R	Unless <i>BIPRU</i> 10.4.3R applies, when calculating an <i>exposure</i>, a firm must include accrued interest and dividends due.
10.4.3	R	A firm may use the following method of calculating the total amount of a firm's total exposures in the non-trading book to a counterparty, connected counterparties, or group of connected clients as an alternative to that in <i>BIPRU</i> 10.4.2R: <ol style="list-style-type: none">(1) if the total amount of the exposures is less than 20% of the firm's capital resources, the accrued interest element need not be included in the calculation of the amount of the exposures in the non-trading book;(2) if the total amount of the exposures is more than 20% (but less than 25%) of the firm's capital resources, the firm must be able to demonstrate that the total amount of the exposures, including the accrued interest element, is below the 25% limit in <i>BIPRU</i> 10.5.4R and that the 25% limit in <i>BIPRU</i> 10.5.9R has not been exceeded.
10.4.4	G	The reason for <i>BIPRU</i> 10.4.3R is the systems difficulties of including accrued interest in the total amount of exposures in the non-trading book.
10.4.5	R	A firm must not offset non-trading book and trading book exposures.
10.4.6	R	The exposures to an individual counterparty which arise on the trading book must be calculated by summing the following items:— <ol style="list-style-type: none">(1) the excess—where positive—of the firm's long positions over its short positions in all the CRD financial instruments issued by the counterparty in question, in accordance with <i>BIPRU</i> 10.4.14R;(2) the firm's net underwriting exposure to that counterparty; and(3) the exposures due to the transactions, agreements and contracts referred to in <i>BIPRU</i> 14 with the counterparty in question.
10.4.7 10.4.10 4.2	R	(1) For the purpose of calculating the value of an exposure, exposures are divided into counterparty exposures and issuer exposures.
10.4.3	R	(2) For the purposes of <i>BIPRU</i> 10, an <u>When calculating a firm's total exposure to a counterparty it must sum the counterparty exposures and the issuer exposure means: exposures to that counterparty.</u>
<u>10.4.4</u>	<u>G</u>	<u>The same asset may give rise to a counterparty exposure and an issuer exposure. For example a purchased option creates an exposure to the other</u>

party to the option and the issuer of the underlying security.

Definition of issuer exposures

10.4.5 R The issuer exposure to an individual counterparty must be calculated by summing the following items:

- (1) the excess — where positive — of the firm's long positions over its short positions in all the CRD financial instruments issued by the counterparty in question, in accordance with BIPRU 10.4.28R (Further details about the calculation of issuer exposures: Establishing the net position in the non-trading book) and BIPRU 10.4.30R (Further details about the calculation of issuer exposures: Establishing the net position in the trading book); and
- (2) the firm's net underwriting exposure to that counterparty.

Definition of issuer exposures: Position risk

10.4.6 R An issuer exposure to a person in the non-trading book does not include an exposure that gives rise to a counterparty exposure to that person.

10.4.7 G (a) In general an issuer exposure in the non-trading book means any exposure that, if it were in the trading book and subject to the standard market risk PRR rules:

- (1) (b) in the case of a derivative in relation to a CRD financial instrument) would give rise to a notional position in the CRD financial instrument underlying that derivative; or

any exposure in the trading book that gives rise to a position that is subject to the market risk capital requirement under the standard market risk PRR rules; and

any exposure in the non-trading book that, if it were in the trading book and subject to the standard market risk PRR rules:

(i) — (in the case of a derivative in relation to a CRD financial instrument) would give rise to a notional position in the CRD financial instrument underlying that derivative; or

(ii) — would give rise to a similar notional position in a CRD financial instrument other than the one that the firm actually holds.

- (2) would give rise to a similar notional position in a CRD financial instrument other than the one that the firm actually holds.

- 10.4.8 G [A credit linked note may be an example of an instrument falling within BIPRU 10.4.7G\(2\).](#)
- 10.4.9 G [A firm's long physical position in a security held in the non-trading book is generally included as a counterparty exposure rather than an issuer exposure.](#)
- 10.4.10 G [BIPRU 10.4.5R\(1\) includes any exposure in the trading book or non-trading book that would give rise to a notional position under the standard market risk PRR rules.](#)
- 10.4.11 G [The netting of long and short positions under BIPRU 10.4.5R\(1\) includes the notional positions in the underlying which arise from derivative transactions.](#)
- 10.4.12 R [For the purposes of BIPRU 10.4.5R\(1\), a firm may, when calculating its net position in CRD financial instruments in the non-trading book, include counterparty exposures excluded from the issuer exposure calculation under BIPRU 10.4.6R. However any counterparty exposure used in this way is still subject to the provisions of this chapter about counterparty exposures.](#)
- 10.4.13 G [This paragraph illustrates how BIPRU 10.4.12R works. Say that a firm has a holding of shares in its non-trading book. Say that the firm has bought a put option over those shares, which it also holds in its non-trading book. The holding of shares gives rise to a counterparty exposure to the issuer of those shares and the option gives rise to a counterparty exposure to the person who wrote the option. The option also gives rise to an issuer exposure to the issuer of the shares. The firm may use BIPRU 10.4.12R to eliminate that issuer exposure by netting its position to zero by taking into account its long non-trading book position in those shares. If it does so, the firm will still have counterparty exposures to the issuer of the shares and the counterparty under the option.](#)
- 10.4.14 G [Another example of how BIPRU 10.4.12R works is this. Say that a firm has a long non-trading book position in a debt security together with an offsetting credit derivative. If the conditions in BIPRU 10.3.3R \(Identification of counterparties for guaranteed exposures\) are met the firm may, for the purposes of the calculation of the counterparty exposure, treat itself as having an exposure to the provider of the credit derivative rather than to the issuer of the debt security. This means that the counterparty exposure to the issuer of the debt security is zero. In calculating the issuer exposure the firm may net the long position in the debt security against the short notional position arising out of the credit derivative. The effect is that the issuer exposure to the issuer of the debt security is also zero. Hence the firm has no exposure to the issuer of the debt security.](#)
- 10.4.15 R [To the extent that BIPRU 10.4 does not otherwise explain what positions are included in BIPRU 10.4.5R\(1\) or how to calculate a net position for the purpose of BIPRU 10.4.5R\(1\), a firm must apply the provisions of the applicable standard market risk PRR rules or the ones that would apply if](#)

10.4.16 R the position were in the trading book.
A firm must not offset exposures in the non-trading book and trading book against each other for the purpose of calculating an issuer exposure except to the extent allowed by the standard market risk PRR rules.

10.4.17 R ~~(3)~~For the purposes of ~~BIPRU 10, the counterparty or issuer~~ this chapter, the counterparties with respect to an exposure falling into ~~(2)~~ BIPRU 10.4.5R(1) are the ~~person~~ persons who ~~is~~ are or would be treated as ~~the~~ an obligor under the standard market risk PRR rules in question.

~~(4)~~For the purposes Definition of ~~BIPRU 10, a counterparty exposure means any exposure not within (2).~~ issuer exposures: Underwriting

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In accordance with BIPRU 7.8 (Securities underwriting), a firm should include net underwriting exposures to an issuer in the calculation of its total exposure to that issuer.

Definition of counterparty exposures

10.4.19 R A counterparty exposure means, with respect to the non-trading book, any exposure as defined in BIPRU 10.2 (Identification of exposures) held in the non-trading book.

10.4.20 R A counterparty exposure means, with respect to the trading book, any exposure as defined in BIPRU 10.2 (Identification of exposures) due to the transactions, agreements and contracts referred to in BIPRU 14.2.2R (List of trading book exposures that give rise to a counterparty risk credit charge) and held in the trading book, including credit derivatives.

10.4.21 G For example BIPRU 10.4.19R to BIPRU 10.4.20R mean that a share only gives rise to a counterparty exposure when it is held in the non-trading book.

Calculation of counterparty exposures

~~10.4.8~~10
~~4.22~~ R ~~(1)~~Subject to ~~(2) and (3)~~ BIPRU 10.4.23R to BIPRU 10.4.24R, the value of a firm's counterparty exposures, whether in its non-trading book or its trading book, is the amount at risk calculated in line with ~~GENPRU 4.3.1.3~~ (Valuation).

10.4.23 R ~~(2)~~A firm ~~which has a trading book~~ must calculate the value of its counterparty exposures in its trading book ~~due to the transactions, agreements and contracts referred to in BIPRU 14.X.XR [xx: Annex II]~~ in the manner laid down in BIPRU 14 (Capital requirements for settlement and counterparty risk) for the calculation of exposure values. For these

purposes the reference [in BIPRU 14.2.11R \(How to calculate exposure values and risk-weighted exposure amounts for the purpose of calculating the counterparty risk capital component\)](#) to the provisions of the *IRB approach* ~~must be excluded from the reference in BIPRU 14.X~~ does not apply. ~~XR [para 5 Annex H]~~

[10.4.24](#) R ~~(3) Exposures~~ Counterparty exposures arising from ~~the items referred to in the definition of~~ *financial derivative instruments* must be calculated in accordance with one of the methods set out in [BIPRU 13.13 \(Financial derivatives, SFTs and long settlement transactions\)](#). For the purposes of [BIPRU 10, \[Annex III, Part 2, paragraph 2\]](#) this chapter, BIPRU 13.6.6R (Scope of CCR internal model method) also applies.

[10.4.25](#) Iss
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s-R A firm must not offset exposures in the non-trading book and trading book for the purpose of calculating counterparty exposures except to the extent permitted under the standardised approach or, if applicable, the IRB approach.

[10.4.26](#) R For the purposes of this chapter, the counterparty with respect to a counterparty exposure is the person who would be treated as the person to which the firm has the exposure under the standardised approach or, if applicable, the IRB approach.

[Further details about the calculation of issuer exposures: General](#)

~~10.4.9~~ [10.4.27](#) R BIPRU ~~10.4.10~~10.4.28R to BIPRU ~~10.4.26~~10.4.42R apply to issuer exposures arising under BIPRU 10.4.5R(1).

[Further details about the calculation of issuer exposures: Establishing the net position in the non-trading book](#)

~~10.4.101~~ [0.4.28](#) R A firm must calculate the value of an exposure to the issuer of a ~~security~~CRD financial instrument which is held in the firm's non-trading book as the sum of the excess, where positive, of the book value of all long positions over all short positions (the net long position), for each identical CRD financial instrument issued by that issuer.

~~10.4.111~~ [0.4.29](#) R For the purposes of BIPRU ~~10.4.10~~10.4.28R, short positions in one ~~security~~CRD financial instrument may be used to offset long positions in a non-identical ~~security~~CRD financial instrument issued by the same issuer if both the ~~securities~~CRD financial instrument are denominated in the same currency, and:

(1) where both the ~~securities~~CRD financial instrument are fixed rate, they are within the same residual maturity time band, one year or less, or over one year; or

(2) where both the ~~securities~~CRD financial instrument are index linked, they are within the same residual maturity time band referred to in

(1); or

(3) both the ~~securities~~ CRD financial instrument are floating rate.

Further details about the calculation of issuer exposures: Establishing the net position in the trading book

~~10.4.12 R For the purposes of BIPRU 10.4.10R, a firm may, when calculating its net position in any security in the non-trading book, take into account counterparty exposures. However any counterparty exposure used in this way is still subject to the provisions of BIPRU 10 about counterparty exposures.~~

~~10.4.13 G This paragraph illustrates how the distinction between counterparty exposures and issuer exposures in BIPRU 10.4.6R works. Say that a firm has a holding of shares in its non-trading book. Say that the firm has bought a put option over those shares, which it also holds in its non-trading book. The holding of shares gives rise to a counterparty exposure to the issuer of those shares and the option gives rise to a counterparty exposure to the person who wrote the option. The option also gives rise to an issuer exposure to the issuer of the shares. The firm may use BIPRU 10.4.12R to eliminate that issuer exposure by netting its position to zero by taking into account its long non-trading book position in those shares. If it does so, the firm will still have counterparty exposures to the issuer of the shares and the counterparty under the option.~~

10.4.141 R A firm must calculate the value of an exposure to the issuer of a ~~security~~ CRD financial instrument which is held in the firm's trading book by calculating the excess of the current market value of all long positions over all short positions in all the ~~securities~~ CRD financial instruments issued by that issuer.
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Further details about the calculation of issuer exposures: Netting

10.4.151 R For the purposes of BIPRU ~~10.4.11~~10.4.28R and BIPRU ~~10.4.14~~10.4.30R, the short positions must be netted against the long positions in ~~securities~~ CRD financial instruments with the highest specific risk PRAs.
0.4.31

Further details about the calculation of issuer exposures: Netting between different issuers

10.4.161 R A firm must not offset an exposure to one issuer against an exposure to another issuer (whether in the trading book or the non-trading book) even where:
0.4.32

- (1) the issuers are a *group of connected clients*; and
- (2) the exposures are non-identical exposures which meet the conditions in BIPRU ~~[xx]~~10.4.29R.

Further details about the calculation of issuer exposures: Forward agreements

- [10.4.171](#) [0.4.33](#) R A *firm* must include as a long *position* a commitment by it to buy:
- (1) a *debt security* or an equity at a future date; and
 - (2) under a note issuance facility, at the request of the issuer, a *security* which is unsold on the issue date.

- [10.4.181](#) [0.4.34](#) R A *firm* must include as a short *position* a commitment by it to sell a *debt security* or an equity at a future date.

[Further details about the calculation of issuer exposures:](#) Interest rate, foreign currency and equity swaps

- [10.4.191](#) [0.4.35](#) G An interest rate leg of an equity *swap*, or an interest rate or currency *swap*, does not generate an *issuer exposure*.

- [10.4.201](#) [0.4.36](#) R Where the equity leg of an equity *swap* is based on the change in value of an individual equity, it must be treated as giving rise to an *exposure* to the issuer of the equity.

[Further details about the calculation of issuer exposures:](#) Option positions

- [10.4.211](#) [0.4.37](#) R When determining its *exposure* to an issuer arising from an *option*, a *firm* must value ~~the notional principal of~~ an *option* as the amount of principal underlying the *option*.

- [10.4.221](#) [0.4.38](#) R A *firm* must treat:
- (1) a written put *option* as a long *position* in the underlying *security* valued at the strike price or the market price of the underlying *security*, whichever is lower;
 - (2) a purchased put *option* as a short position in the underlying *security* valued at the strike price or the market price of the underlying *security*, whichever is lower; and
 - (3) a purchased call *option* as a long *position* in the underlying *security* equal to the book value of the *option* provided that the contract has been given a book value in the *firm's* accounts.

- [10.4.231](#) [0.4.39](#) G A written call *option* does not generate ~~exposure to~~ an issuer [exposure](#).

- [10.4.241](#) [0.4.40](#) R (1) This *rule* applies in relation to an *option* if a *firm*:
- (a) has a *CAD 1 permission*;
 - (b) the scope of the *CAD 1 waiver* covers that *option*; and

- (c) the *CAD 1 permission* is for a *CAD 1 model* for option risk aggregation as described in *BIPRU 7.9.7G* ([Types of CAD 1 model](#)).
- (2) This *rule* also applies in relation to an *option* if a *firm*:
- (a) has a *VaR model permission*; and
 - (b) the scope of the *VaR model permission* covers that *option*.
- (3) ~~The firm may use the model~~ A *firm* may take as the exposure value [of an option the delta weighted value of the notional underlying the option calculated using the models](#) described in (1) and (2) ~~for the purpose of calculating the market value of that option~~, to the extent that those values are relevant for the calculations in *BIPRU* ~~[xx]~~[10.4.37R](#).

[Further details about the calculation of issuer exposures:](#) Indices and baskets of equities or securities

~~10.4.251~~
[0.4.41](#) R Subject to *BIPRU* ~~10.4.261~~[10.4.42R](#), a *firm* must treat an index or basket of debt *securities* or equities as giving rise to a series of *exposures* to the issuers of the underlying *securities* or equities in accordance with the provisions of *BIPRU 7.2* ([Interest rate PRR](#)) or *BIPRU* ~~7.3-7.3~~[7.3](#) ([Equity PRR and basic interest rate PRR for equity derivatives](#)).

~~10.4.261~~
[0.4.42](#) R A *qualifying equity index* does not generate an *exposure* of the type described in *BIPRU* ~~10.4.251~~[10.4.41R](#).

Securities financing transactions

~~10.4.271~~
[0.4.43](#) R A *firm* with *securities financing transactions* in its *trading book* or its *non-trading book* must calculate its exposure to:

- (1) the issuer of the *security* it has sold in a *repurchase agreement*; and
- (2) the counterparty [to the securities financing transaction](#) (subject to *BIPRU 10.3.3R* ([Identification of counterparties for guaranteed exposures](#)) and *BIPRU 10.6* ([Exemptions](#))).

[Underwriting](#) [Treatment of accrued interest and dividends due](#)

~~10.4.281~~
[0.4.44](#) GR ~~In accordance with BIPRU 7.8.31R, for the purposes of calculating the concentration risk capital component, a firm should include net underwriting exposures to an issuer in the calculation of its total exposure to that issuer~~ Subject to *BIPRU 10.4.45R*, when calculating an *exposure*, a *firm* must include [accrued interest and dividends due](#).

[10.4.45](#) R [A firm may use the following method of calculating the total amount of a firm's exposures in the non-trading book to a counterparty, connected counterparties or a group of connected clients as an alternative to that in](#)

BIPRU 10.4.44R:

- (1) if the total amount of the *exposures* is less than 20% of the *firm's capital resources* (ignoring accrued interest), the accrued interest element need not be included in the calculation of the amount of the *exposures* in the *non-trading book*; and
- (2) if the total amount of the *exposures* (ignoring accrued interest) is more than 20% (but less than 25%) of the *firm's capital resources*, the *firm* must be able to demonstrate that the total amount of the *exposures*, including the accrued interest element, meet the limits in *BIPRU 10.5 (Limits on exposures and large exposures)* and that it meets any related *CNCOM*.

10.4.46 G The reason for *BIPRU 10.4.45R* is the systems difficulties of including accrued interest in the total amount of *exposures* in the *non-trading book*.

Exposures to undisclosed counterparties

~~10.4.291~~
0.4.47 R A *firm* must not incur an *exposure* to an undisclosed *counterparty* unless:

- (1) it has satisfied itself that it will continue to meet the limits in *BIPRU 10.5 (Limits on exposures and large exposures)* for *non-trading book exposures* and *trading book exposures* and will continue to meet any *CNCOM*; and
- (2) it has made and retained a record of the steps it has taken to comply with (1).

10.5 Limits on exposures and large exposures

Definition of large exposure

- 10.5.1 R *A large exposure of a firm means its total exposure to a counterparty, connected counterparties, or a group of connected clients, whether in the firm's non-trading book or trading book or both, which in aggregate equals or exceeds 10% of the firm's capital resources.*

Capital Definition of capital resources

10.5.2 R *A firm must calculate its capital resources for the purposes of this chapter in accordance with GENPRU 2.2 (Capital resources) and BIPRU 10.5.3R to BIPRU 10.5.5R*

~~10.5.2~~10.5.3 R ~~For~~ Subject to BIPRU 10.5.4R, for the purposes of ~~the large exposure limits in BIPRU 10.5 in the trading book and the non-trading book~~ this chapter, a firm's capital resources mean ~~total~~ capital resources calculated at stage (N) of the calculation in the capital resources table (Total tier one capital resources plus tier two capital ~~resources~~ after deductions ~~(stage (P) of the capital resources table)~~.

~~10.5.3~~10.5.4 R For the purposes of monitoring against the *trading book* limits and charge regime, as set out in ~~BIPRU 10.5.9~~10.5.11R ~~to BIPRU 10.5.12~~10.5.22R, and calculating a firm's CNCOM ~~in accordance with BIPRU 10.5.14R~~, a firm's capital resources may include *tier three capital resources*, in which case a firm's capital resources mean *capital resources* calculated at stage ~~(V)~~ (VI) of the *capital resources table* (Total capital after deductions).

10.5.5 ~~No~~ A firm must not take into account the following items:

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- (1) surplus provisions (see GENPRU 2.2.190R to GENPRU 2.2.193R); or
- (2) expected loss amounts and other negative amounts (see GENPRU 2.2.236R); or
- (3) securitisation positions (see GENPRU 2.2.237R).

Non-trading book limits

~~10.5.4~~10.5.10 R *A firm must ensure that the total amount of its exposures to the following*

.5.6 does not exceed 25% of its *capital resources* ([as determined under BIPRU 10.5.2R](#), [BIPRU 10.5.3R](#) and [BIPRU 10.5.5R](#)):

- (1) a *counterparty*; or
- (2) a *group of connected clients*; or
- (3) its *connected counterparties*.

~~10.5.5~~10.5.7 G ~~BIPRU 10.5.4R creates a single limit for each of the types of exposure listed in BIPRU 10.5.4R (1) to (3). Accordingly, if~~ *If a connected counterparty is also a member of a group of connected clients the limit in BIPRU ~~10.5.4~~10.5.6R covers the aggregate of the total amount of the firm's exposures to its connected counterparties and of the total amount of its exposures to that group of connected clients.*

~~10.5.6~~10.5.8 R A firm must not incur *large exposures* which in total exceed 800% of its *capital resources* ([as determined under BIPRU 10.5.2R](#), [BIPRU 10.5.3R](#) and [BIPRU 10.5.5R](#)).

~~10.5.7~~10.5.9 R If a firm exceeds (or is aware that it will exceed) the limits in [BIPRU ~~10.5.4~~10.5.6R](#) or [BIPRU ~~10.5.6~~10.5.8R](#) it must notify the FSA without delay.

~~10.5.8~~10.5.10 G A report under [BIPRU ~~10.5.7~~10.5.9R](#) should be made in exceptional circumstances only. A firm which makes such a report should also provide the FSA with an explanation as to how the limits came to be exceeded, and a plan of action for bringing its *exposures* within the limits. The FSA may, where the circumstances warrant it, allow a firm a limited period of time in which to comply with the limits.

Trading book limits

~~10.5.9~~10.5.11 R *Exposures* in a firm's trading book are exempt from the 25% and 800% limits in [BIPRU ~~10.5.4~~10.5.6R](#) and [BIPRU ~~10.5.6~~10.5.8R](#) if:

- (1) the total amount of the *exposures* on the firm's non-trading book to the same counterparty or group of connected clients [or to its connected counterparties](#) does not exceed the limits laid down in those rules, calculated with reference to the definition of *capital resources* set out in [BIPRU ~~10.5.1~~10.5.2R](#), [BIPRU 10.5.3R](#) and [BIPRU 10.5.5R](#), so that the excess arises entirely on the trading book; and
- (2) the firm meets the additional capital requirements relating to the *concentration risk capital component (CNCOM)* in relation to the relevant trading book exposures.

~~10.5.10~~ R ~~A trading book concentration risk excess arises if the total amount of a firm's trading book exposure to a counterparty or to a group of connected clients, when added to any non-trading book exposure to that counterparty~~

~~or group of connected clients, exceeds 25% of the firm's capital resources and that excess is permitted by BIPRU 10.5.9R(1).~~

~~10.5.111~~ 0.5.12 R If a trading book concentration risk excess with respect to a counterparty or ~~to a group of connected clients~~ or to its connected counterparties has existed for 10 business days or less, the firm must ensure that the total amount of its trading book exposures to that counterparty or group of connected clients or to its connected counterparties does not exceed 500% of the firm's capital resources.

~~10.5.121~~ 0.5.13 R A firm must ensure that the total amount of its trading book concentration risk excesses that have persisted for more than 10 business days does not exceed 600% of its capital resources.

~~10.5.131~~ 0.5.14 R Within ~~[]~~ 30 business days of the end of each third ~~month~~ Month, a firm must notify the FSA of all cases ~~in the three month period ending at the end of that third month of each of~~ trading book concentration risk ~~excess that existed~~ excesses in that three Month period, giving the amount of the excess and the name of the counterparty.

10.5.15 G A trading book concentration risk excess is defined in BIPRU 10.5.20R.

How to calculate the concentration risk capital component

~~10.5.141~~ 0.5.16 ~~R~~ G A firm's CNCOM ~~must~~ should be calculated as part of its credit risk capital requirement (CRCR) in accordance with ~~GENPRU 2.1.2.1~~ (Calculation of capital resources requirements).

~~10.5.151~~ 0.5.17 R A firm's CNCOM is the sum of its individual counterparty CNCOMs.

~~10.5.161~~ 0.5.18 R An individual counterparty CNCOM is the amount a firm must calculate in accordance with ~~BIPRU 10.5.18~~ 10.5.20R with respect to its exposures to a particular counterparty or a group of connected clients or to its connected counterparties.

~~10.5.171~~ 0.5.19 G A CNCOM calculation on a trading book exposure is in addition to, and not instead of, any capital requirement arising under the market risk capital requirement or counterparty risk capital component.

~~10.5.181~~ 0.5.20 R A firm must calculate its individual counterparty CNCOM for its exposures to a counterparty or group of connected clients ~~that give rise to a trading book concentration risk excess~~ or to its connected counterparties as follows:

- (1) break down its total exposure into its ~~component parts~~ trading book and non trading book components;
- (2) calculate 25% of the firm's capital resources and deduct those parts of the total exposure which are in the non-trading book;
- (3) if the non-trading book exposures deducted in (2) equal 25% of the firm's capital resources, steps (4) ~~and (5) do not apply~~, (5) and (6)

do not apply and if so the trading book concentration risk excess means, with respect to a counterparty, a group of connected clients or its connected counterparties, all trading book exposures to that counterparty or group of connected clients or to its connected counterparties;

(4) if the total amount of the *non-trading book exposures* deducted in (2) is less than 25% of the *firm's capital resources*, ~~take out from the calculation~~ a firm must allocate (in the order set out in (5)) ~~the component parts of the firm's total trading book exposure until the total amount deducted equals 25% of the firm's capital resources~~ trading book exposures to the unutilised portion of the 25% limit to that counterparty or counterparties or to its connected counterparties;

(5) no further trading book exposures can be allocated once the 25% limit has been reached; the remaining trading book exposures constitute the trading book concentration risk excess with respect to that counterparty or group of connected clients or to its connected counterparties;

(56) for the purposes of (4), ~~take out first those component parts of the firm's total~~ a firm must allocate first the individual trading book exposure exposures with the lowest capital requirements for *specific risk* under the *market risk capital requirement* and/or the lowest capital requirements under the *counterparty risk capital component* and allocate those trading book exposures with the highest capital requirements last;

(67) the *individual counterparty CNCOM* is the sum of the capital requirements for each individual *exposure* included in the ~~firm's remaining total trading book exposure~~ concentration risk excess in accordance with (78) and (89) (each such capital requirement being an individual CNCOM);

(78) if the *trading book concentration risk excess* has persisted for 10 *business days* or less (irrespective of the age of each component part), the *individual CNCOMs* must be calculated in accordance with this formula:

each *individual CNCOM* = capital requirement referred to in (56) x 200%;

(89) if the *trading book concentration risk excess* has persisted for more than 10 *business days* (irrespective of the age of each component part), the *individual CNCOMs* must be calculated in accordance with this formula:

each *individual CNCOM* = capital requirement referred to in (56) x appropriate percentage in ~~BIPRU 10.5.20~~ 10.5.21R.

- [10.5.191](#) [0.5.21](#) R The appropriate percentage referred to in *BIPRU* ~~10.5.18R~~ (~~8~~[10.5.20R](#)(~~9~~) must be established in accordance with the following:
- (1) the ~~component parts of the firm's total trading book exposure remaining after the procedure in *BIPRU* 10.5.18R~~[individual exposures included in the trading book concentration risk excess](#) must be assigned to the bands in the first column of the table in *BIPRU* ~~10.5.20~~[10.5.22R](#);
 - (2) the maximum amount that may be put in any band other than the last equals the percentage of the *firm's capital resources* in column 1 of that table;
 - (3) no amount may be allocated to the second or any later band unless the one before has been filled;
 - (4) *exposures* must be assigned to the bands in the order established by *BIPRU* ~~10.5.18~~[10.5.20R](#)(~~5~~[6](#)); and
 - (5) for the purposes of (4), those *exposures* with the lowest capital requirements (as referred to in *BIPRU* ~~10.5.18R~~ (~~5~~[10.5.20R](#)(~~6~~)) must be assigned first and those with the highest last.

[10.5.201](#) [0.5.22](#) R Percentages applicable under *BIPRU* ~~10.5.19~~[10.5.21R](#)

[This table belongs to *BIPRU* 10.5.21R](#)

Excess exposure (as a percentage of the <i>firm's capital resources</i>)	Percentage
0% up to 40%	200%
Portion from 40% - 60%	300%
Portion from 60% - 80%	400%
Portion from 80% - 100%	500%
Portion from 100% - 250%	600%
Portion over 250%	900%

[10.5.23](#) [G](#) [The table in *BIPRU* 10.5.24G sets out an example of a *CNCOM* calculation.](#)

[10.5.211](#) [0.5.24](#) G Example of a *CNCOM* calculation (all numbers £000s)

[This table belongs to BIPRU 10.5.23G](#)

[This table belongs to BIPRU 10.5.18R](#)

Capital resources position			
(1)	An institution <u>firm</u> 's capital resources comprises:		
			£
	Tier one and tier two capital resources		1000
	Eligible tier three capital resources		100
	Amended capital resources		1100
(2)	The components of the large exposure comprise:		
			£
	(a) Counterparty <u>Non-trading book</u> exposure		200
	(b) Mark to market value of trading book securities:		
		% specific risk weight	
	Short: qualifying bond	1.00	(20)
	Long: qualifying commercial paper	0.25	100
	Long: equity	4.00	150
	Long: qualifying convertible	1.60	30
	Total net long securities position:		260
	Total net large exposures position [(a) + (b)]		460
Calculating the exposure for which incremental capital is needed			
(3)	The short position in the qualifying bond is offset against the		

	highest specific risk weight items – in this case equities:		
			£
	Net long equity position (£150- £20)		130
(4)	The remaining items are ranked according to specific risk weight.		
	% <i>specific risk weight</i>	Security	£
	0.25	Qualifying commercial paper	100
	1.60	Qualifying convertible	30
	4.00	Equity (net)	130
(5)	The 'headroom' between the non-securities exposure and 25% of the amended <i>capital resources</i> is calculated.		
			£
	25% of amended capital base (1100)		275
	Non securities exposure		200
	Headroom		75
(6)	<p>Applying the securities positions in ascending order of specific <i>risk weight</i>, £75 of the £100 qualifying commercial paper may be counted before 25% of the amended capital base is reached.</p> <p>The remaining £25 of qualifying commercial paper, along with £30 qualifying convertible and £130 equity (net) are traded securities <i>exposures</i> in excess of the limit and should therefore be covered by incremental capital. The amount of incremental capital should be included in the calculation for determining how much <i>trading book capital</i> an institution <u>a firm</u> should have.</p>		
(7)	<p>If the excess <i>exposure</i> has been outstanding for 10 days or less, the specific <i>risk weights</i> for the elements over 25% of amended <i>capital resources</i> should be doubled.</p> <p>The 25% limit (£275) is taken up by £200 <i>counterparty exposure</i> and £75 securities <i>exposure</i> within the limit. These two items, when added to the items in bold below, total £460. £460 is the total net <i>large exposures</i> position as set out in (2) above.</p>		
			£

	Qualifying commercial paper	$\pounds 25 \times 0.25\% \times 200\% =$	0.125
	Qualifying convertible	$\pounds 30 \times 1.60\% \times 200\% =$	0.960
	Equity	$\pounds 130 \times 4\% \times 200\% +$	10.400
	Additional capital requirement		11.485
(8)	If the excess <i>exposure</i> has been outstanding for more than 10 days, the 25% limit (£275) is taken up by £200 counterparty <i>exposure</i> and £75 securities <i>exposure</i> within the limit. These two items, when added to the items in bold below, total £460. £460 is the total net <i>large exposures</i> position as set out in (2) above.		
			£
	(a)	Over 25% and up to 40% of amended capital base at 200% (40% of £1100 = £440)	
		<u>Amount of trading book concentration risk excess = £185</u>	
		<u>Proportion of Capital Base= 16.8%</u>	
		<u>Appropriate % Multiplier Band = 200%</u>	
		$\pounds 25 \times 0.25\% \times 200\% =$	0.125
		$\pounds 30 \times 1.60\% \times 200\% =$	0.960
		$\pounds \del{110}130 \times 4.00\% \times 200\% =$	8.800 <u>10.400</u>
	(b)	Excess exposure 40% - 60% of amended capital base at 300%	
		$\pounds 20 \times 4.00\% \times 300\% =$	2.400
	Additional capital requirement [(a)+(b)]		11.485 <u>3.885</u>

10.6 Exemptions

General exemptions

10.6.1 R The *exposures* listed in *BIPRU* 10.6.3R, whether *trading book exposures* or *non-trading book exposures*, are exempt from the limits described in *BIPRU* ~~10.5~~, 10.5 (Limits on exposures and large exposures), provided that the *exposures* are to *counterparties* which are not *connected counterparties*.

10.6.2 R ~~In~~ In *BIPRU* 10.6.3R and *BIPRU* 10.6.4R, references to guarantees include credit derivatives recognised under *BIPRU* 5 (Credit risk mitigation) and, if applicable, *BIPRU* 4.10 (The IRB approach: Credit risk mitigation), other than credit linked notes.
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(2) [BIPRU 10.3.3R\(6\) \(Compliance with minimum credit risk mitigation requirements\) applies for the purpose of BIPRU 10.6.3R and BIPRU 10.6.4R.](#)

10.6.3 R The *exposures* referred to in *BIPRU* 10.6.1R are as follows:

- (1) asset items constituting claims on central governments or *central banks* which claims would unsecured receive a 0% *risk weight* under the *standardised approach*;
- (2) asset items constituting claims on *international organisations* or *multilateral development banks* which claims would unsecured receive a 0% *risk weight* under the *standardised approach*;
- (3) asset items constituting claims carrying the explicit guarantees of central governments, *central banks*, *international organisations* or *multilateral development banks*, where unsecured claims on the entity providing the guarantee would ~~achieve~~receive a 0% *risk weight* under the *standardised approach*;
- (4) other *exposures* attributable to, or guaranteed by, central governments, *central banks*, *international organisations*, or *multilateral development banks* where unsecured claims on the entity to which the *exposure* is attributable or by which it is guaranteed would receive a 0% *risk weight* under the *standardised approach*;
- (5) asset items constituting claims on and other *exposures* to central governments or *central banks* not within (1), which are denominated and, where applicable, funded in the national currencies of the borrowers;
- (6) asset items constituting claims on and other *exposures* to *institutions*, with a maturity of one year or less, but not constituting

such *institutions' capital resources* ~~or which would not constitute such *institutions' capital resources* if they were *BIPRU firms*~~;

- (7) asset items constituting claims on *EEA States'* regional governments and local authorities which claims would receive a 0% *risk weight* under the *standardised approach*;
- (8) other *exposures* to or guaranteed by *EEA States'* regional governments and local authorities claims on which would receive a 0% *risk weight* under the *standardised approach*;
- (9) asset items constituting claims and other *exposures* on *recognised third-country investment firms, recognised clearing houses, designated clearing houses, recognised investment exchanges, and designated investment exchanges in CRD financial instruments, with a maturity of one year or less, but not constituting such institutions' capital resources*;
- (10) *covered bonds* within the meaning of the second paragraph of that definition;
- (11) loans secured by mortgages on residential property and leasing transactions under which the lessor retains full ownership of the residential property leased for as long as the lessee has not exercised his option to purchase, in all cases up to 50% of the value of the residential property concerned;
- (12) the following, where they would receive a 50% *risk weight* under the *standardised approach*, and only up to 50% of the value of the property concerned:
 - (a) *exposures* secured by mortgages on offices or other commercial premises; and
 - (b) *exposures* related to property leasing transactions concerning offices or other commercial premises; ~~or~~ and
- (13) bill endorsements on bills with a maturity of 1 year or less already endorsed by another *firm*.

- 10.6.4 R For the purposes of *BIPRU* 10.6.3R (11), the value of the property must be calculated on the basis of strict valuation standards laid down by law, regulation or administrative provisions. Valuation must be carried out at least once a year. For these purposes, residential property means a residence to be occupied or let by the borrower.

Parental guarantees

- 10.6.5 R A *firm* may treat as exempt from the limits in *BIPRU* 10.5 (Limits on exposures and large exposures) an *exposure* to a *counterparty* or to a *group of connected clients* if the following conditions are met:

- (1) the *parent undertaking* of the *firm* guarantees that *exposure*;
- (2) the *total exposure* to that *counterparty* or *group of connected clients* does not exceed 100% of the *firm's capital resources*;
- (3) the total amount of the *firm's exposures* to *connected counterparties* does not exceed 200% of the *firm's capital resources* (any exposure treated as exempt under this rule or under BIPRU 10.6.7R must be treated as being to the parent undertaking for the purpose of this paragraph (3) and included in the calculation of the limit in this paragraph (3));

~~(4) the firm complies with SYSC 3.3.1R;~~

~~(54)~~ the *firm* ~~is subject to BIPRU 8.3.XR~~ complies with whichever of SYSC 3.1.1R (Systems and controls) and SYSC 4.1.1R (General organisational requirements) applies to it; and

~~(65)~~ both the *firm* and the *parent undertaking* of the *firm* satisfy ~~BIPRU 3.2.28R~~ 3.2.27R (Consolidation condition relating to zero risk weights for intra-group exposures).

10.6.6 R For the purposes of *BIPRU* 10.6.5R, *BIPRU* 10.3.3R (3) to (6) (Provisions relating to the treatment of guaranteed exposures) apply.

Capital maintenance arrangements

10.6.7 R A *firm* may treat as exempt from the limits in *BIPRU* 10.5 (Limits on exposures and large exposures) an *exposure* to a *counterparty* which is not a *connected counterparty* if the following conditions are met:

(1) the *exposure* is subject to a legally binding agreement by the *parent undertaking* of the *firm* that it will promptly on demand by the *firm* increase the *firm's capital resources* by:

(a) an amount that is sufficient to reverse completely the effect of any *loss* the *firm* may sustain in connection with that *exposure*; or

(b) the amount required to ensure that the *firm* complies with ~~GENPRU 2.1~~ 2.1 (Calculation of capital resources requirements), *BIPRU* 10 and any other requirements relating to *capital resources* or concentration risk imposed on the *firm* by or under the *regulatory system*;

(2) the *firm* notifies the *FSA* in writing ~~one month in advance~~ of its intention to enter into the agreement and of its terms at least one Month before the *firm* enters into it; and

(3) the conditions in *BIPRU* 10.3.3R(6) (Compliance with minimum credit risk mitigation requirements) and *BIPRU* 10.6.5R (2) ~~to~~ (65)

are met.

Collateral exemptions: Top slicing

- 10.6.8 G (1) ~~The FSA does not condone the practice of 'top~~ Top ~~slicing', by which a firm involves systematically collateralises part collateralising only part of an exposure to bring it within the limits in BIPRU 10.5 (Limits on exposures and large exposures).~~
- (2) ~~If a firm 'top slices' its exposures, The practice of top-slicing can give rise to concerns and will be subject to review by the FSA takes such activity into account~~ when carrying out the SREP.

Exemptions for firms using the financial collateral simple method under the standardised approach

- 10.6.9 R A firm which uses the financial collateral simple method under the standardised approach may treat the following exposures ~~secured by collateral~~ as exempt from the limits described in ~~BIPRU 10.5, 10.5 (Limits on exposures and large exposures)~~, provided that the exposures are to counterparties which are not connected counterparties:
- (1) asset items and other exposures secured by collateral in the form of debt securities issued by central governments ~~or~~, central banks, international organisations, multilateral development banks, ~~or~~ EEA States' regional governments, ~~or~~ local authorities, which securities constitute claims on their issuer which would receive a 0% risk weight under the standardised approach;
 - (2) asset items and other exposures secured by collateral in the form of cash deposits placed with the lending firm or with a credit institution which is the parent undertaking or a subsidiary undertaking of the lending firm;
 - (3) asset items and other exposures secured by collateral in the form of certificates of deposit issued by the lending firm or by a credit institution which is the parent undertaking or a subsidiary undertaking of the lending firm and lodged with either of them; ~~and~~
 - (4) exposures secured by collateral in the form of securities other than those referred to in (1).

- 10.6.10 R Cash received under a credit linked note issued by the firm and loans and deposits of a counterparty to or with the firm which are subject to an on-balance sheet netting agreement recognised under BIPRU 5 (Credit risk mitigation) must be treated as falling under BIPRU 10.6.9R(2).

10.6 .11 R For the purposes of BIPRU 10.6.9R(4), the securities used as collateral must be valued at market price, have a value that exceeds the exposures guaranteed, and be either traded or effectively negotiable and

~~For the purposes of BIPRU 10.6.9R (4), securities used as collateral must be valued at market price, have a value that exceeds the exposures guaranteed, and be either traded or~~

regularly quoted on a recognised investment exchange or a designated investment exchange. The excess value required must be 100%. It must, however, be 150% in the case of shares and 50% in the case of debt securities issued by institutions, EEA States' regional governments or local authorities other than those referred to in BIPRU 10.6.9R(1), and in the case of debt securities issued by multilateral development banks other than those receiving a 0% risk weight under the standardised approach. Where there is a mismatch between the maturity of the exposure and the maturity of the credit protection, the collateral must not be recognised. Where the issuer of securities used as collateral is an institution, such collateral may not constitute the institution's capital resources.

10.6.12 R ~~(2)~~ A firm may only recognise collateral for the purpose of BIPRU 10.6.9R if the collateral complies with the eligibility requirements and other minimum requirements set out in BIPRU 5 (Credit risk mitigation) for the purposes of calculating risk-weighted exposure amounts under the standardised approach using the financial collateral simple method or, if applicable, the method in BIPRU 5.5 (Other funded credit risk mitigation). In particular a firm may not recognise collateral for that purpose if it is not eligible under the financial collateral simple method or other applicable method.

10.6.121 G As indicated in BIPRU ~~[xx]~~5 (Credit risk mitigation), the financial collateral simple method will be available only to firms using the standardised approach and only in relation to exposures for which they adopt the standardised approach.

Exemptions for firms using the financial collateral comprehensive method

~~effectively negotiable and regularly quoted on a recognised investment exchange or a designated investment exchange. The excess value required must be 100%. It must, however, be 150% in the case of shares and 50% in the case of debt securities issued by institutions, EEA States' regional governments or local authorities other than those referred to in BIPRU 10.6.9R(1), and in the case of debt securities issued by multilateral development banks other than those receiving a 0% risk weight under the standardised approach. Where there is a mismatch between the maturity of the exposure and the maturity of the credit protection, the collateral must not be recognised. Where the issuer of securities used as collateral is an institution, such collateral may not constitute the institution's capital resources or be of a type which would have constituted capital resources if the institution were a BIPRU firm.~~

~~A firm may not recognise collateral for the purpose of (1) if it is not eligible under the financial collateral simple method.~~

10.6.13 14 R ~~(1)~~ A firm which uses the financial collateral comprehensive method under the standardised approach or the IRB approach (but not the advanced IRB approach) may calculate the value of its exposures to a counterparty or to a group of connected clients (but not connected counterparties) as being the fully-adjusted value of the exposures to the counterparty or group of connected clients calculated in accordance with the financial collateral comprehensive method under BIPRU 5 (Credit risk mitigation) and, if relevant, BIPRU 4.10 (The IRB approach: Credit risk mitigation), taking into account the credit risk mitigation, volatility adjustments and any maturity mismatch (E*) in accordance with those rules.

~~A firm which uses the financial collateral comprehensive method under the standardised approach or the IRB approach (but not the advanced IRB approach) must calculate the fully-adjusted value of the exposure to a counterparty or to a group of connected clients in accordance with BIPRU 5 and, if relevant, BIPRU 4.10, taking into account the credit risk mitigation, volatility adjustments and any maturity mismatch (E*) in accordance with those rules. The firm must use that amount to compare against the limits set out in BIPRU 10.5, instead of the nominal value of that exposure.~~

10.6.15 R ~~(2)~~ Where BIPRU 10.6.14R applies, BIPRU 10.6.9R does not apply.

~~Where (1) applies, BIPRU 10.6.9R does not apply.~~

10.6.16 R A firm may only recognise collateral for the purpose of BIPRU 10.6.14R if the collateral complies with the eligibility requirements and other minimum requirements set out in BIPRU 5 (Credit risk mitigation) and, if relevant, BIPRU 4.10 (The IRB approach: Credit risk mitigation) for the purposes of calculating risk-weighted exposure amounts under the standardised approach or, if applicable, the IRB approach using the financial collateral comprehensive method. In particular a firm may not recognise collateral for that purpose if it is not eligible under the financial collateral comprehensive method.

Exemptions for firms using own estimates of LGDs and conversion factors under the IRB approach

10.6.17 R A firm that uses own estimates of LGDs and conversion factors under the IRB approach for an IRB exposure class may recognise the effects described in (1) in calculating the value of its exposures to a counterparty or to a group of connected clients (but, subject to the firm's IRB permission, not connected counterparties) for the purposes of BIPRU 10.5 (Limits on exposures and large exposures) if:

10.6.14 R ~~A firm that uses own estimates of~~ the firm is able to satisfy the FSA that it can estimate the effects of financial collateral on its exposures separately from other LGD-relevant aspects;

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~~10.6.15~~ R A the firm is able to demonstrate the suitability of the estimates produced; and
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(~~1~~3) ~~inform the FSA of its intention to do so; and~~ firm's IRB permission specifically allows it.

10.6.18 G (~~2~~BIPRU 10.6.17R(3) means that a firm with an IRB permission may not use the approach in BIPRU 10.6.17R unless its IRB permission expressly says that it may do so.

~~demonstrate the suitability of the estimates produced.~~

10.6.161 R If a firm that uses own estimates of LGDs and conversion factors under the 10.6.19 IRB approach uses its own estimates of the effects of financial collateral on its exposures for large exposures purposes, it must do so on a consistent basis and on a basis consistent with the approach adopted in the calculation of capital requirements. In particular, this approach must be adopted for all exposures the nominal value of which would be a large exposure. A firm may only use one of BIPRU 10.6.14R and BIPRU 10.6.17R. A firm must be able to satisfy the FSA that it is complying with this rule.

10.6.171 R A firm to which BIPRU ~~10.6.16~~10.6.17R applies must still report to the 0.6.20 FSA the gross value of its exposures.

10.6.181 R If a firm relies on BIPRU ~~10.6.14R~~ ~~BIPRU 10.6.16R~~10.6.17 the 0.6.21 recognition of credit protection is subject to the relevant requirements of the IRB approach.

Stress testing of credit risk concentrations

10.6.191 R (~~1~~) A firm which calculates the value of its exposures in accordance with BIPRU 10.6.17R must conduct periodic stress tests of its credit risk concentrations including in relation to the realisable value of any collateral taken.

~~A firm which calculates the value of its exposures in accordance with BIPRU 10.6.13R to BIPRU 10.6.16R must conduct periodic stress tests of its credit risk concentrations including in relation to the realisable value of any collateral taken.~~

<u>10.6.23</u>	R (2) <u>The stress tests required by BIPRU 10.6.22R must address:</u>	The stress tests must address:
	<p>(1) (a) <u>risks arising from potential changes in market conditions that could adversely impact the <i>firm's</i> adequacy of capital resources; and</u></p> <p>(2) (b) <u>risks arising from the realisation of collateral in stressed situations.</u></p>	<p>risks arising from potential changes in market conditions that could adversely impact the <i>firm's</i> adequacy of capital resources; and</p> <p>risks arising from the realisation of collateral in stressed situations.</p>
<u>10.6.24</u>	R (3) <u>A <i>firm</i> must be able to satisfy the FSA that the stress tests that the <i>firm</i> carries out in accordance with BIPRU 10.6.22R are adequate and appropriate for the assessment of such risks.</u>	A <i>firm</i> must be able to satisfy the FSA that the stress tests are adequate and appropriate for the assessment of such risks.
<u>10.6.25</u>	R (4) <u>In the event that a stress test carried out in accordance with BIPRU 10.6.22R indicates a lower realisable value of collateral taken than would be permitted to be taken into account under BIPRU 10.6.17R to BIPRU 10.6.21R as appropriate, the value of collateral permitted to be recognised in calculating the value of <i>exposures</i> for the purposes of BIPRU 10.5 (Limits on exposures and large exposures) is the lower value.</u>	In the event that a stress test indicates a lower realisable value of collateral taken than would be permitted to be taken into account under BIPRU 10.6.13R to BIPRU 10.6.16R as appropriate, the value of collateral permitted to be recognised in calculating the value of <i>exposures</i> for the purposes of BIPRU 10.5 is the lower value.
<u>10.6.26</u>	R (5) <u>A <i>firm</i> to which BIPRU 10.6.22R applies must include in its strategy to address concentration risk:</u>	A <i>firm</i> to which this rule applies must include in its strategy to address concentration risk:
	<p>(1) (a) <u>policies and procedures to address risks arising from maturity mismatches between <i>exposures</i> and any credit protection on those <i>exposures</i>;</u></p> <p>(2) (b) <u>policies and procedures in the event that a stress test indicates a lower realisable value of collateral than taken into account under BIPRU 10.6.17R to BIPRU 10.6.21R; and</u></p> <p>(3) (c) <u>policies and procedures relating to concentration risk arising from the application of <i>credit risk mitigation</i> techniques, and in particular large indirect credit <i>exposures</i> (for example</u></p>	<p>policies and procedures to address risks arising from maturity mismatches between <i>exposures</i> and any credit protection on those <i>exposures</i>;</p> <p>policies and procedures in the event that a stress test indicates a lower realisable value of collateral than taken into account under BIPRU 10.6.13R to BIPRU 10.6.16R; and</p> <p>policies and procedures relating to concentration risk arising from the application of <i>credit risk mitigation</i> techniques, and in particular large indirect credit <i>exposures</i> (e.g. to a</p>

to a single issuer of securities taken as collateral).

~~single issuer of securities taken as collateral).~~

10.6.27 G A firm should determine the frequency needed for the stress testing of its credit risk concentrations with emphasis on having sufficient frequency to maintain the currency of its capital calculations. In any case such testing should be carried out at least once a year.

10.7	Treasury Concession		
10.7.1	R	(1)	<p>Subject to (2) and to <i>BIPRU</i> 10.11.1R, a <i>firm</i> may treat as exempt from the limits in <i>BIPRU</i> 10.5 an <i>exposure</i> to a <i>counterparty</i> provided that:</p> <p>(a) the <i>exposure</i> satisfies the <i>exposure</i> conditions in <i>BIPRU</i> 10.7.3R;</p> <p>(b) the <i>counterparty</i> is a <i>concentration risk group counterparty</i>; and</p> <p>(c) the <i>firm</i> is subject to <i>BIPRU</i> 8.3.</p> <p>(2) The total amount of the <i>exposures</i> that a <i>firm</i> may treat as exempt under this <i>rule</i> must not exceed 50% of the <i>firm's capital resources</i> as set out in stage (P) of the <i>capital resources table</i>.</p>
10.7.2	G		<p>Any <i>exposures</i> that would, but for <i>BIPRU</i> 10.7.1R (2), fall to be treated in accordance with <i>BIPRU</i> 10.7.1R(1) remain subject to the limits in <i>BIPRU</i> 10.5.</p>
10.7.3	R		<p>The <i>exposure</i> conditions referred to in <i>BIPRU</i> 10.7.1R (1) (a) are as follows:</p> <p>(1) the <i>exposure</i> must satisfy one or more of the following conditions:</p> <p>(a) it is a loan made by the <i>firm</i> with a maturity of one year or less in the course of the <i>firm</i> carrying on a treasury role for other members of its <i>group</i>;</p> <p>(b) it is a loan to the <i>parent undertaking</i> of the <i>firm</i> made in the course of a business carried on by the <i>firm</i> of lending to its <i>parent undertaking</i> cash that is surplus to the needs of the <i>firm</i>, provided that the amount of the surplus fluctuates regularly; or</p> <p>(c) it arises from the <i>firm</i> or a <i>counterparty</i> operating a central risk management function for members of the <i>firm's group</i> for <i>exposures</i> arising from <i>derivatives</i>; and</p> <p>(2) the <i>exposure</i> must be held in the <i>firm's non-trading book</i>.</p>

10.7 Treasury concession and intra-group securities financing transactions

Treasury concession

10.7.1 R Subject to *BIPRU 10.11.1R* (Notification procedures for *BIPRU 10.7* to *BIPRU 10.10*), a *firm* may treat as exempt from the limits in *BIPRU 10.5* (Limits on exposures and large exposures) an *exposure* to a *concentration risk group counterparty* provided that one or more of the following conditions is satisfied:

(1) the *exposure* has an original maturity of one year or less and it is incurred in the course of the *firm* carrying on a treasury role for other members of its *group*;

(2) the following conditions are satisfied:

(a) the *exposure* is a cash loan to a *parent undertaking* of the *firm* or to another member of the *firm's immediate group*;

(b) (if the loan is to a member of the *firm's immediate group* other than a *parent undertaking* of the *firm*) that member carries on a treasury role for the *firm's group*;

(c) the cash lent is surplus to the needs of the *firm*; and

(d) the amount of the surplus fluctuates regularly; or

(3) the *exposure* arises from the *firm* or the *counterparty* operating a central risk management function for members of the *firm's group* for *exposures* arising from *derivatives*.

10.7.2 R The total amount of the *exposures* that a *firm* may treat as exempt under *BIPRU 10.7.1R* must not exceed 50% of the *firm's capital resources* as set out in stage (N) of the *capital resources table* (Total tier one capital plus tier two capital after deductions).

10.7.3 G Any *exposures* that would, but for *BIPRU 10.7.2R*, fall to be treated in accordance with *BIPRU 10.7.1R* remain subject to the limits in *BIPRU 10.5* (Limits on exposures and large exposures).

Intra-group securities financing transactions

10.7.4 R Subject to *BIPRU 10.11.1R* (Notification procedures for *BIPRU 10.7* to *BIPRU 10.10*), a *firm* may treat as exempt from the limits in *BIPRU 10.5* (Limits on exposures and large exposures) an *exposure* in the form of a *securities financing transaction* provided that:

(1) the *counterparty* is a *concentration risk group counterparty*;

- (2) the firm does not apply the CCR internal model method with respect to any securities financing transactions under this chapter;
- (3) the exposure in question is collateralised by collateral whose value equals or exceeds 90% of the amount of the exposure; and
- (4) (whether or not the firm uses the financial collateral comprehensive approach) the collateral is eligible under the financial collateral comprehensive approach and the firm meets the other minimum requirements under BIPRU 5 (Credit risk mitigation) in relation to that collateral.

10.7.5 R The level of collateralisation referred to in BIPRU 10.7.4R(3) must be measured by reference to the gross amount of the exposure without taking into account the effects of netting and without applying volatility adjustments or adjustments for maturity mismatches under the financial collateral comprehensive approach.

10.7.6 R A firm using the exemption in BIPRU 10.7.4R must be able to demonstrate to the FSA:

- (1) (if the firm has an CCR internal model method permission) any roll-out programme as referred to in BIPRU 13.6.13R (Sequential implementation of the CCR internal model method) or any combination of the CCR internal model method with either or both of the CCR mark to market method or the CCR standardised method;
- (2) the selection of counterparties for securities financing transactions; and
- (3) the booking of its securities financing transactions and the way that it carries on its business with respect to them;

are not designed or chosen wholly or mainly with a view to coming within the limits in BIPRU 10.5 (Limits on exposures and large exposures) or reducing capital requirements applicable to the firm under the regulatory system through the use of that exemption.

10.8 UK ~~Integrated Groups~~integrated groups

Application

10.8 R ~~(1)~~This section applies to a firm if:
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- (1) ~~(it is a)~~ member of a UK integrated group; and
- (2) ~~it gives notice in accordance with~~ BIPRU 10.11.1R (Notification procedures for BIPRU 10.7 to BIPRU 10.10) that it will apply BIPRU 10.8.

BIPRU 10.8 applies to a firm if:

- it is a member of a UK integrated group; and*
- it gives notice in accordance with BIPRU 10.11.1R that it will apply BIPRU 10.8.*

10.8 R (2) If this section applies to a firm, it must
.2 apply this section to all exposures to all its concentration risk group counterparties and not just some of them.

If BIPRU 10.8 applies to a firm, it must apply BIPRU 10.8 to all exposures coming within the scope of BIPRU 10.8 and not just some of them.

~~10.8.2~~ *¶ If BIPRU 10.8 applies to a firm, then subject to BIPRU 10.10, it may, on a solo basis, treat an exposure to a concentration risk group counterparty as exempt from the limits in BIPRU 10.5.* Guidance about UK integrated groups

10.8.3 G Guidance on the treatment of intra-group exposures under this chapter if this section applies can be found in BIPRU 10 Annex 1G (Treatment of exposures under the integrated groups regime for concentration risk).

Definition of UK integrated group

~~10.8.3~~10 R An undertaking is a member of a firm's UK integrated group if, in relation to
.8.4 the firm, that undertaking satisfies the following conditions:

- (1) it is a concentration risk group counterparty;
- (2) it is an institution ~~or a~~ financial holding company, financial institution, asset management company or ancillary services undertaking;
- (3) it is subject to the same risk evaluation, measurement and control procedures as the firm;
- (4) it is ~~incorporated~~ established in the United Kingdom and either it is incorporated in the United Kingdom or (if that counterparty is of a type that falls within the scope of that Regulation) the centre of its main interests is situated within the United Kingdom within the meaning of the Council Regulation of 29 May 2000 on insolvency proceedings (~~1248~~Regulation 1346/2000/EC); and
- (5) there is no current or foreseen material practical or legal impediment

to the prompt transfer of ~~own funds~~capital resources or repayment of liabilities from the *counterparty* to the *firm*.

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8.5 R ~~(1)~~Firms are referred to the *guidance in BIPRU 3.2.30G and BIPRU 3.2.31G (Guidance relating to 0% risk weights for intra-group exposures under the standardised approach)* on the prompt transfer of *capital resources* and repayment of liabilities.

~~This rule defines own funds for the purposes of BIPRU 10.8.3R(5).~~

~~(2)~~Revised concentration risk limits for a UK integrated group

~~In the case of a BIPRU firm own funds means *capital resources*.~~

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.6 R ~~(3)~~A firm must ensure that the *rules* listed in BIPRU 10.8.7R are complied with on a consolidated basis in accordance with the following:

~~In the case of any other undertaking own funds means any item that would be *capital resources* if the undertaking were a BIPRU firm.~~

~~10.8.5~~ G ~~Firms are referred to the *guidance in BIPRU 3.2.XG to 3.2.XG (guidance relating to 0% risk weights for intra-group exposures under the standardised approach)*.~~

~~10.8.6~~ R ~~A firm must ensure that the *rules* listed in BIPRU 10.8.7R are complied with on a consolidated basis in accordance with the following:~~

- ~~(1)~~ the *rules* apply in relation to the *firm's UK integrated group* rather than in relation to the *firm*;
- ~~(2)~~ the *rules* apply in relation to *exposures* of members of the *UK integrated group* to members of the *residual block*; and
- ~~(3)~~ the *UK integrated group* and the *residual block* must each be treated as a single *undertaking*.

10.8.7 R The *rules* referred to in BIPRU 10.8.6R are:

- ~~(1)~~ ~~BIPRU 10.5.4R~~10.5.6R (25% non-trading book limit);
- ~~(2)~~ ~~BIPRU 10.5.9~~10.5.11R (trading book limits) other than ~~BIPRU 10.5.9~~10.5.11R(2) (CNCOM);
- ~~(3)~~ ~~BIPRU 10.5.11R~~(10.5.12R (500% limit for trading book excess exposures) with the deletion of the time limit set out in ~~BIPRU 10.5.11R~~10.5.12R; and
- ~~(4)~~ ~~BIPRU 10.7~~10.7 (Treasury concession and intra-group securities financing transactions).

10.8.8 G *Exposures* between members of the *UK integrated group* are exempt if this section applies.

10.8.9 G The 800% limit in *BIPRU 10.5.8R* and the 600% limit in *BIPRU 10.5.13R* do not apply to *exposures to concentration risk group counterparties* if this section applies.

Adjustments to the Treasury concession exemption

10.8.10 R A *firm* may only treat an *exposure* as exempt under *BIPRU 10.7.1R* (Treasury Concession) as applied under this section if the *exposure* is or (if that *rule* applied to the member of the *UK integrated group* in question) would be exempt under *BIPRU 10.7.1R* on a solo basis. The following adjustments apply:

(1) the *exposure* must be to a *concentration risk group counterparty*; and

~~10.8.8~~ ~~R~~ ~~A~~ the limit in *BIPRU 10.7.2R* (Exemption limited to 50% of a *firm's capital resources*) is calculated on a consolidated basis with respect to the *UK integrated group*.

~~*firm* must comply with *BIPRU 10.8* in accordance with the principles of *BIPRU 10.8* so far as *BIPRU 10.8* applies *BIPRU 10.5* and *BIPRU 10.7* on a consolidated basis~~

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~~10.8.9~~ ~~R~~ For the purposes of *BIPRU 10.8*, and in relation to a *firm*, a member of ~~Adjustments to~~ the *residual block* means a *concentration risk group counterparty* which is not a member of the *firm's UK integrated group*. ~~exemption~~ for securities financing transactions

10.8.11 R A *firm* may only treat an *exposure* as exempt under *BIPRU 10.7.4R* (Intra-group securities financing transactions) as applied under this section if the *exposure* is or (if that rule applied to the *undertaking* in question) would be exempt under *BIPRU 10.7.4R* on a solo basis. *BIPRU 10.7.6R* (Abuse of the exemption) continues to apply. The exemption is not available if the *firm* uses the *CCR internal models method for securities financing transactions* for the purpose of this chapter.

Definition of residual block

10.8.12 R For the purposes of this section, a member of the *residual block* means, in relation to a *firm* and its *UK integrated group*, a *concentration risk group counterparty* of the *firm* which is not a member of the *firm's UK integrated group*.

Calculation of capital resources for a UK integrated group

10.8.13 R For the purposes of this section, a *firm* must calculate the capital resources of the *UK integrated group* in accordance with *GENPRU 3 Annex 1R Part 2* (Method 2 of Annex I of the Financial Groups Directive (Deduction and aggregation Method)) and apply the limits set out in this section to those capital resources rather than the *capital resources* of the *firm*. For these purposes the definition of *solo capital resources* is adjusted so that the *rules* on which the calculation for each member of the *UK integrated group* is based are the ones that would apply under the procedure in *BIPRU 8.6.6R* to *BIPRU 8.6.9R* (Consolidated capital resources).

~~10.8.101~~ ~~R~~ ~~For the purposes of *BIPRU 10.8*, a *firm* must calculate the *capital resources* of the *UK integrated group* in accordance with [current *PRU 8 Ann 1R Part 2*]~~
0.8.14 G The calculation of capital resources under *GENPRU 3 Annex 1R Part 2* (Method 2 of Annex I of the Financial Groups Directive (Deduction and aggregation Method)) and apply the limits set out in *BIPRU 10.8* to those *capital resources* rather than the *capital resources* is based on the *solo capital resources* of members of a *financial conglomerate*. The definition of *solo capital resources* depends on what type of *undertakings* the *financial conglomerate* contains. For instance, if a *financial conglomerate* contains a *bank* the *solo capital resources* calculation for every group member in the *banking sector* and the *investment services sector* is based on the *capital resources* calculation for *banks*. The purpose of *BIPRU 10.8.13R* is to apply the corresponding procedure that applies under *BIPRU 8.6* (Calculation of ~~the *firm*~~ capital resources on a consolidated basis for *BIPRU firms*).

~~10.8.11~~ ~~G~~The combined effect of *BIPRU 10.8.2R* and *BIPRU 10.8.6R(3)* is that Exemption for intra-group exposures between members of the UK integrated group are exempt. on a solo basis

10.8.15 R If this section applies to a firm, then subject to *BIPRU 10.10* (Treatment of the trading book concentration risk excess under the integrated groups regime), it may, on a solo basis, treat an exposure to a concentration risk group counterparty as exempt from the limits in *BIPRU 10.5* (Limits on exposures and large exposures).

10.8.16 G The purpose of *BIPRU 10.8.15R* is to reflect the fact that the limits in *BIPRU 10.5* (Limits on exposures and large exposures) so far as they apply to concentration risk group counterparties are calculated on a consolidated basis with respect to a firm's UK integrated group. It is therefore necessary to switch them off on a purely solo basis.

10.9 Wider Integrated Group

Application

10.9.1 R ~~BIPRU 10.9~~ This section applies to a *BIPRU firm* if:

- (1) it has a *wider integrated group waiver*; and
- (2) it is a member of a *UK integrated group* and of a wider integrated group.

10.9.2 R ~~(1) If this section applies, BIPRU 10.8 (UK Integrated Groups) does not apply.~~

~~If BIPRU 10.9 applies, BIPRU 10.8 does not apply.~~

10.9.3 R ~~(2) If this section applies to a firm, it must apply it to all exposures to all its concentration risk group counterparties and not just some of them.~~

~~If BIPRU 10.9 applies to a firm, it must apply BIPRU 10.9 to all exposures coming within the scope of BIPRU 10.9 and not just some of them.~~

Guidance about wider integrated groups

10.9.3.10.9.4 R ~~If BIPRU 10.9 applies to a firm, then subject to BIPRU 10.10, it may, on a solo basis, treat an exposure to a~~ Guidance on the treatment of intra-group exposures under BIPRU 10 if this section applies can be found in BIPRU 10 Annex 1G (Treatment of exposures under the integrated groups regime for concentration risk ~~group counterparty as exempt from the limits in BIPRU 10.5).~~

10.9.4 R ~~For the purposes~~ Definition of BIPRU 10.9: wider integrated group

10.9.5 R ~~(1) The wider integrated group of a firm consists of each concentration risk group counterparty of the firm that is not a member of the firm's UK integrated group but satisfies all the conditions for membership of the firm's UK integrated group except for BIPRU 10.8.4R(4) (Establishment in the United Kingdom).~~

~~the wider integrated group of a firm consists of each concentration risk group counterparty that satisfies all the conditions for membership of the firm's UK integrated group except for BIPRU 10.8.3R(4);~~

Definition of diverse block

10.9.6 R ~~(2) For the purposes of this section, and in relation to a firm and its wider integrated group, a diverse block means all undertakings in the wider integrated group designated as a single diverse block by the applicable wider integrated group permission.~~

~~a diverse block means all undertakings in the wider integrated group designated as a single diverse block by a wider integrated group permission; and~~

Definition of residual block

10.9.7 R (3) For the purposes of this section, and in relation to a firm and its wider integrated group, a member of the residual block means a concentration risk group counterparty of the firm which is not a member of the firm's UK integrated group or wider integrated group.

in relation to a firm, a member of the residual block means a concentration risk group counterparty which is not a member of the firm's UK integrated group or wider integrated group.

Revised concentration risk limits for a wider integrated group

10.9.510.9.8 R A firm to which ~~BIPRU 10.9~~this section applies must ensure that the rules listed in BIPRU ~~10.9.6~~10.9.9R are complied with on a consolidated basis on the following basis:

- (1) the rules apply in relation to the firm's UK integrated group rather than in relation to the firm;
- (2) the rules apply in relation to exposures of the members of the UK integrated group to members of each of the following:
 - (a) each diverse block; and
 - (b) the residual block; and
- (3) the UK integrated group, each diverse block, and the residual block must each be treated as separate single undertakings.

10.9.610.9.9 R The rules referred to in BIPRU ~~10.9.5~~10.9.8R are:

- (1) BIPRU ~~10.5.4R~~10.5.6R (25% non-trading book limit);
- (2) BIPRU ~~10.5.9~~10.5.11R (trading book limits) other than BIPRU ~~10.5.9~~10.5.11R(2) (CNCOM);
- (3) BIPRU ~~10.5.11R~~(10.5.12R (500% limit for trading book excess exposures) with the deletion of the time limit set out in BIPRU ~~10.5.11R~~10.5.12R; and
- (4) BIPRU ~~10.7.~~10.7 (Treasury concession and intra-group securities financing transactions).

10.9.710.9.10 R ~~BIPRU 10.8.8R and BIPRU 10.8.10R~~ apply for the purposes of BIPRU 10.9 G ~~in~~Exposures between members of the same way that they apply to BIPRU 10.8:UK integrated group are exempt if this section applies.

10.9.810.9.11 G ~~As part of the process of applying for a wider integrated group waiver, a firm should agree with the FSA the number, nature and size of the diverse blocks. The basis of the diverse blocks will depend on the nature, scale and diversity of the business of the firm, its UK integrated group and its wider integrated group. In general, the FSA will expect to permit a firm to~~

~~establish no more than four diverse blocks. However, there may be circumstances in which~~The 800% limit in BIPRU 10.5.8R and the nature and scale of a firm, its UK integrated group and its wider integrated group would warrant the creation of additional diverse blocks. Each member of a firm's wider integrated group will be allocated to a diverse block. Blocks may be diverse according to geography, business or a combination of both.
600% limit in BIPRU 10.5.13R do not apply to exposures to concentration risk group counterparties if this section applies.

Adjustments to the Treasury concession and securities financing exemptions

- 10.9.12 R BIPRU 10.8.10R (Adjustments to the Treasury concession exemption) and BIPRU 10.8.11R (Adjustments to the exemption for securities financing transactions) apply for the purposes of this section in the same way that they apply for the purposes of BIPRU 10.8 (UK Integrated Groups).

Calculation of capital resources for a UK integrated group

- 10.9.13 R BIPRU 10.8.13R (Calculation of capital resources for a UK integrated group) applies for the purposes of this section in the same way that it applies for the purposes of BIPRU 10.8 (UK Integrated Groups).

How diverse blocks are chosen

- 10.9.14 G As part of the process of applying for a wider integrated group waiver, a firm should agree with the FSA the number, nature and size of the diverse blocks. The basis of the diverse blocks will depend on the nature, scale and diversity of the business of the firm, its UK integrated group and its wider integrated group. The different diverse blocks are taken to reflect different groupings of risk, reflecting appropriately low levels of correlation. In general, the FSA will expect to permit a firm to establish no more than four diverse blocks. However, there may be circumstances in which the nature and scale of a firm, its UK integrated group and its wider integrated group would warrant the creation of additional diverse blocks. Each member of a firm's wider integrated group will be allocated to a diverse block. Blocks may be diverse according to geography, business or a combination of both.

Exemption for intra-group exposures on a solo basis

- 10.9.15 R If this section applies to a firm, then subject to BIPRU 10.10 (Treatment of the trading book concentration risk excess under the integrated groups regime), it may, on a solo basis, treat an exposure to a concentration risk group counterparty as exempt from the limits in BIPRU 10.5 (Limits on exposures and large exposures).

- 10.9.16 G The purpose of BIPRU 10.9.15R is to reflect the fact that the limits in BIPRU 10.5 (Limits on exposures and large exposures) so far as they apply to concentration risk group counterparties are calculated on a consolidated basis with respect to a firm's UK integrated group. It is therefore necessary to switch them off on a purely solo basis.

- 10.10 ~~Trading Book Excess~~ Treatment of the trading book concentration risk excess under the integrated groups regime
- 10.10.1 R *BIPRU* 10.10 applies to a *firm* applying the treatments set out in *BIPRU* 10.8 (UK Integrated Groups) or *BIPRU* ~~10.9~~10.9 (Wider Integrated Group).
- 10.10.2 R A *firm* must calculate the *CNCOM* that would have applied if ~~the list in~~ *BIPRU* ~~10.8.7R~~ or, as the case may be, *BIPRU* ~~10.9.6R~~ had applied *BIPRU* ~~10.5.9R~~10.5.11R(2) (Additional capital requirements relating to the concentration risk capital component) applied in relation to the *UK integrated group in question*.
- 10.10.3 R A *firm* must then calculate the percentage of the amount calculated under *BIPRU* 10.10.2R which is attributable to *exposures* of the *firm*.
- 10.10.4 R A *firm* must add the result of the calculation in *BIPRU* 10.10.3R to the *CNCOM* applied to the *firm* on a solo basis in accordance with *BIPRU* ~~10.5.14~~10.5.16R to *BIPRU* ~~10.5.20R~~10.5.22R (How to calculate the concentration risk capital component).

- 10.11 Notification ~~Procedures~~procedures for BIPRU 10.7 to BIPRU 10.10
- 10.11.1 R (1) A *firm* may not apply *BIPRU* 10.7 (Treasury concession and intra-group securities financing transactions) or *BIPRU* 10.8 (UK integrated groups) unless it has given one ~~month~~Month's prior notice to the *FSA* that it intends do so.
- (2) The written notice referred to in (1) must explain how the *firm* meets the ~~relevant~~ conditions for the application of the treatment in question and how it will ensure that it will still meet the requirements of *BIPRU* 10 on a continuing basis when using the relevant treatment.
- (3) A *firm* may stop applying *BIPRU* 10.7 or *BIPRU* 10.8 if it has given one ~~month~~Month's prior notice to the *FSA* that it intends do so.
- (4) If a *firm* stops applying *BIPRU* 10.7 or *BIPRU* 10.8 it may start to apply it again if it notifies the *FSA* under (1) that it intends do so.
- (5) A *firm* need only give the *FSA* the notice required in (1) once ~~and not~~rather than with respect to each *exposure*.
- 10.11.2 R A *firm* must notify the *FSA* if it becomes aware that any *exposure* that it has treated as exempt under *BIPRU* 10.7 (Treasury concession and intra-group securities financing transactions) or any *counterparty* that it has been treating as a member of its *UK integrated group* or, if *BIPRU* 10.9 (Wider Integrated Group) applies, its *wider integrated group* has ceased to meet the conditions for application of the relevant treatment. ~~A firm may give that notification in the first report due under SUP X (large exposures reporting) after the obligation to notify arises.~~

10.12 Systems and controls and general

Systems and controls

10.1
2.1 R A firm must have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying and recording all large exposures and subsequent changes to them, and for that of monitoring those large exposures in the light of the firm's own exposure policies.

10.1
2.2 R A firm must take reasonable care to establish and maintain adequate systems and controls to identify, monitor, and control exposures to a parent undertaking of the firm, a subsidiary undertaking of the firm, or a subsidiary undertaking of the firm's parent undertaking.

Concentration risk policies

10.1
2.3 R A firm must be able to demonstrate to the FSA that:

(
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) it has written policies and procedures to address and control the concentration risk arising from:

(a
) exposures to counterparties and groups of connected clients;

(
b
) counterparties in the same economic sector or geographic region;

(c
) the same activity or commodity; and

~~10.12.1~~ R

(d)

~~A firm must be able to demonstrate to the FSA that it has written policies and procedures to address and control the concentration risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity; the application of credit risk mitigation techniques, including in particular risks associated with large indirect credit exposures (for example to a single collateral issuer); and that its policies and procedures are implemented.~~

(those policies and procedures are
implemented.
)

Reporting

10.12.21 R Other than in relation to *repurchase transactions*, or securities or
0.12.4 *commodities lending or borrowing transactions*, *exposures* must be reported on a gross basis, not including the recognition of *credit risk mitigation*.

10.1 R Artificial transactions
2.3

~~A firm must have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying and recording all *large exposures* and subsequent changes to them, and for that of monitoring those *large exposures* in the light of the firm's own *exposure policies*.~~

10.1 R
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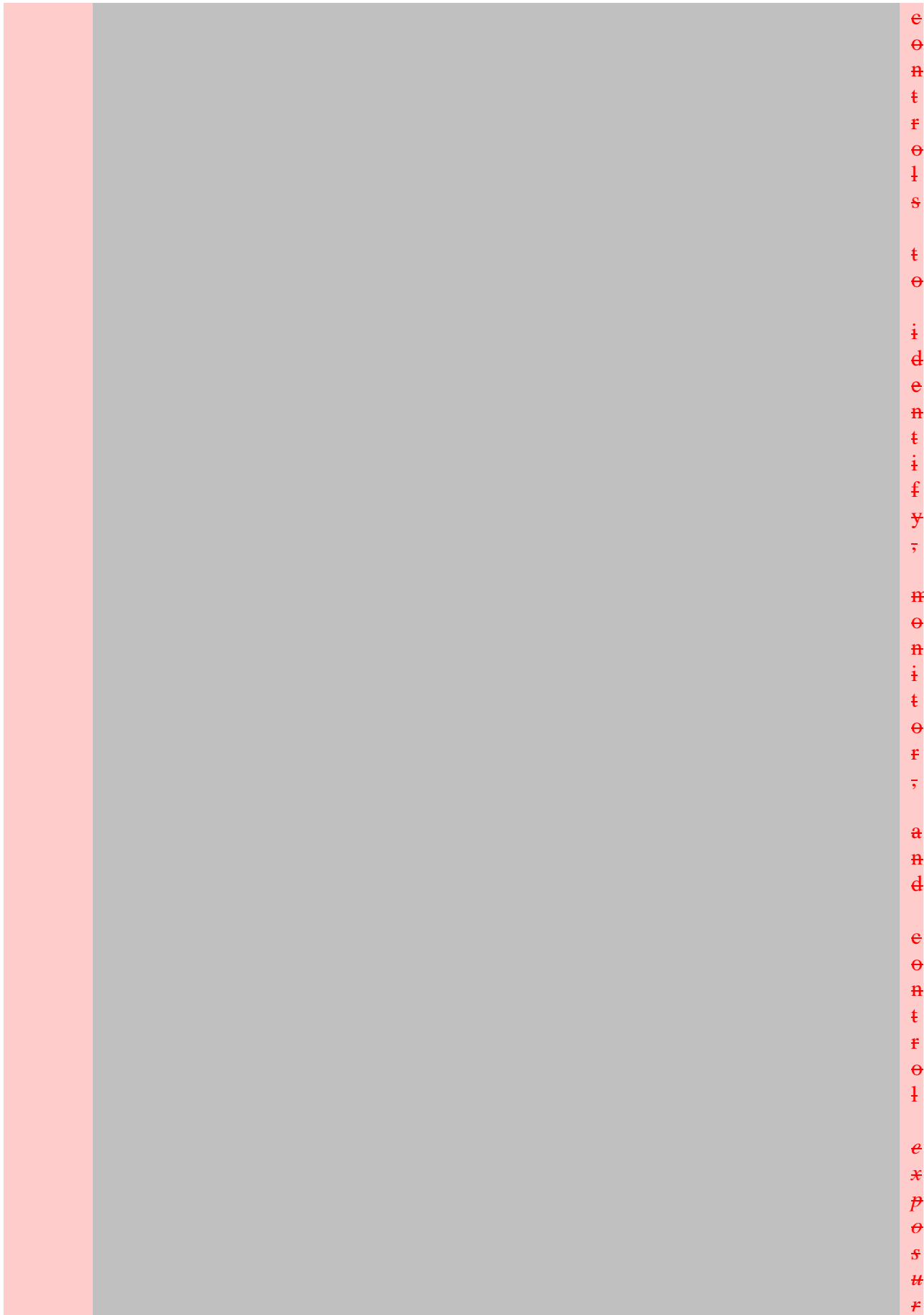
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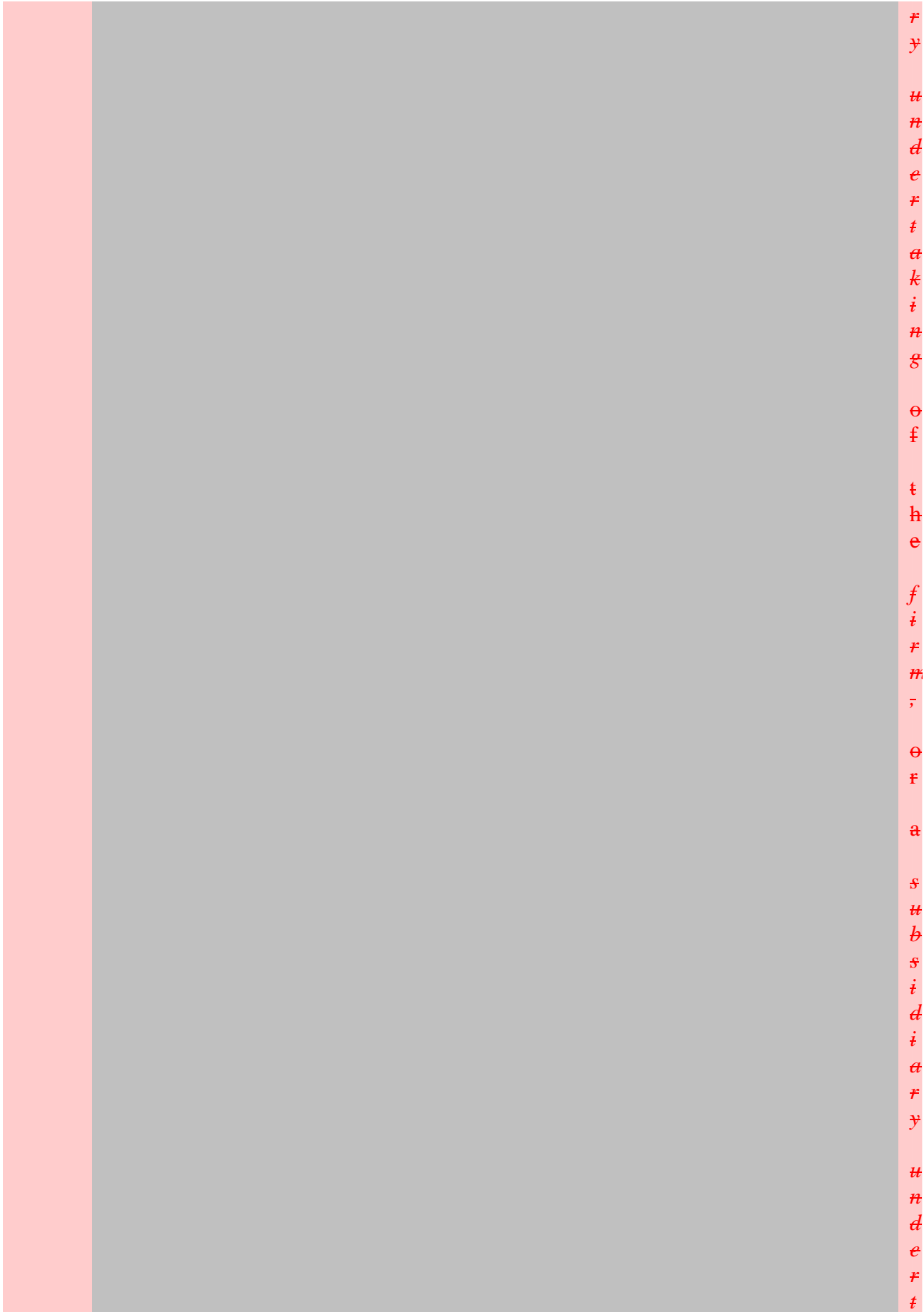
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10.12.5 R In line with the general principle in *GEN 2.2.1R* (Purposeful interpretation) a *firm* must not, with a view to avoiding the additional capital requirements that it would otherwise incur on exposures exceeding the limits laid down in *BIPRU 10.5* (Limits on exposures and large exposures) once those exposures have been maintained for more than ten business days:

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(1) ~~(2)~~ temporarily transfer the *exposures* in question to another *person* (whether in the same *group* or not); or

treat an *exposure* as having been closed out by a transaction or arrangement if that transaction or arrangement is artificial;

(2) if that transfer, transaction or arrangement would otherwise have the effect of reducing the *CNCOM* or preventing or reducing undertake artificial transactions to close out the *exposure* during the ten

business day period and create a ~~breach of the limits in BIPRU~~
~~10.~~new exposure.

10.12.6 R A *firm* must notify the *FSA* if it enters into a transfer, transaction or arrangement of the type mentioned in *BIPRU* 10.12.5R.

Annex 1 G Treatment of exposures under the integrated groups regime for concentration risk

<u>No UK Integrated Group and no Wider Integrated Group</u>		
<u>Situation</u>	<u>Exposure from / to</u>	<u>Summary of the available modifications</u>
<u>1</u>	<u>Intra group exposures but no UKIG or WIG in place</u>	<p>The <i>firm</i> is not subject to an integrated groups treatment of <i>large exposures</i>. The normal <i>large exposure</i> limits (<i>BIPRU 10.5</i>) apply to connected <i>exposures</i> of the <i>firm</i> at the solo level. (This assumes that no other <i>large exposure</i> exemptions are utilised.)</p> <p>Although a <i>firm's exposures</i> to connected counterparties may not qualify for an integrated groups treatment, they may still qualify for a treasury and intra-group securities financing transaction concession (<i>BIPRU 10.7</i>).</p>
<u>UK Integrated Group established but no Wider Integrated Group in place</u>		
<u>Situation</u>	<u>Exposure from / to</u>	<u>Summary of the available modifications</u>
<u>2</u>	<u>UKIG firm to another UKIG firm (they are members of the same UKIG)</u> <u>(No WIG in place)</u>	<u>Exposures between members of a firm's UKIG are exempt from the large exposure limits. This means that the 25%, 800%, 500% and 600% limits are disapplied and that the exposures are not included in the notional CNCOM. (BIPRU 10.8.8 G)</u>
<u>3</u>	<u>UKIG firm to an undertaking within its residual block</u> <u>(no WIG in place]</u>	<p>In situation 3, there is a UKIG and a <i>residual block</i>. But no WIG has been established.</p> <p>The UKIG's <i>exposures</i> to <i>undertakings</i> within its <i>residual block</i> are exempt from the normal <i>large exposures</i> limits at the solo level. Instead, the total of the UKIG's <i>exposures</i> to its <i>residual block</i> is subject to the following limits (<i>BIPRU 10.8.6 -7 R</i>):</p> <ul style="list-style-type: none"> ○ <u><i>BIPRU 10.5.6R</i> (25% non-trading book limit);</u> ○ <u><i>BIPRU 10.5.11 R</i>(trading book limits) other than <i>BIPRU 10.5.11 R(2)</i> (<i>CNCOM</i>);</u> ○ <u><i>BIPRU 10.5.12 R</i> (500% limit for trading book excess exposures) with the deletion of the time limit set out in <i>BIPRU 10.5.12R</i>; and</u> ○ <u><i>BIPRU 10.7</i> (Treasury concession and intra – group securities financing transactions).</u> <p>The capital resources to which the limits apply are those</p>

		<p>of the UKIG, rather than those of the solo <i>firm</i> (<u>BIPRU 10.8.6 (3) R and BIPRU 10.8.13R</u>).</p> <p><u>BIPRU 10.7 (Treasury concession and intra-group securities financing transactions) may be applied to exposures of the UKIG to its residual block if the requisite conditions are satisfied.</u></p> <p><u>In respect of the treasury concession (BIPRU 10.7.1 – 3), the UKIG's exposures to undertakings within its residual block may be exempt from the 25 % limit, subject to a maximum of 50% of the capital resources of the UKIG. These exempt exposures would also be exempt for the purposes of calculating the notional CNCOM. Any exposure that meets the treasury concession conditions but is above the 50% limit would not be exempt from the large exposure limits. They would not be exempt from the notional CNCOM. The UKIG exposures that were eligible for a treasury concession, but which, together with other such exposures, exceeded the 50% limit are not exempt and are treated as other exposures of the UKIG and remain subject to the 25% limit.</u></p>
<u>4</u>	<u>A firm in the residual block to another undertaking in the residual block</u>	<p>Not within the scope of the preferential large exposure treatments.</p>
<u>5</u>	<u>A firm in the residual block to an undertaking which is a member of the UKIG</u>	
<u>UK Integrated Group in place, Wider Integrated Group waiver granted</u>		
<u>Situation</u>	<u>Exposure from / to</u>	<u>Summary of the available modifications</u>
<u>6</u>	<u>UKIG firm to another UKIG member (within the same UKIG)</u> <u>(WIG in place)</u>	<u>Exposures between members of a firm's UKIG are exempt from the large exposure limits (BIPRU 10.9.8R). (The modifications available are the same as those noted for Situation 2.)</u>
<u>7</u>	<u>UKIG firm to an undertaking in its WIG</u> <u>(WIG in place)</u>	<p><u>In situation 7 there is a UKIG, WIG (comprising diverse blocks agreed under the WIG waiver) and a residual block.</u></p> <p><u>The aggregate exposure of the UKIG to each individual diverse block within the WIG is subject to the following limits (BIPRU 10.9.8 – 9R):</u></p>

		<ul style="list-style-type: none"> ○ <u>BIPRU 10.5.6 R (25% non- trading book limit);</u> ○ <u>BIPRU 10.5.11 R (trading book limits) other than BIPRU 10.5.11 R(2) (CNCOM);</u> ○ <u>BIPRU 10.5.12 R (500% limit for trading book excess exposures) with the deletion of the time limit set out in BIPRU 10.5.12R; and</u> ○ <u>BIPRU 10.7 (Treasury concession and intra-group securities financing transactions).</u> <p><u>The capital resources to which these limits apply are those of the UKIG, rather than those of the solo firm (BIPRU 10.9.8(3) and BIPRU 10.9.13 R).</u></p> <p><u>BIPRU 10.7 (Treasury concession and intra-group securities financing transactions) may also be applied to the exposures of the UKIG to each of its diverse blocks within the WIG if the requisite conditions are satisfied.</u></p> <p><u>In respect of the treasury concession (BIPRU 10.7.1 – 6), where there is a WIG, the UKIG's exposures to each individual diverse block may be exempt from the 25% limit up to a maximum amount of 50% of the capital resources of the UKIG. Exempt exposures are also exempt for the purpose of calculating the notional CNCOM for each diverse block. The UKIG exposures to the individual diverse blocks that were eligible for the treasury concession, but which together with other such exposures exceed the 50% limit, are not exempt and are treated as other exposures of the UKIG and remain subject to the 25% limit.</u></p>
8	<p><u>UKIG firm to a undertaking within its residual block</u></p> <p><u>(WIG in place)</u></p>	<p><u>In situation 8, there is a UKIG, WIG (comprising diverse blocks agreed under the WIG waiver) and residual block.</u></p> <p><u>The UKIG's exposures to members of its residual block are exempt from the normal large exposures limits at the solo level. Instead, the total of the UKIG's exposures to the residual block is subject to the following limits (BIPRU 10.9.8 – 10.9.11 G)</u></p> <ul style="list-style-type: none"> ○ <u>BIPRU 10.5.6R (25 % non-trading book limit);</u> ○ <u>BIPRU 10.5.11 R(trading book limits) other than BIPRU 10.5.11 R(2) (CNCOM);</u> ○ <u>BIPRU 10.5.12 R (500% limit for trading book excess exposures) with the deletion of the time</u>

		<p><u>limit set out in <i>BIPRU 10.5.12R</i>; and</u></p> <ul style="list-style-type: none"> ○ <u><i>BIPRU 10.7</i> (Treasury concession and intra – group securities financing transactions).</u> <p><u>The capital resources to which these limits apply are those of the UKIG, rather than those of the solo <i>firm</i> (<i>BIPRU 10.9.8R</i> and <i>BIPRU 10.9.13R</i>).</u></p> <p><u><i>BIPRU 10.7</i> (Treasury concession and intra-group securities financing transactions) may also be applied to exposures of the UKIG to its <i>residual block</i> if the requisite conditions are satisfied.</u></p> <p><u>In respect of the treasury concession (<i>BIPRU 10.7.1 – 6</i>), where, subject to meeting the treasury concession conditions, the UKIG's <i>exposures</i> to undertakings within its <i>residual block</i> may be exempt from the 25 % limit, subject to a maximum of 50% of the capital resources of the UKIG. These exempt <i>exposures</i> would also be exempt for the purposes of calculating the notional <i>CNCOM</i>. Any <i>exposure</i> that meets the treasury concession conditions but is above the 50% limit would not be exempt from the <i>large exposure</i> limits. They would not be exempt from the notional <i>CNCOM</i>. UKIG <i>exposures</i> that were eligible for a treasury concession, but which, together with other such <i>exposures</i>, exceeded the 50% limit are not exempt and are treated as other <i>exposures</i> of the UKIG and remain subject to the 25% limit.</u></p>
<u>9</u>	<u>WIG <i>firm</i> to an undertaking in the UKIG</u>	<p><u>Not within the scope of the preferential <i>large exposure</i> treatments.</u></p>
<u>10</u>	<u>WIG <i>firm</i> to another undertaking in the same WIG</u> <u>(either within the same <i>diverse block</i> or between <i>diverse blocks</i>)</u>	
<u>11</u>	<u>WIG <i>firm</i> to an undertaking within the <i>residual block</i></u>	
<u>12</u>	<u>A <i>firm</i> within the <i>residual block</i> to an undertaking within the</u>	

	<u>UKIG</u>	
<u>13</u>	<u>A firm within the residual block to an undertaking within the WIG</u>	
<u>14</u>	<u>A firm within the residual block to an undertaking in the residual block</u>	
<u>This table assumes that BIPRU Transitional TP17 and BIPRU Transitional TP18 have not been applied.</u>		

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