

Intra-Group exposure Rules under BIPRU

Zero risk-weighting for intra-group exposures (BIPRU 3.2.25 R)

In order to make use of a zero percent risk weighting on intra-group exposures, an FSA firm must give one months notice of the firms intention to utilise it (BIPRU 3.2.35R) and may not include exposures giving rise to liabilities in the form of Tier one and two capital, or any item that would be tier one capital or tier two capital if the undertaking were a BIPRU firm (BIPRU 3.2.26R – See below for full text and capital resources table).

The firm is then not required to comply with the standard approach to calculating risk weightings (BIPRU 3.2.20R) in the case of the exposures of the firm to a counterparty which is its parent undertaking, its subsidiary undertaking, or a subsidiary undertaking of its parent undertaking, or to which the firm is linked by a consolidation relationship provided that the following conditions are met:

(a) the counterparty is:

(i) an institution whose head office is in an EEA State; or

(ii) an institution not within (a)(i), financial holding company, financial institution, asset management company or ancillary services undertaking subject to appropriate prudential requirements;

(b) the firms are subject to group consolidation on capital resources reporting to FSA (BIPRU 3.2.27 R - see below for full text);

(c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the firm;

(d) the counterparty is 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 (Regulation 1346/2000/EC); and

(e) there is no current or foreseen material practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities from the counterparty to the firm.

Where a firm chooses not to use the above approach, so diapplying BIPRU 3.2.20R (Calculation of risk weighted exposures amounts under the standardised approach), it must assign a risk weight of 0% to the exposure.

A firm need not apply this treatment to every exposure that is eligible for a 0% risk weighting.

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Additional Full Handbook Text

3.2.26 R

A firm must not apply the treatment in BIPRU 3.2.25R to exposures giving rise to liabilities in the form of any of the following items:

- (1) in the case of a BIPRU firm, any tier one capital or tier two capital; and
- (2) in the case of any other undertaking, any item that would be tier one capital or tier two capital if the undertaking were a BIPRU firm.

3.2.27 R

(1) The condition referred to in BIPRU 3.2.25R(1)(b) is that both the counterparty and the firm are:
(a) included within the scope of consolidation on a full basis with respect to the same UK consolidation group and BIPRU 8.3.1R applies to the firm with respect to that UK consolidation group; or

(b) included within the scope of consolidation on a full basis with respect to the same group by a competent authority of an EEA State other than the United Kingdom under the CRD implementation measures about consolidated supervision for that EEA State; or

(c) (provided that this consolidation is carried out to standards equivalent to those in (a) and (b)) included within the scope of consolidation on a full basis with respect to the same group by a third country competent authority under prudential rules for the banking sector or investment services sector of or administered by that third country competent authority.

(2) A group is subject to consolidation to equivalent standards for the purpose of (1)(c) only if the firm or another EEA firm in that group has been notified in writing by the FSA or a competent authority of another EEA State pursuant to Article 143 of the Banking Consolidation Directive that that group is subject to equivalent supervision.

GENPRU 2 Annex 4

Below is the table for calculating capital based on deducting Material Holdings please note that you may need to take the alternative approaches set out in GENPRU however this is the default position.

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
Core tier one capital		(A)
<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	
Perpetual non-cumulative preference shares		(B)
Perpetual non-cumulative <i>preference shares</i>	GENPRU 2.2.109 R	
Innovative tier one capital		(C)
<i>Innovative tier one instruments</i>	GENPRU 2.2.113 R to GENPRU 2.2.137 R	
Total tier one capital before deductions = A+B+C		(D)
Deductions from tier one capital		(E)
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)	
Total tier one capital after deductions = D-E		(F)
Upper tier two capital		(G)

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
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	
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	
Lower tier two capital		(H)
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	
Total tier two capital = G+H		(I)
Deductions from tier two capital		(J)
(For certain limited purposes only certain additional deductions are made here)	GENPRU 2.2.239R (2) to GENPRU 2.2.239R (4)	
Total tier two capital after deductions = I - J		(K)
Total tier one capital plus tier two capital = F+K		(L)
Deductions from the totals of tier one and two		(M)
<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)
Total tier one capital plus tier two capital after deductions = L-M		(N)
In calculating whether a firm's capital resources exceed its		

The capital resources calculation for an investment firm deducting material holdings		
Type of capital	Related text	Stage
<i>capital resources requirement:</i> (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.		
Upper tier three		(O)
Short term subordinated debt	GENPRU 2.2.241 R to GENPRU 2.2.245 R	
Lower tier three		(P)
Net interim <i>trading book</i> profit and loss	GENPRU 2.2.246 R to GENPRU 2.2.249 R	
Total tier three capital=O+P		(Q)
Total capital before deductions = N+Q		(R)
Deductions from total capital		(S)
<i>Free deliveries</i>	BIPRU 14.4	
Total capital after deductions (R - S)		(T)
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.		

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](#)).