

PRA RULEBOOK: CRR FIRMS: LARGE EXPOSURES (CRR) INSTRUMENT [2024]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 144G (Disapplication or modification of CRR rules in individual cases);
 - (4) section 144H (Relationship with the capital requirements regulation);
 - (5) section 192J (Rules requiring provision of information by parent undertakings); and
 - (6) section 192XC (Disapplication or modification of rules in individual cases).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

PRA Rulebook: CRR Firms: Large Exposures (CRR) Instrument [2024]

- C. The PRA makes the rules in the Annex to this instrument.

Commencement

- D. This instrument comes into force on [dd/mm/yy].

Citation

- E. This instrument may be cited as the PRA Rulebook: CRR Firms: Large Exposures (CRR) Instrument [2024].

By order of the Prudential Regulation Committee

[DATE]

Annex

Amendments to the Large Exposures (CRR) Part

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

Part

Large Exposures (CRR)

Chapter content

- 1. APPLICATIONS AND DEFINITIONS**
 - 2. LEVEL OF APPLICATION**
 - 3. ORGANISATIONAL STRUCTURE AND CONTROL MECHANISMS**
 - 4. LARGE EXPOSURES (PART FOUR CRR)**
 - 5. RULES DETERMINING THE OVERALL EXPOSURE TO A CLIENT OR A GROUP OF CONNECTED CLIENTS IN RESPECT OF TRANSACTIONS WITH UNDERLYING ASSETS (PREVIOUSLY REGULATION (EU) NO 1187/2014)**
- ANNEX 1 – EXCLUDED ENTITIES**

1 APPLICATIONS AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

control

means the relationship between a *parent undertaking* and a *subsidiary undertaking*, as defined in:

- (1) the accounting standards to which an institution is subject under section 403(1) of the Companies Act 2006; or
- (2) section 1162 of the Companies Act 2006; or

a similar relationship between any natural or legal *person* and an *undertaking*.

~~(a)~~-exposure

...

group of connected clients

means any of the following:

- (1) two or more natural or legal *persons* who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has *control* over the other or others; or
- (2) two or more natural or legal *persons* between whom there is no relationship of *control* as described in point (1) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or others would also be likely to encounter funding or repayment difficulties.

provided that:

- (3) notwithstanding points (1) and (2), where a central government has direct *control* over, or is directly interconnected with, more than one natural or legal *person*, the set consisting of the central government and all of the natural or legal *persons* directly or indirectly *controlled* by it in accordance with point (1), or interconnected with it in accordance with point (2), may be considered as not constituting a group of connected clients. Instead the existence of a group of connected clients formed by the central government and other natural or legal *persons* may be assessed separately for each of the natural or legal *persons* directly *controlled* by it in accordance with point (1), or directly interconnected with it in accordance with point (2), and all of the natural or legal *persons* which are *controlled* by that natural or legal *person* according to point (1) or interconnected with that natural or legal *person* in accordance with point (2), including the central government. The same applies in cases of regional governments or local authorities to which *CRR* Article 115(2) applies and in the *United Kingdom* regional governments means the Scottish Government, the Welsh Government and the Northern Ireland Executive; and
- (4) two or more natural or legal *persons* who fulfil the conditions set out in point (1) or (2) because of their direct exposure to the same central counterparty for clearing activities purposes are not considered as constituting a group of connected clients.

~~(b)~~-large exposure

means an institution's *exposure* to a client or ~~group of connected clients~~ *group of connected clients* where the value of the *exposure* is equal to or exceeds 10% of its *Tier 1 capital*.

[Note: This definition corresponds to Article 392 of the *CRR* as it applied immediately before revocation by the *Treasury*]

shadow banking entity

means any entity that:

- (1) carries out one or more credit intermediation activities; and
- (2) is not listed in Annex 1.

...

4 LARGE EXPOSURES (PART FOUR CRR)

...

ARTICLE 390 CALCULATION OF EXPOSURE VALUE

- 1. The total *exposures* to a ~~group of connected clients~~ group of connected clients shall be calculated by adding together the *exposures* to individual clients in that group.
- ...
- 7. To determine the overall *exposure* to a client or a ~~group of connected clients~~ group of connected clients, in respect of clients to which the institution has *exposures* through transactions referred to in points (m) and (o) of Article 112 or through other transactions where there is an *exposure* to underlying assets, an institution shall assess its underlying *exposures* taking into account the economic substance of the structure of the transaction and the risks inherent in the structure of the transaction itself, in order to determine whether it constitutes an additional *exposure*.
- 8. [Note: Provision left blank. Rules for determining the overall *exposure* to a client or a ~~group of connected clients~~ group of connected clients corresponding to Delegated Regulation 2014/1187 are set out in Chapter 5 of this Part]

...

ARTICLE 394 REPORTING REQUIREMENTS

- 1. Institutions shall report the following information to their competent authority for each *large exposure* that they hold, including *large exposures* exempted from the application of Article 395(1):
 - (a) the identity of the client or the ~~group of connected clients~~ group of connected clients to which the institution has a *large exposure*;
 - ...
- 2. In addition to the information referred to in *paragraph 1* of this Article, institutions shall report the following information to their competent authority in relation to their 10 largest *exposures* to institutions on a consolidated basis, as well as their 10 largest *exposures* to shadow banking entities ~~shadow banking entities which carry out banking activities outside the regulated framework~~ on a consolidated basis, including *large exposures* exempted from the application of Article 395(1):
 - (a) the identity of the client or the ~~group of connected clients~~ group of connected clients to which an institution has a *large exposure*;
 - ...

ARTICLE 395 LIMITS TO LARGE EXPOSURES

1. An institution shall not incur an *exposure*, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to a client or ~~group of connected clients~~group of connected clients the value of which exceeds 25% of its *Tier 1 capital*. Where that client is an institution or an investment firm or where a ~~group of connected clients~~group of connected clients includes one or more institutions or investment firms, that value shall not exceed 25% of the institution's *Tier 1 capital* or GBP 130 million, whichever is higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to all connected clients that are not institutions does not exceed 25% of the institution's *Tier 1 capital*.

[Note: IFR 2019/2033 added “or an investment firm” and “or investment firms” to 1]

Where the amount of GBP 130 million is higher than 25% of the institution's *Tier 1 capital*, the value of the *exposure*, after having taken into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of this Part, shall not exceed a reasonable limit in terms of the institution's *Tier 1 capital*. That limit shall be determined by the institution in accordance with the policies and procedures referred to in Internal Capital Adequacy Assessment 6.1 required to address and control concentration risk. That limit shall not exceed 100% of the institution's *Tier 1 capital*.

By way of derogation from the first subparagraph of this paragraph, a *G-SII* shall not incur an *exposure* to another *G-SII* or to a *non-UK G-SII*, the value of which, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, exceeds 15% of its *Tier 1 capital*. A *G-SII* shall comply with such limit no later than 12 months from the date on which it came to be identified as a *G-SII*. Where the *G-SII* has an *exposure* to another institution or group which comes to be identified as a *G-SII* or as a *non-UK G-SII*, it shall comply with such limit no later than 12 months from the date on which that other institution or group came to be identified as a *G-SII* or as a *non-UK G-SII*.

...

5. The limits laid down in this Article may be exceeded for the *exposures* in the institution's trading book, provided that all the following conditions are met:

(a) the *exposure* in the non-trading book to the client or ~~group of connected clients~~group of connected clients in question does not exceed the limit laid down in paragraph 1, this limit being calculated with reference to *Tier 1 capital*, so that the excess arises entirely in the trading book;

...

(c) where 10 days or less have elapsed since the excess referred to in point (b) occurred, the trading-book *exposure* to the client or ~~group of connected clients~~group of connected clients in question does not exceed 500% of the institution's *Tier 1 capital*;

...

Each time the limit has been exceeded, the institution shall report to the competent authority without delay the amount of the excess and the name of the client concerned and, where applicable, the name of the ~~group of connected clients~~group of connected clients concerned.

...

ARTICLE 397 CALCULATING ADDITIONAL OWN FUNDS REQUIREMENTS FOR LARGE EXPOSURES IN THE TRADING BOOK

1. The excess referred to in Article 395(5)(b) shall be calculated by selecting those components of the total trading *exposure* to the client or ~~group of connected clients~~group of connected clients

in question which attract the highest specific-risk requirements in Part Three, Title IV, Chapter 2 and/or requirements in Article 299 and Part Three, Title V, the sum of which equals the amount of the excess referred to in point (a) of Article 395(5).

...

ARTICLE 400 EXEMPTIONS

1. The following *exposures* shall be exempted from the application of Article 395(1):

...

(i) *exposures* arising from undrawn credit facilities that are classified as low-risk off-balance sheet items in Annex I of the *CRR* and provided that an agreement has been concluded with the client or ~~group of connected clients~~ *group of connected clients* under which the facility may be drawn only if it has been ascertained that it will not cause the limit applicable under Article 395(1) to be exceeded;

...

5 RULES DETERMINING THE OVERALL EXPOSURE TO A CLIENT OR A GROUP OF CONNECTED CLIENTS IN RESPECT OF TRANSACTIONS WITH UNDERLYING ASSETS (PREVIOUSLY REGULATION (EU) NO 1187/2014)

ARTICLE 1 SUBJECT MATTER

- This Chapter 5 of this Large Exposures (CRR) Part of the *PRA* Rules specifies the conditions and methodologies used to determine the overall *exposure* of an institution to a client or a ~~group of connected clients~~ *group of connected clients* in respect of *exposures* through *transactions* with underlying assets and the conditions under which the structure of *transactions* with underlying assets does not constitute an additional *exposure*.

...

ARTICLE 3 IDENTIFICATION OF EXPOSURES RESULTING FROM TRANSACTIONS

1. An institution shall determine the contribution to the overall *exposure* to a certain client or ~~group of connected clients~~ *group of connected clients* that results from a certain *transaction* in accordance with the methodology set out in Articles 4, 5 and 6.

The institution shall determine separately for each of the underlying assets its *exposure* to this underlying asset in accordance with Article 5.

...

ARTICLE 6 PROCEDURE FOR DETERMINING THE CONTRIBUTION OF UNDERLYING EXPOSURES TO OVERALL EXPOSURES

1. For each credit risk *exposure* for which the obligor is identified, an institution shall include the exposure value of its *exposure* to the relevant underlying asset when calculating the overall *exposure* to this obligor as an individual client or to the ~~group of connected clients~~ *group of connected clients* to which this obligor belongs.

...

ANNEX 1 – EXCLUDED ENTITIES

1. Excluded entities are:

(1) entities included in consolidated supervision on the basis of a *firm's* consolidated situation;

- (2) entities which are supervised on a consolidated basis by a *third country* competent authority pursuant to the law of a *third country* which applies prudential and supervisory requirements that are determined by the *Treasury* to be at least equivalent to those applied in the *United Kingdom*; and
- (3) entities which are not within the scope of points (1) and (2) but which are:
- (a) *CRR firms*;
 - (b) *investment firms*;
 - (c) *third country CRR firms* if the *third country* applies prudential and supervisory requirements to that institution that are determined by the *Treasury* to be at least equivalent to those applied in the *United Kingdom*;
 - (d) *third country investment firms*, if the *third country* applies prudential and supervisory requirements to that institution that are determined by the *Treasury* to be at least equivalent to those applied in the *United Kingdom*;
 - (e) entities which are *financial institutions* where the *firm's* exposure to the entity concerned is treated as an exposure to an institution pursuant to Article 119(5) of the *CRR*;
 - (f) central banks, National Savings and Investments, CDC Group plc, the Agricultural Mortgage Corporation Ltd, the Crown Agents for overseas governments and administrations, credit unions and municipal banks;
 - (g) any of the following:
 - (i) central governments;
 - (ii) local authorities and regional governments, where the *firm's* exposure to such an entity is treated as an exposure to a central government pursuant to Article 115(2) of the *CRR*;
 - (iii) a public sector entity;
 - (iv) a multilateral development bank listed in Article 117(2) of the *CRR*; or
 - (v) an international organisation listed in Article 118 of the *CRR*.
 - (h) *insurance holding companies*, insurance undertakings, reinsurance undertakings and third country insurance undertakings and third country reinsurance undertakings where the supervisory regime of the *third country* concerned is determined by the *Treasury* to be at least equivalent to the *United Kingdom*;
 - (i) *firms* excluded from the *Solvency II Directive* in accordance with 2.3 of the Insurance General Application – UK Solvency II Firm Part;
 - (j) entities established for the purpose of providing retirement benefits on the basis of an *occupational pension scheme*, *personal pension scheme* and *pensions scheme*;
 - (k) any of the following:
 - (i) collective investment undertakings as defined in Article 4(1)(7) of the *CRR*;
 - (ii) *alternative investment funds* that:
 - (1) are not regulated money market fund as defined in the *FCA Handbook*;
 - (2) are not employing leverage on a substantial basis as set out in Article 111(1) of the Commission Delegated Regulation (EU) 231/2013; or

- (3) are prohibited from originating loans in the ordinary course of their business or from purchasing third-party lending exposures for their own account on the basis of their rules or instruments of incorporation;
- (iii) are long-term asset funds as defined in the *FCA Handbook*;
- (iv) are qualifying social entrepreneurship funds as defined in the *FCA Handbook*; or
- (v) are qualifying venture capital funds as defined in the *FCA Handbook*;
- (l) central counterparties;
- (m) electronic money issuers as defined in regulation 2(1) of the *Electronic Money Regulations*;
- (n) authorised payment institutions;
- (o) entities the principal activity of which is to carry out credit intermediation activities for their parent undertakings, for their subsidiaries or for other subsidiaries of their parent undertakings; or
- (p) any of the following:
- (i) the *Bank of England* including when acting in its capacity as resolution authority;
 - (ii) asset management vehicles as defined in section 12ZA(2) of the *Banking Act 2009*;
 - (iii) bridge institutions as defined in section 12(1) and (1A) of the *Banking Act 2009*;
 - (iv) entities wholly or partially owned by one or more public authorities established prior to the 1 January 2016 for the purpose of receiving and holding some or all of the assets, rights and liabilities of one or more institutions in order to preserve or restore the viability, liquidity or solvency of an institution or to stabilise the financial market; or
 - (v) *third country* resolution authorities or entities established by them to facilitate resolution action recognised by an order made under section 89H of the *Banking Act 2009*.