

Prudential sourcebook for Banks, Building Societies and Investment Firms

[Please discard this page]

- 10.10A.6 **R** An *individual counterparty CNCOM* is the amount a *firm* must calculate in accordance with ■ BIPRU 10.10A.8R with respect to its *exposures* to its *connected counterparties*.
- 10.10A.7 **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*.
- 10.10A.8 **R** A *firm* must calculate its *individual counterparty CNCOM* for its *exposures* to its *connected counterparties* as follows:
- (1) break down its *total exposure* into its *trading book* and *non-trading book* components;
 - (2) calculate 25% of the *firm's capital resources* calculated at stage (N) of the calculation in the *capital resources table* (Total tier one capital plus tier two capital after deductions) to determine the total amount of the *exposures* in the *firm's non-trading book* does not exceed this limit in accordance with ■ BIPRU 10.10A.2R (1);
 - (3) calculate 25% of the *firm's capital resources* calculated at stage (T) of the *capital resources table* (Total capital after deductions) and deduct those parts of the *total exposure* which are in the *non-trading book* falling within the limit in (2);
 - (4) a *firm* must allocate (in the order set out in (6)) *trading book exposures* to its *connected counterparties* to the unutilised portion of the 25% limit of the *firm's capital resources* calculated at stage (T) of the *capital resources table* (Total capital after deductions) remaining after deducting the *non-trading book exposures* in accordance with (3);
 - (5) no further *trading book exposures* can be allocated once the 25% limit in (4) has been reached; the remaining *trading book exposures* constitute the *trading book concentration risk excess* with respect to its *connected counterparties*;
 - (6) for the purposes of (4), a *firm* must allocate the *trading book exposures* in the order of the level of capital requirements, starting 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 moving towards those *trading book exposures* with the highest capital requirements last;
 - (7) the *individual counterparty CNCOM* is the sum of the capital requirements for each individual *exposure* included in the *trading book concentration risk excess* in accordance with (8) and (9) (each such capital requirement being an *individual CNCOM*);

- (8) 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 (6) × 200%;

- (9) 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 (6) × appropriate percentage in ■ BIPRU 10.10A.9R.

10.10A.9 **R** The appropriate percentage referred to in ■ BIPRU 10.10A.8R (9) must be established in accordance with the following:

- (1) the 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 10.10A.10R;
- (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 10.10A.8R (6); and
- (5) for the purposes of (4), those *exposures* with the lowest capital requirements (as referred to in ■ BIPRU 10.10A.8R (6)) must be assigned first and those with the highest last.

Percentages applicable under BIPRU 10.10A.9R

10.10A.10 **R** This table belongs to ■ BIPRU 10.10A.9 R

<i>Trading book concentration risk excess</i> (as a percentage of the <i>firm's capital resources</i> calculated at stage (T) of the <i>capital resources table</i> (Total capital after deductions))	Percentage
Up to 40%	200%
Portion from 40% - 60%	300%
Portion from 60% - 80%	400%

Trading book concentration risk excess (as a percentage of the <i>firm's capital resources</i> calculated at stage (T) of the <i>capital resources table</i> (Total capital after deductions))	Percentage
Portion from 80% - 100%	500%
Portion from 100% - 250%	600%
Portion over 250%	900%

Portion from 80% - 100%	500%
Portion from 100% - 250%	600%
Portion over 250%	900%

How CNCOM applies to the non-core large exposures group

10.10A.11

R

A *firm* that has a *non-core large exposures group waiver* must meet the CNCOM in relation to *exposures* to members of its *non-core large exposures group* in accordance with this section, subject to the following:

- (1) in ■ BIPRU 10.10A.8 R, "25%" is substituted with "100%"; and
- (2) the excess *exposures* for the purpose of ■ BIPRU 10.10A.8R (9) must be assigned to the bands in the first column of the table in ■ BIPRU 10.10A.10 R beginning with the portion from 100% - 250%.

Core UK group and non-core large exposures group: treatment of the trading book concentration risk excess

10.10A.12

R

- (1) This rule applies to a *firm* that has a *core UK group waiver* or a *non-core large exposures group waiver*.
- (2) A *firm* must calculate the CNCOM in relation to the *core UK group* in question in accordance with ■ BIPRU 10.10A.2 R (Trading book limits).
- (3) A *firm* must then calculate the percentage of the amount calculated under (2) which is attributable to *exposures* of the *firm*.
- (4) A *firm* must add the result of the calculation in (3) to the CNCOM applied to the *firm* on a solo basis in accordance with ■ BIPRU 10.10A.5R to ■ BIPRU 10.10A.11R (How to calculate the concentration risk capital component).

Examples

10.10A.13

G

- (1) The table in ■ BIPRU 10.10A.14G sets out an example of a CNCOM calculation under ■ BIPRU 10.10A.8R.
- (2) ■ BIPRU 10 Annex 2 G (Examples of treatment of exposures under BIPRU 10) sets out examples of how the *large exposures* limits apply, particularly in relation to a *core UK group* and *non-core large exposures group*, taking into account various examples of *firm's exposure* profiles.

Example of a CNCOM calculation (all numbers £000s)

10.10A.14 **G**

This table belongs to ■ BIPRU 10.10A.13G (1)

Capital resources position		
(1)	An firm'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) Non-trading book 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.	
	% specific risk weight Security	£
	0.25 Qualifying commercial paper	100
	1.60 Qualifying convertible	30
	4.00 Equity (net)	130
(5)	The 'headroom' between the non-trading book exposure and 25% of the amended capital resources is calculated.	
		£
	25% of amended capital base (1100)	275
	Non-trading book exposure	200
	Headroom	75

Prudential sourcebook for Banks, Building Societies and Investment Firms

BIPRU TP 29 Liquid assets buffer scalar: simplified ILAS BIPRU firms

Application

29.1 R BIPRU TP 29 applies to a *simplified ILAS BIPRU firm*.

Duration of transitional provisions

29.2 R BIPRU TP 29 applies from 1 December 2009 until 31 December 2015.

Transitional provisions

- 29.3 R A *simplified ILAS BIPRU firm* falling into BIPRU TP 29.1 must ensure that:
- (1) at all times between 1 October 2010 and 28 February 2012, its liquid assets buffer is no less than 30% of the amount of its *simplified buffer requirement*;
 - (2) at all times between 1 March 2012 and 30 June 2013, its liquid assets buffer is no less than 50% of its *simplified buffer requirement*; and
 - (3) at all times between 1 July 2013 and 31 December 2015, its liquid assets buffer is no less than 70% of its *simplified buffer requirement*.
- 29.4 G The effect of BIPRU TP 29.3 is that a *firm* that is a *simplified ILAS BIPRU firm* has a transitional period until 31 December 2015 to build up its liquid assets buffer so that at the end of that period it holds in its buffer assets equal to 100% of its *simplified buffer requirement*.
- 29.5 G In relation to a *firm* which becomes a *simplified ILAS BIPRU firm* after 25 March 2011, the FSA will consider as part of that *firm's simplified ILAS waiver* application how to apply the scalar approach described in BIPRU TP 29.3 to the *firm* in question. The FSA will incorporate the scalar into the terms of the *firm's simplified ILAS waiver*.

