

PRA RULEBOOK: CRR FIRMS: LARGE EXPOSURES AMENDMENT INSTRUMENT 2018

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (1) section 137G (The PRA’s general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

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

PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2018

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

Commencement

- E. Annexes A and B come into force on 29 June 2018.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2018.

By order of the Prudential Regulation Committee

21 June 2018

Annex A

Amendments to the Large Exposures Part

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

Part

Large Exposures

1. APPLICATION AND DEFINITIONS
2. INTRA-GROUP EXPOSURES: NON-CORE LARGE EXPOSURES GROUP AND RESOLUTION EXEMPTIONS
3. SOVEREIGN LARGE EXPOSURES EXEMPTION
4. ~~CONDITIONS FOR THE NON-CORE LARGE EXPOSURES GROUP EXEMPTION AND THE SOVEREIGN LARGE EXPOSURES EXEMPTION~~ [deleted.]

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part the following definitions shall apply:

~~core UK group eligible capital~~

~~means the sum of the following amounts for each member of the *core UK group* and the *firm* (the sub-group):~~

~~(a) for the ultimate *parent undertaking* of the sub-group, the amount calculated in accordance with Article 6 of the *CRR* (or other applicable prudential requirements);~~

~~(b) for any other member of the sub-group, the amount calculated in accordance with Article 6 of the *CRR* (or other applicable prudential requirements) less the book value of the sub-group's holdings of capital instruments in that member, to the extent not already deducted in calculations done in accordance with Article 6 of the *CRR* (or other applicable prudential requirements) for:~~

~~(i) the ultimate *parent undertaking* of the sub-group; or~~

~~(ii) any other member of the sub-group.~~

~~The deduction in (b) must be carried out separately for each type of capital instrument eligible as *own funds*.~~

...

resolution exemption

means the exemption in 2.4.

resolution exposure

means an exposure to *resolution liabilities* that ensures that losses can be absorbed and passed from the *firm* to its resolution entity.

resolution liabilities

means liabilities that meet the following criteria:

- (a) the instrument that creates the liabilities must be issued and fully paid up;
- (b) the liabilities are not secured or guaranteed by the *firm*, its *parent undertaking* or any *subsidiaries* of the *firm* or its *parent undertaking*;
- (c) the liabilities have a minimum effective remaining maturity of one year (where liabilities include an incentive to redeem, the maturity date shall, for the purposes of determining eligibility, be considered to be the date at which the incentive arises);
- (d) the liabilities do not depend on derivatives for their value (put or call options will not in and of themselves be sufficient to disqualify a liability for this purpose absent any other dependency on derivatives);
- (e) the liabilities are not subject to contractual set-off or netting arrangements;
- (f) the liabilities are able to absorb losses and recapitalise the issuer of the liability, such as through being written down and/or converted to equity, without the use of stabilisation or resolution powers at the level of the issuer of the liability;
- (g) the liabilities are subordinated to the operating liabilities of the issuer; and
- (h) the liabilities do not take the form of equity.

...

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

NCLEG non-trading book exemption

2.1 ...

(2) A *firm* may only use the *NCLEG non-trading book exemption* where:

- ~~(a) the total amount of non-trading book exposures (whether or not exempted from Article 395(1) of the *CRR*) from the *firm* to its *NCLEG* does not exceed 100% of the *firm's eligible capital*.~~
- ~~(b) (if the *firm* has a *core UK group permission*) the total amount of non-trading book exposures (whether or not exempted from Article 395(1) of the *CRR*) from its *core UK group* (and the *firm*) to its *NCLEG* does not exceed 100% of the *core UK group eligible capital*.~~

A firm may calculate the total amount of such exposures after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the CRR.

- (3) With respect to the application of requirements laid down in Part Four of the CRR on a consolidated basis, a firm may treat the total amount of exposures that are exempt in accordance with an NCLEG non-trading book permission on an individual basis as exempt from the limit in Article 395(1) of the CRR on a consolidated basis.

[Note: Art 400(2)(c) of the CRR]

NCLEG trading book exemption

2.2 ...

- (2) The trading book exposure allocation for a firm ~~that does not have a core UK group permission~~ is 100% of the firm's eligible capital less the total amount of non-trading book exposures (whether or not exempted from Article 395(1) of the CRR) from the firm to its NCLEG.

- (3) The trading book exposure allocation for a firm (F) that has a core UK group permission is equal to $R \times TTBE$ where:-

(a) ~~R is F's trading book exposures to its NCLEG divided by the total trading book exposures of the core UK group (and F) to F's NCLEG; and~~

(b) ~~TTBE is 100% of F's core UK group eligible capital less the total amount of non-trading book exposures (whether or not exempted from Article 395(1) of the CRR) from the core UK group (and F) to F's NCLEG. [deleted.]~~

...

- (6) With respect to the application of requirements laid down in Part Four of the CRR on a consolidated basis, a firm may treat the amount of exposures that are exempt in accordance with an NCLEG trading book permission on an individual basis as exempt from the limit in Article 395(1) of the CRR on a consolidated basis.

[Note: Art 400(2)(c) of the CRR]

Notifications and reporting

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

(a) ~~intends, or becomes aware that a member of its core UK group intends, for the total amount of exposures from the core UK group (and the firm) to a particular member of the firm's NCLEG to exceed 25% of its core UK group eligible capital; [deleted.]~~

(b) becomes aware that the total amount of exposures from the core UK group (including and the firm) to a particular member of the firm's NCLEG are likely to exceed, or have

exceeded, 25% of its ~~core UK group eligible capital~~ the eligible capital of the PRA-regulated firm with the largest eligible capital base in the core UK group;

(c) becomes aware that the total exposures from the members of its core UK group which are not firms to the firm's NCLEG are likely to exceed, or have exceeded 25% of the eligible capital of the PRA-regulated firm with the largest eligible capital base in the core UK group.

...

(3) ~~A firm with a core UK group permission and an NCLEG trading book permission or an NCLEG non-trading book permission must submit FSA018 in accordance with SUP 16.12.[deleted.]~~

Resolution exemption

2.4 A firm must exclude from the limit in Article 395(1) of the CRR resolution exposures to:

(1) its parent undertaking;

(2) other subsidiaries of that parent undertaking; or

(3) its own subsidiaries,

in so far as those undertakings are covered by the supervision on a consolidated basis to which the firm itself is subject, in accordance with the CRR, Directive 2002/87/EC or with equivalent standards in force in a third country.

[Note: Art 400(2)(c) of the CRR]

~~4 CONDITIONS FOR THE NON-CORE LARGE EXPOSURES GROUP EXEMPTION AND THE SOVEREIGN LARGE EXPOSURES EXEMPTION [deleted.]~~

~~4.1 A firm may only use the NCLEG non-trading book exemption, the NCLEG trading book exemption or the sovereign large exposures exemption where it can demonstrate to the PRA that the following conditions are met:~~

~~(1) the specific nature of the exposure, the counterparty or the relationship between the firm and the counterparty eliminate or reduce the risk of the exposure; and~~

~~(2) any remaining concentration risk can be addressed by other equally effective means such as the arrangements, processes and mechanisms provided for in Article 81 of CRD. [deleted.]~~

~~[Note: Art 400(3) of the CRR]~~

Annex B

Amendments to the Regulatory Reporting Part

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

7 REGULATED ACTIVITY GROUP 1

7.1 The applicable *data items* referred to in the table in 6.1 are set out according to *firm* type in the table below:

RAG 1	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (1)					
	<i>UK bank</i>	<i>Building Society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	[deleted.]	<i>Dormant account fund operator (12)</i>
Description of <i>data item</i>						
...	
<i>Large Exposures</i>	-	-	-	-	[deleted.]	-
<i>Exposures between core UK group and non-core large exposures group [deleted.]</i>	FSA018 (10) [delete d.]	FSA018 (10) [deleted.]	-	-	-	-
...	

...

(10) Only applicable to a ~~firm that has both a core UK group and a non-core large exposures group~~ [deleted.]

...

7.2 The applicable reporting frequencies for submission of *data items* and periods referred to in 7.1 are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

RAG 1				
<i>Data item</i>	<i>UK banks and building societies (on an unconsolidated or</i>	[deleted.]	<i>UK banks and building societies (on a UK</i>	<i>Other members of RAG 1</i>

	individual consolidated basis) (9)		<i>consolidation group or, as applicable, defined liquidity group basis)</i>	
...
FSA018[deleted.]	Quarterly[deleted.]		-	-
...

...

7.3 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 7.2, unless indicated otherwise.

<i>RAG 1</i>						
<i>Data item</i>	<i>Daily</i>	<i>Weekly</i>	<i>Monthly</i>	<i>Quarterly</i>	<i>Half yearly</i>	<i>Annually</i>
...
FSA018[deleted.]	-	-	-	45 business days[deleted.]	-	-
...

...

9 REGULATED ACTIVITY GROUP 3

9.2 The applicable *data items* referred to in the table in 6.1 for a *UK designated investment firm* are set out in the table below:

<i>RAG 3</i>	
Description of <i>data item</i>	Applicable <i>data items</i> (1)
...	...
Exposures between core UK group and non-core large exposures group [deleted.]	FSA018 (7)[deleted.]
...	...

...

(7) Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*. [deleted.]

...

9.3 The applicable reporting frequencies for submission of *data items* and periods referred to in 9.2 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

<i>RAG 3</i>	
<i>Data item</i>	Reporting frequency
...	...

FSA018[deleted.]	Quarterly[deleted.]
...	...

...

9.4 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 9.3, unless indicated otherwise.

RAG 3						
<i>Data item</i>	<i>Daily</i>	<i>Weekly</i>	<i>Monthly</i>	<i>Quarterly</i>	<i>Half yearly</i>	<i>Annually</i>
...
FSA018[deleted.]	-	-	-	45 business days[deleted.]	-	-
...

...

16 DATA ITEMS AND OTHER FORMS

...

16.10 FSA018 can be found here:[deleted.]