

## Illiquid Assets Vs. Material Holdings

### Introduction

In calculating the firms capital a BIPRU investment firm without an investment firm consolidation waiver may choose to deduct either Illiquid Assets (GENPRU 2 Annex 5R) or Material Holdings (GENPRU 2 Annex 4R) from its Capital resources.

The initial position is that the firm will deduct Material Holdings however Illiquid Assets may be deducted if the FSA is notified (one months notice is required). Deducting one of these instead of the other may be of great benefit to the firm as it may be that the firm has significantly less of one than the other meaning that they can deduct less from their capital. This may make a significant difference to the firm's capital and so allow the firm to better meet its capital resources requirement.

Type of firm	Location of rules	Remarks
Insurer	<a href="#">GENPRU 2 Annex 1 R</a>	
Bank	<a href="#">GENPRU 2 Annex 2 R</a>	
Building society	<a href="#">GENPRU 2 Annex 3 R</a>	
BIPRU investment firm without an investment firm consolidation waiver	<a href="#">GENPRU 2 Annex 4 R</a> (Deducts material holdings)	Applies to a BIPRU investment firm not using <a href="#">GENPRU 2 Annex 5 R</a> or <a href="#">GENPRU 2 Annex 6 R</a>
BIPRU investment firm without an investment firm consolidation waiver	<a href="#">GENPRU 2 Annex 5 R</a> (Deducts illiquid assets)	A BIPRU investment firm must give one Month's prior notice to the FSA before starting to use or stopping using this method
BIPRU investment firm with an investment firm consolidation waiver	<a href="#">GENPRU 2 Annex 6 R</a> (Deducts illiquid assets and material holdings)	A firm with an investment firm consolidation waiver must use this method. No other BIPRU investment firm may use it.

For the full tables on the process for deducting illiquid assets or material holdings see the tables located at the end of this document.

### Illiquid assets

(1) tangible fixed assets (except land and buildings if they are used by a firm as security for loans, but this exclusion is only up to the value of the principal outstanding on the loans); or

(2) any holdings in the capital resources of credit institutions or financial institutions, except to the extent that:

(a) they have already been deducted as a material holding; or

(b) they are shares which are included in a firm's trading book and included in the calculation of the firm's market risk capital requirement; or

(3) holdings of other securities which are not readily realisable securities; or

(4) deficiencies of net assets in subsidiary undertakings; or

(5) deposits which are not repayable within 90 days (except for payments in connection with margined futures or options contracts); or

(6) loans and other amounts owed to a firm except where they are due to be repaid within 90 days; or

(7) physical stocks except for positions in physical commodities which are included in the calculation of a firm's commodity PRR.

If a loan or other amount owing to a firm was originally due to be paid more than 90 days from the date of the making of the loan or the incurring of the payment obligation, as the case may be, it may be treated as liquid for the purposes of GENPRU 2.2.260R(6) where through the passage of time the remaining time to the contractual repayment date falls below 90 days.

If a loan or other amount is due to be paid within 90 days (whether measured by reference to original or remaining maturity), a firm should consider whether it can reasonably expect the amount owing to be paid within that period. If the firm cannot reasonably expect it to be paid within that period the firm should treat it as illiquid.

### Material holding

A material holding is:

(1) a BIPRU firm's holdings of shares and any other interest in the capital of an individual credit institution or financial institution (held in the non-trading book or the trading book or both) exceeding 10% of the share capital of the issuer, and, where this is the case, any holdings of subordinated debt of the same issuer are also included as a material holding; the full amount of the holding is a material holding; or

(2) a BIPRU firm's holdings of shares, any other interest in the capital and subordinated debt in an individual credit institution or financial institution (held in the non-trading book or the trading book or both) not deducted under (1) if the total amount of such holdings exceeds 10% of that firm's capital resources at stage N (Total tier one capital plus tier two capital after deductions) of the calculation in the capital resources table (calculated before deduction of its material holdings); only the excess amount is a material holding; or

(3) a bank or building society's aggregate holdings in the non-trading book of shares, any other interest in the capital, and subordinated debt in all credit institutions or financial institutions not deducted under (1) or (2) if the total amount of such holdings exceeds 10% of that firm's capital

resources at stage N of the calculation in the capital resources table (calculated before deduction of its material holdings); only the excess amount is a material holding; or

(4) a material insurance holding.

#### Guidance on Material Holdings

For the purpose of the definition of a material holding, share capital includes preference shares. Share premium should be taken into account when determining the amount of share capital.

When calculating the size of its material holdings a firm must only include an actual holding (that is, a long cash position). A firm must not net such holdings with a short position.

For the purpose of the definition of a material holding, holdings must be valued using the valuation method which the holder uses for its external financial reporting purposes.

## GENPRU 2 Annex 4R – Deducting Material Holdings

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
<b>Core tier one capital</b>		<b>(A)</b>
<i>Permanent share capital</i>	GENPRU 2.2.83 R	
Profit and loss account and other reserves (taking into account material interim net losses)	GENPRU 2.2.85 R to 2.2.90	
<i>Eligible partnership capital</i>	GENPRU 2.2.93 R; GENPRU 2.2.95 R	
<i>Eligible LLP members' capital</i>	GENPRU 2.2.94 R; GENPRU 2.2.95 R	
<i>Sole trader capital</i>	None	
<i>Share premium account</i>	GENPRU 2.2.101 R	
Externally verified interim net profits	GENPRU 2.2.102 R	
<b>Perpetual non-cumulative preference shares</b>		<b>(B)</b>
Perpetual non-cumulative <i>preference shares</i>	GENPRU 2.2.109 R	
<b>Innovative tier one capital</b>		<b>(C)</b>
<i>Innovative tier one instruments</i>	GENPRU 2.2.113 R to GENPRU 2.2.137 R	
<b>Total tier one capital before deductions = A+B+C</b>		<b>(D)</b>
<b>Deductions from tier one capital</b>		<b>(E)</b>
Investments in own <i>shares</i>	None	
Intangible assets	GENPRU 2.2.155 R	
Excess of drawings over profits for partnerships, <i>limited liability partnerships</i> and <i>sole traders</i>	GENPRU 2.2.100 R; there is no related text for <i>sole traders</i>	
Net losses on equities held in the available-for-sale financial asset category	GENPRU 2.2.185 R	
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239R (2) to GENPRU 2.2.239R (4)	
<b>Total tier one capital after deductions = D-E</b>		<b>(F)</b>
<b>Upper tier two capital</b>		<b>(G)</b>
Perpetual cumulative <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.181 R	
Perpetual subordinated debt	See previous entry	
Perpetual subordinated securities	See previous entry	

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
Revaluation reserves	GENPRU 2.2.185 R	
General/collective provisions	GENPRU 2.2.187 R to GENPRU 2.2.189 R	
Surplus provisions	GENPRU 2.2.190 R to GENPRU 2.2.193 R	
<b>Lower tier two capital</b>		<b>(H)</b>
Fixed term <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.174 R; GENPRU 2.2.194 R to GENPRU 2.2.196 R	
Long term subordinated debt	See previous entry	
Fixed term subordinated securities	See previous entry	
<b>Total tier two capital = G+H</b>		<b>(I)</b>
<b>Deductions from tier two capital</b>		<b>(J)</b>
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239R (2) to GENPRU 2.2.239R (4)	
<b>Total tier two capital after deductions = I - J</b>		<b>(K)</b>
<b>Total tier one capital plus tier two capital = F+K</b>		<b>(L)</b>
<b>Deductions from the totals of tier one and two</b>		<b>(M)</b>
<i>Material holdings</i>	GENPRU 2.2.208 R to GENPRU 2.2.215 R	
<i>Expected loss</i> amounts and other negative amounts	GENPRU 2.2.236 R	(Part 1 of stage M)
<i>Securitisation positions</i>	GENPRU 2.2.237 R	
<i>Reciprocal cross-holdings</i>	GENPRU 2.2.217 R to GENPRU 2.2.220 R	(Part 2 of stage M)
<b>Total tier one capital plus tier two capital after deductions = L-M</b>		<b>(N)</b>
<b>In calculating whether a firm's capital resources exceed its capital resources requirement:</b> (1) the <i>credit risk capital component</i> , the <i>operational risk capital requirement (if applicable)</i> and the <i>counterparty risk capital component</i> ; or (2) the <i>base capital resources requirement</i> ; as the case may be, must be deducted here.		
<b>Upper tier three</b>		<b>(O)</b>
Short term subordinated debt	GENPRU 2.2.241 R to GENPRU 2.2.245 R	
<b>Lower tier three</b>		<b>(P)</b>

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
Net interim <i>trading book</i> profit and loss	GENPRU 2.2.246 R to GENPRU 2.2.249 R	
<b>Total tier three capital=O+P</b>		<b>(Q)</b>
<b>Total capital before deductions = N+Q</b>		<b>(R)</b>
<b>Deductions from total capital</b>		<b>(S)</b>
<i>Free deliveries</i>	BIPRU 14.4	
<b>Total capital after deductions (R - S)</b>		<b>(T)</b>
<b>In calculating whether a firm's capital resources exceed its capital resources requirement, the market risk capital requirement, the concentration risk capital component and (if applicable) the fixed overheads requirement must be deducted here.</b>		

Note (1): Where the table refers to related text, it is necessary to refer to that text in order to understand fully what is included in the descriptions of capital items and deductions set out in the table.

Note (2): If the amount calculated at:

- (a) stage N less the deductions in respect of the *capital resources requirement* made immediately following stage N; or
- (b) stage T less the deductions in respect of the *capital resources requirement* made immediately following stages N and T;

is a negative number the *firm's capital resources* are less than its *capital resources requirement*.

Note (3): Stage C must be omitted except where *capital resources* are being used for a purpose for which *innovative tier one capital* may be used (see [GENPRU 2.2.27 R](#)).

## GENPRU 2 Annex 5R – Deducting Illiquid Assets

The capital resources calculation for an investment firm that deducts illiquid assets		
Type of capital	Related text	Stage
<b>Core tier one capital</b>		<b>(A)</b>
<i>Permanent share capital</i>	GENPRU 2.2.83 R	
Profit and loss account and other reserves (taking into account material interim net losses)	GENPRU 2.2.85 R to GENPRU 2.2.90 R	
<i>Eligible partnership capital</i>	GENPRU 2.2.93 R; GENPRU 2.2.95 R	
<i>Eligible LLP members' capital</i>	GENPRU 2.2.94 R; GENPRU 2.2.95 R	
<i>Sole trader capital</i>	None	
<i>Share premium account</i>	GENPRU 2.2.101 R	
Externally verified interim net profits	GENPRU 2.2.102 R	
<b>Perpetual non-cumulative preference shares</b>		<b>(B)</b>
Perpetual non-cumulative <i>preference shares</i>	GENPRU 2.2.109 R	
<b>Innovative tier one capital</b>		<b>(C)</b>
<i>Innovative tier one instruments</i>	GENPRU 2.2.113 R to GENPRU 2.2.137 R	
<b>Total tier one capital before deductions = A+B+C</b>		<b>(D)</b>
<b>Deductions from tier one capital</b>		<b>(E)</b>
Investments in own <i>shares</i>	None	
Intangible assets	GENPRU 2.2.155 R	
Excess of drawings over profits for partnerships, <i>limited liability partnerships</i> and <i>sole traders</i>	GENPRU 2.2.100 R; there is no related text for <i>sole traders</i>	
Net losses on equities held in the available-for-sale financial asset category	GENPRU 2.2.185 R	
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239R (2) to GENPRU 2.2.239R (4)	
<b>Total tier one capital after deductions = D-E</b>		<b>(F)</b>
<b>Upper tier two capital</b>		<b>(G)</b>
Perpetual cumulative <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.181 R	
Perpetual subordinated debt	See previous entry	
Perpetual subordinated securities	See previous entry	
Revaluation reserves	GENPRU 2.2.185 R	

The capital resources calculation for an investment firm that deducts illiquid assets		
Type of capital	Related text	Stage
General/collective provisions	GENPRU 2.2.187 R to GENPRU 2.2.189 R	
Surplus provisions	GENPRU 2.2.190 R to GENPRU 2.2.193 R	
<b>Lower tier two capital</b>		<b>(H)</b>
Fixed term <i>preference shares</i>	GENPRU 2.2.159 R to GENPRU 2.2.174 R; GENPRU 2.2.194 R to GENPRU 2.2.196 R	
Long term subordinated debt	See previous entry	
Fixed term subordinated securities	See previous entry	
<b>Total tier two capital = G+H</b>		<b>(I)</b>
<b>Deductions from tier two capital</b>		<b>(J)</b>
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239R (2) to GENPRU 2.2.239R (4)	
<b>Total tier two capital after deductions = I - J</b>		<b>(K)</b>
<b>Total tier one capital plus tier two capital = F+K</b>		<b>(L)</b>
<b>Deductions from the totals of tier one and two</b>		<b>(M)</b>
<i>Expected loss</i> amounts and other negative amounts	GENPRU 2.2.236 R	(Part 1 of stage M)
<i>Securitisation positions</i>	GENPRU 2.2.237 R	
<i>Reciprocal cross-holdings</i>	GENPRU 2.2.217 R to GENPRU 2.2.220 R	(Part 2 of stage M)
<b>Total tier one capital plus tier two capital after deductions = L-M</b>		<b>(N)</b>
<b>In calculating whether a firm's capital resources exceed its capital resources requirement:</b> (1) the <i>credit risk capital component</i> , the <i>operational risk capital requirement (if applicable)</i> and the <i>counterparty risk capital component</i> ; or (2) the <i>base capital resources requirement</i> ; as the case may be, must be deducted here.		
<b>Upper tier three</b>		<b>(O)</b>
Short term subordinated debt	GENPRU 2.2.241 R to GENPRU 2.2.245 R	
<b>Lower tier three</b>		<b>(P)</b>
Net interim <i>trading book</i> profit and loss	GENPRU 2.2.246 R to GENPRU 2.2.249 R	

The capital resources calculation for an investment firm that deducts illiquid assets		
Type of capital	Related text	Stage
Total tier three capital=O+P		(Q)
Total capital before deductions = N+Q		(R)
Deductions from total capital		(S)
<i>Illiquid assets</i>	GENPRU 2.2.259 R to GENPRU 2.2.260 R	
<i>Free deliveries</i>	BIPRU 14.4	
Total capital after deductions = R-S		(T)
<p><b>In calculating whether a firm's capital resources exceed its capital resources requirement, the market risk capital requirement, the concentration risk capital component and (if applicable) the fixed overheads requirement must be deducted here.</b></p>		

Note (1): Where the table refers to related text, it is necessary to refer to that text in order to understand fully what is included in the descriptions of capital items and deductions set out in the table.

Note (2): If the amount calculated at:

- (a) stage N less the deductions in respect of the *capital resources requirement* made immediately following stage N; or
- (b) stage T less the deductions in respect of the *capital resources requirement* made immediately following stages N and T;

is a negative number the *firm's capital resources* are less than its *capital resources requirement*.

Note (3): Stage C must be omitted except where *capital resources* are being used for a purpose for which *innovative tier one capital* may be used (see [GENPRU 2.2.27 R](#)).