

**FINANCIAL SERVICES REGULATORY AUTHORITY**  
**سلطة تنظيم الخدمات المالية**

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## **Prudential – Investment, Insurance Intermediation and Banking Rules (PRU)**

\*In this attachment underlining indicates new text and striking through indicates deleted text.

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<b>1</b>	<b>APPLICATION, INTERPRETATION AND CATEGORISATION</b>		
<b>1.1</b>	<b>Application</b>		
<b>1.1.1</b>	(1)	Subject to (2), these Rules apply to every Authorised Person where its Financial Services Permission authorises it to carry on one or more of the Regulated Activities listed in 1.3.1(a), 1.3.2(a), 1.3.3(1)(a), 1.3.4(a), 1.3.5(a), 1.3.6(a) or 1.3.7(a).	
	(2)	In respect of a Fund Manager of a Venture Capital Fund only the requirements under Sections 2.3 and 6.12 apply.	
	(3)	These Rules apply to an Authorised Person in accordance with <u>both its status as a Domestic Firm or as a Branch and, secondly, its Category as determined under Section 1.3.</u>	
	(4)	Where a Chapter, Part or Section of these Rules applies to a limited scope of Categories of Authorised Person, the term "Authorised Person" used in those provisions is to be read accordingly.	
	(5)	These Rules apply to the whole business of an Authorised Person except in relation to Client Assets and Insurance Money that are held or controlled by an Authorised Person which are not included in any prudential calculation.	
		<b>Guidance</b>	
	1.	The effect of Rule 1.1.1(1) is that these Rules apply to all Authorised Persons, except those that are Insurers, Representative Offices or Credit Rating Agencies. In the case of Insurers, those firms that are authorised to effect or carry out Contracts of Insurance should instead refer to the PIN <del>module</del> <u>Rulebook</u> .	

2. These Rules apply to Authorised Persons classified as Domestic Firms and to those Authorised Persons conducting Regulated Activities through a Branch in ADGM.
3. These Rules reinforce the fitness and propriety requirements for Authorised Persons found in GEN 3 – Management, Systems and Controls and Principle 3. These Rules are comprised of the following:
  - a. an initial Chapter establishing a categorisation of firms for the application of these Rules;
  - b. two general Chapters detailing overall requirements: General Requirements and Capital and Leverage;
  - c. six Chapters detailing specific requirements relating to the following particular risks ~~types or issues~~: Credit Risk, Market Risk, Operational Risk, interest rate risk in the Non-Trading Book, Group Risk and Liquidity Risk;
  - d. a Chapter imposing processes for risk self-assessment by Authorised Persons and supervisory assessment by the Regulator; and
  - e. a final Chapter imposing public disclosure requirements.
4. With regards to Authorised Persons carrying on Islamic Financial Business, there are additional matters that should be included in their report to the Regulator which are in the Islamic Finance Rulebook (IFR) ~~module~~ (see IFR rules).
5. To assist Authorised Persons two tables are provided that set out the application of these Rules to Domestic Firms (Application Table A) and Branches (Application Table B), based on the different Categories of Authorised Persons. These tables are for guidance purposes only.

*Note: Application Tables A and B will be replaced entirely with the below tables for clarity (there have been no changes to the underlying requirements themselves).*

**APPLICATION TABLE A:  
FOR AN AUTHORISED PERSON THAT OPERATES AS A DOMESTIC FIRM**

Chapter	Category 1	Category 2	Category 3A	Category 3B	Category 3C	Category 4	Category 5
1. Application, Interpretation and Categorisation	Whole Chapter						
2. General Requirements	Whole Chapter						
3. Capital and Leverage	Whole Chapter, except Rule 3.2.2, and Sections 3.6, 3.7 and 3.20.	Whole Chapter, except Rule 3.2.2, and Sections 3.6, 3.7, 3.20 and 3.21.	Whole Chapter, except Rule 3.2.2 and Sections 3.5 and 3.21.			Whole Chapter, except Rule 3.2.2 and Sections 3.6, 3.7 and 3.20.	
4. Credit Risk	Whole Chapter						Whole Chapter
5. Market Risk	Whole Chapter	Only Sections 5.1, 5.2 and 5.6					Whole Chapter, except Section 5.4
6. Operational Risk	Whole Chapter, except Section 6.12			Whole Chapter, except Sections 6.10 and 6.11			Whole Chapter, except Section 6.12
7. Interest Rate Risk In the Non-Trading Book	Whole Chapter						
8. Group Risk	Whole Chapter	Only Sections 8.1 and 8.5					Whole Chapter
9. Liquidity Risk	Whole Chapter, except Rule 9.2.2(3)	Only Rule 9.2.2 (3)					Whole Chapter, except Rule 9.2.2(3)
10. Supervisory Review and Evaluation Processes	Whole Chapter			Whole Chapter, except Sections 10.4 and 10.6			Whole Chapter
11. Disclosure Requirements	Whole Chapter						Whole Chapter

**APPLICATION TABLE B:  
FOR AN AUTHORISED PERSON THAT OPERATES AS A BRANCH IN ADGM**

Chapter	Category 1	Category 2	Category 3A	Category 3B	Category 3C	Category 4	Category 5
1. Application, Interpretation and Categorisation	Whole Chapter						
2. General Requirements	Whole Chapter						
3. Capital and Leverage	Only Rule 3.2.2						
4. Credit Risk	Only Sections 4.1 to 4.4 and Rules 4.5.1 to 4.5.7 and 4.5.9						Only Sections 4.1 to 4.4 and Rules 4.5.1 to 4.5.7 and 4.5.9
5. Market Risk	Only Sections 5.1 and 5.2						Only Sections 5.1 and 5.2
6. Operational Risk	Whole Chapter, except Sections 6.11 and 6.12		Whole Chapter, except Sections 6.10 and 6.11				Whole Chapter, except Sections 6.11 and 6.12
7. Interest Rate Risk in the Non-Trading Book	Whole Chapter						
8. Group Risk	Only Sections 8.1, 8.2 and 8.5		Only Sections 8.1 and 8.5				Only Sections 8.1, 8.2 and 8.5
9. Liquidity Risk	Whole Chapter, except Rule 9.2.2(3)	Only Rule 9.2.2 (3)					Whole Chapter, except Rule 9.2.2(3)
10. Supervisory Review and Evaluation Processes							
11. Disclosure Requirements							

## 1.2 Glossary

1.2.1 The following terms and abbreviations bear the following meanings for the purpose of these Rules.

...

Domestic Firm	An Authorised Person or Recognised Body which: <ul style="list-style-type: none"> <li>(a) has its registered and head office in <del>the</del> ADGM; or</li> <li>(b) if it is a Subsidiary of an Undertaking whose principal place of business and head office is in a jurisdiction other than <del>the</del> ADGM, has its registered office in <del>the</del> ADGM.</li> </ul>
Financial Group	A group of entities which includes an Authorised Person and: <p>...</p> <ul style="list-style-type: none"> <li>(d) any entity which the Regulator directs the Authorised Person to include in accordance with Rule 8.1.23.</li> </ul>
NP	<del>Nominal principal amount.</del>
OBS Exposures	<del>Off balance sheet Exposures.</del>
Operational Risk	(1) Refers to the risk of incurring losses due to the failure of systems, processes, and personnel, <u>whether internal or external to the Authorised Person, to perform expected tasks.</u> <p>(1) Operational Risk losses also include losses arising out of legal risk.</p>
Recognised Body	Means a Recognised Investment Exchange <del>and/or</del> a Recognised Clearing House.
Regulator	Means the <u>regulator of Regulated Activities</u> <del>regulator of in</del> ADGM.

...

2.3.2 An Authorised Person must, subject to Rule 2.3.3:

- (a) prepare its returns in accordance with the Rules in this Chapter, the instructional guidelines in PRU and elsewhere, and the requirements of the Electronic Prudential Reporting System (EPRS) of the Regulator including the frequency of submission detailed therein; and
- (b) submit the returns to the Regulator using EPRS.

...

- 2.3.7
- (1) An Authorised Person must submit to the Regulator annual returns, within four months of the end of the financial year of the Authorised Person.
  - (2) An Authorised Person must submit to the Regulator quarterly returns, in the applicable format prescribed by the Regulator, within one month of the end of the reporting period to which the return relates.
  - (3) An Authorised Person must submit to the Regulator monthly returns, in the applicable format prescribed by the Regulator, within fifteen days of the end of the reporting period to which the return relates.

#### **Guidance**

The submission of annual returns by the Authorised Person in accordance with Rule 2.3.7(1) should be undertaken in conjunction with the requirements detailed in GEN 6.6 relating to those returns, including that related to the Regulatory Returns Auditor's Report.

...

### **3. CAPITAL AND LEVERAGE**

#### **Guidance**

1. This Chapter deals with all aspects of prudential requirements relating to the capital adequacy of Authorised Persons, in terms of both quantity and quality, and, where appropriate, the maintenance of liquid assets. (Chapter 9 covers more generally the related prudential topic of liquidity, the ability of an Authorised Person to meet its financial obligations as they fall due.) The Chapter outlines the minimum capital requirements that an Authorised Person should ~~hold meet, based on~~ consistent with Pillar 1 of the Basel Accord, and aims to ensure that an Authorised Person maintains adequate capital resources to support the risks associated with its activities and that it can fully absorb unexpected losses at any time. A summary of the minimum capital requirements is given in App 3.2.

....

#### **PART 1 – Application**

### **3.1 Application**

...

**Guidance**

1. Part 2 (Basic Requirements) of this Chapter imposes a number of basic requirements, including the following core requirements:

....

2. In particular, note that:

- a. Part 3 (Calculating Capital Requirements) applies to all firms, but with differentiated calculations for the Capital Requirement for the various Categories of Authorised Persons, as prescribed in Sections 3.4 and 3.6;

- b. Part 4 (Calculating Capital Resources) applies to all firms; and

- ~~b.c.~~ within Part ~~34~~, an exemption from the calculation of T2 Capital in relation to firms authorised to Manage a Profit Sharing Investment Account which is a PSIAu is prescribed in Rule 3.12.9; ~~and~~

- ~~c.~~ ~~Part 4 applies to all firms.~~

....

- 3.5.8 An Authorised Person must multiply the individual capital requirements referred to under points 3.5.7(b) to 3.5.7(e) by a factor of 12.5 in order to determine the Risk Exposure Amounts associated with those elements of the Total Risk Exposure Amount.

**Guidance**

- ~~1.~~ The Total Risk Exposure Amount must be calculated by Authorised Persons in Categories 1, 2, 3A and 5 for the determination of appropriate minimum ~~€~~Capital ~~€~~Resources and for reporting purposes.

- ~~2.~~ ~~The Displaced Commercial Risk Capital Requirement will only apply to an Authorised Person Managing a Profit Sharing Investment Account which is a PSIAu.~~

- ~~3.~~ ~~An Authorised Person will also need to consider the relevant provisions in the IFR rules relating to Credit Risk and Market Risk for Islamic Contracts when calculating its CRCOM and Market Risk Capital Requirement.~~

- ~~4.~~ ~~Where the Risk Capital Requirement is the binding Capital Requirement calculated using the provisions in Section 3.4 the Regulator may impose an Individual Capital Requirement (see Chapter 10) on an Authorised Person. Such a requirement is additional to the Risk Capital Requirement and is, therefore, a component of the Capital Requirement for the Authorised Person.~~

...

- 3.10.3 (3) Where any of the conditions in (1) cease to be met:
  - (a) the instrument must cease to qualify as a CET1 Capital instrument; and
  - (b) the Sshare premium accounts that relate to that instrument must cease to qualify as a CET1 element.



...

3.10.4 For the purposes of Rule 3.10.2(c), an Authorised Person may include interim or year-end net profits in CET1 Capital before the Authorised Person has approved its annual audited accounts confirming its final profit or loss for the year, but only where:

(a) ...

#### **Guidance**

The review of the interim or year-end profits of the Authorised Person referred to in Rule 3.10.4 should be undertaken in accordance with the requirements of GEN 6 and provide an adequate level of assurance that those profits have been evaluated in accordance with the principles set out in the International Financial Reporting Standards. The Regulator may request an Authorised Person to provide it with a copy of its external Auditor's opinion on whether the interim profits are reasonably stated.

.....

#### **CET1 Deductions - significant investment in a Relevant Entity**

3.10.13 For the purposes of Rules 3.10.7(g) and (h), an investment by an Authorised Person in a Relevant Entity must be considered as a significant investment if it meets any of the following conditions:

- (a) the Authorised Person owns more than 10% of the CET1 Capital instruments issued by that entity;
- (b) the Authorised Person has Close Links with that entity and owns CET1 Capital instruments issued by that entity; ~~and/or~~
- (c) the Authorised Person owns CET1 Capital instruments issued by that entity and the entity is not included in consolidation pursuant to Chapter 8 of these Rules but is included in the same accounting consolidation as the Authorised Person for the purposes of financial reporting under the International Financial Reporting Standards.

....

3.10.16 (1) For the purposes of Rule 3.10.7(g), the amount to be deducted is calculated by multiplying the amount referred to in (a) by the factor derived from the calculation referred to in (b):

- (a) the aggregate amount by which the direct, indirect and synthetic holdings by the Authorised Person of the CET1, AT1 and T2 Capital instruments of Relevant Entities, in which the Authorised Person does not have a significant investment, exceeds 10% of the CET1 items of the Authorised Person calculated after applying the following to CET1 items:
  - (i) all of the adjustments referred to in Rules 3.10.5 and 3.10.6;

...

- 3.10.17 (1) The amount of holdings referred to in Rule 3.10.7(g) that is equal to or less than 10% of the CET1 items of the Authorised Person after applying the provisions laid down in Rule 3.10.16(1)(a)(i) to (iii) must not be deducted and must be subject to the applicable risk weights in accordance with Chapter 4.

....

#### **CET1 Deductions - exemptions**

- 3.10.19 (1) In making the deductions required pursuant to Rules 3.10.7(c) and (h), an Authorised Person must not deduct the items listed in (a) and (b), where in aggregate they are equal to or less than 15% of CET1 Capital:

- (a) ~~De~~ferred tax assets that are dependent on future profitability and arise from temporary differences, and in aggregate are equal to or less than 10% of the CET1 items of the Authorised Person calculated after applying the following:

- (i) adjustments referred in Rule 3.10.5 and 3.10.6; and
- (ii) deductions referred to in (a) to (g) and (i) to (j) of Rule 3.10.7, excluding deferred tax assets that rely on future profitability and arise from temporary differences.

- (b) ~~W~~here an Authorised Person has a significant investment in a Relevant Entity, the direct and indirect holdings of that Authorised Person of the CET1 Capital instruments of those entities that in aggregate are equal to or less than 10% of the CET1 items of the Authorised Person calculated after applying the following:

- (i) adjustments referred to in Rules 3.10.5 and 3.10.6; and
- (ii) deductions referred to in (a) to (h) and (i) to (j) of Rule 3.10.7 excluding deferred tax assets that rely on future profitability and arise from temporary differences.

....

#### **AT1 Deductions - holdings of own AT1 Capital instruments**

- 3.11.5 For the purposes of Rule 3.11.4(a), an Authorised Person must calculate holdings of its own AT1 Capital instruments on the basis of gross long positions subject to the following exceptions:

....

- (c) an Authorised Person must net gross long positions in own AT1 Capital instruments in the Trading Book resulting from holdings of index Securities ~~may be netted by the Authorised Person~~ against short positions in own AT1 instruments resulting from short positions in the underlying indices, including where those short positions involve Counterparty Credit Risk.

....

## **T2 Exclusion - Managing an unrestricted Profit Sharing Investment Account**

- 3.12.9 An Authorised Person must exclude from T2 Capital any amount by which the total of the Profit Equalisation Reserve and the Investment Risk Reserve exceeds the Displaced Commercial Risk Capital Requirement calculated in accordance with the IFR rules.

....

- 3.16.3 The Regulator may impose a further requirement, termed an Individual Capital Requirement (ICR), on an Authorised Person to hold additional Capital Resources arising from Pillar 2 adjustments (see Chapter 10). Where the Authorised Person has an ICR imposed on it, then the Authorised Person must, at all times, maintain adequate Capital Resources of the type and amount as specified in Rule 10.6.1 in addition to those kept to meet the capital adequacy requirements outlined in Rule 3.2.24.

....

- 3.18.4 An Authorised Person must calculate a Countercyclical Capital Buffer of CET1 Capital equal to its Total Risk Exposure Amount, calculated in accordance with Rule 3.5.7, multiplied by the weighted average of the Countercyclical Capital Buffer rates that apply to exposures in the jurisdictions where the Authorised Person's ~~relevant credit exposures~~ private sector credit exposures are located, calculated in accordance with Rules 3.18.5 to 3.18.8.

### **~~Relevant credit risk exposures~~ Private sector credit exposures**

- 3.18.5 ~~Relevant credit risk exposures~~ Private sector credit exposures are those for which Credit RWAs have to be calculated in accordance with Chapter 4, other than those that fall into the following asset classes:

- (c) Central government and central bank.
- (d) Public sector enterprises.
- (e) Multilateral development bank (MDB).
- (f) International organisation.
- (g) Bank.

### **Guidance**

Exposures to banks with short-term credit assessments are not ~~relevant credit risk exposures~~ private sector credit exposures as they fall within the exempt asset class set out in Rule 3.18.5(e). However, exposures to non-bank entities with similar short-term credit assessments are ~~relevant credit risk exposures~~ private sector credit exposures for the purposes of Rule 3.18.5.

### **Weighted average of the Countercyclical Capital Buffer rates**

- 3.18.6 The weighted average of the Countercyclical Capital Buffer rates shall be calculated by:
- (a) for each jurisdiction in which the Authorised Person has ~~relevant credit risk exposures~~ private sector credit exposures, dividing the Total Risk Exposure Amount

that relates to the ~~relevant credit risk exposures~~ private sector credit exposures in that jurisdiction by the Total Risk Exposure Amount that relates to the Authorised Person's ~~relevant credit risk exposures~~ private sector credit exposures across all jurisdictions and multiplying it by the applicable Countercyclical Capital Buffer rate in that jurisdiction; and

- (b) summing those contributions across all jurisdictions.

### Geographical location

- 3.18.7 For the purposes of the calculation of the weighted average of the applicable Countercyclical Capital Buffer rates an Authorised Person must identify, to the best of its ability, the geographical location of its ~~relevant credit risk exposures~~ private sector credit exposures as the jurisdiction where the underlying credit risk ultimately originates.

### Countercyclical Capital Buffer rates

- 3.18.8 (1) For a ~~relevant credit risk exposure~~ private sector credit exposure located in ADGM or the UAE:
- (a) the Countercyclical Capital Buffer rate is the rate set by the Central Bank from time to time, subject to a maximum rate of 2.5%; and
  - (b) any increase in the Countercyclical Capital Buffer rate specified by the Central Bank takes effect from the date specified by the Central Bank.
- (2) For a ~~relevant credit risk exposure~~ private sector credit exposure located in a third country:
- (a) the Countercyclical Capital Buffer rate is:
    - (i) the rate set by the authority responsible for setting the Countercyclical Capital Buffer rate in that third country from time to time; or
    - (ii) 2.5% where the rate set by the third country rate setting authority exceeds 2.5%; or
    - (iii) the rate set by the Central Bank where it sets a rate for a ~~relevant credit risk exposure~~ private sector credit exposure in the third country that exceeds that set by the third-country rate-setting authority, up to a maximum of 2.5%; or
    - (iv) zero where the third country rate setting authority has not set a Countercyclical Capital Buffer rate for that jurisdiction and the Central Bank does not specify such a rate; and
  - (b) any increase in the applicable Countercyclical Capital Buffer rate shall take effect from the date specified by the third country rate setting authority or the Central Bank, as appropriate;
- (3) Subject to (2)(a)(ii) and (iii) above for a ~~relevant credit risk exposure~~ private sector credit exposure in a third country, where a Countercyclical Capital Buffer rate for a jurisdiction is reduced that reduction shall take effect immediately.

**Guidance**

An example of the calculation of the Countercyclical Capital Buffer follows, for an Authorised Person with ~~relevant credit risk exposures~~ private sector credit exposures in countries A, B and C of 60, 25 and 15 respectively, and where the applicable Countercyclical Capital Buffer rates are 2.0%, 1.0% and 1.5% respectively.

	Rule(s)	A	B	C	Total
Countercyclical Capital Buffer rate - applicable	3.18.8	2.0%	1.0%	1.5%	
<del>Relevant credit risk exposures</del> <u>Private sector credit exposures</u>	3.18.5 and 3.18.7	60	25	15	100
Countercyclical Capital Buffer rate - weighted	3.18.6	1.20%	0.25%	0.225%	1.675%
Total Risk Exposure Amount	3.5.7(i)	100	60	40	200
<b>Countercyclical Capital Buffer</b>	<b>3.18.4</b>				<b>3.35</b>

**3.18.9** Countercyclical Capital Buffer rates shall apply from ~~the later of:~~

(a) ~~the date set by the Central Bank or the third country rate-setting authority;~~ ~~or~~

(b) ~~1 July 2018.~~

....

**3.19.10** (1) Following assessment, the Regulator will approve the capital conservation plan only if it considers that the plan, if implemented, would be reasonably likely to conserve or raise sufficient CET1 Capital to enable the Authorised Person to meet its Combined Buffer Requirement, within a period that the Regulator considers appropriate.

(2) ....

**Guidance**

Where the Risk Capital Requirement forms the Capital Requirement of an Authorised Person in Category 1, 2, or 5 it should therefore hold sufficient total Capital Resources of the quality required to meet the following requirements:

- a. the capital ratios specified in Rule 3.16.2;
- b. any Individual Capital Requirement as may be imposed pursuant to Chapter 10;
- c. the Combined Buffer; and
- ed. any other buffer, where applicable.

....

**3.21.6** The Exposure Measure under Rule 3.21.2(b) must be calculated as the sum of:

- (a) on-balance sheet items; and
- (b) off-balance sheet items.

**Guidance**

~~(i)~~1. In relation to on-balance sheet items:

- a. for SFTs, the Exposure value should be calculated in accordance with IFRS and the Netting requirements referred to in Rule 4.9.14;
- b. for Derivatives, including written credit protection, the Exposure value should be calculated as the sum of the on-balance sheet value in accordance with IFRS and an add-on for potential future Exposure calculated in accordance with Rules A4.6.14 to A4.6.21 of App 4; and
- c. for other on-balance sheet items, the Exposure value should be calculated based on their balance sheet values in accordance with Rule 4.9.3.

~~(ii)~~2. In relation to off-balance sheet items:

- a. for commitments that are unconditionally cancellable at any time by the Authorised Person without prior notice, the Exposure value should be the notional amount for the item multiplied by a CCF of 10%;
- b. for short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralised by the underlying shipment), the Exposure value should be the notional amount for the item multiplied by a CCF of 20% in relation to both issuing and confirming banks;
- c. for certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties, and standby letters of credit related to particular transactions) the Exposure value should be the notional amount for the item multiplied by a CCF of 50%;
- d. for note issuance facilities and revolving underwriting facilities, the Exposure value should be the notional amount for the item multiplied by a CCF of 50%;
- e. for other off-balance sheet items, including:
  - i. direct credit substitutes;

- ii. forward asset purchases, forward deposits and partly paid shares and securities which represent commitments with certain drawdown; and
- iii. transactions, other than SFTs, involving the posting of Securities held by the Authorised Person as Collateral;<sup>2</sup>
- iv. ~~the Exposure value should be the notional amount for each of the items multiplied by a CCF of 100%; and~~
- f. where an Authorised Person has an undertaking to provide a commitment on an off-balance sheet item, an Authorised Person should apply the lower of the two applicable CCFs.

~~(iii)~~<sup>3.</sup> For an Islamic Financial Institution, assets corresponding to Unrestricted PSIA<sup>s</sup> will fall within the Exposure Measure and are therefore relevant to the Leverage Ratio calculation.

....

#### **Calculation of RWA for Credit Risk Exposures (CR Exposures)**

4.8.2 An Authorised Person must include in its calculation of RWA for CR Exposures:

- (a) any on-balance sheet asset; and
  - (b) any off-balance sheet item;
- but excluding:
- (c) any SE Exposure;
  - (d) any securitised Exposure that meets the requirements for the recognition of risk transference in a Traditional Securitisation set out in Section 4.14; ~~and~~
  - (e) any Exposure classified as a position or instrument in the Trading Book in accordance with Section A2.1.

....

#### **Exceptions to the measurement of E**

4.9.21 An Authorised Person may attribute a value of zero to E for:

- (c) any pre-settlement Counterparty Exposure arising from any Derivative transaction or SFT outstanding with a central counterparty and which has not been rejected by that central counterparty, provided that the Exposure is fully collateralised on a daily basis;
- (d) ...
- (e) any pre-settlement Counterparty Exposure arising from any Credit Derivative which an Authorised Person may recognise as eligible credit protection for a Non-Trading Book Exposure or another ECR Exposure; and

....

- 4.11.5 An Authorised Person must use its chosen recognised external credit rating agencies and their external credit assessments consistently for each type of Exposure, for both risk weighting and risk management purposes. Where an Authorised Person has two external credit assessments which map into different Credit Quality Grades, it must assign the CR Exposure to the Credit Quality Grade associated with the higher risk weight. Where an Authorised Person has three or more external credit assessments which map into two or more different Credit Quality Grades, it must assign the CR Exposure to the Credit Quality Grade associated with the higher of the two lowest risk weights.

#### **Guidance**

For illustration, if there are three external credit assessments mapping into Credit Quality Grades with risk weights of 0%, 20% and 50%, then the applicable risk weight is 20%. If the external credit assessments map into Credit Quality Grades with risk weights of 20%, 50% and 50%, then the applicable risk weight is 50%.

...

- 4.12.5 An Authorised Person may apply a 0% risk weight to any CR Exposure to central governments or central banks of a GCC member country which are denominated and funded in the domestic currency of the GCC member country. For the purposes of this Rule, individual Emirates of the UAE will be considered as though they were GCC member countries.

#### **Guidance**

Where the requirements of Rule 4.12.5 are not met the CR Exposure should be treated in accordance with Rule 4.12.4.

#### **Public sector enterprises (PSE) asset class**

- 4.12.6 (1) Subject to Rule 4.12.8, an Authorised Person must risk-weight any CR Exposure in the PSE asset class in accordance with the following table:

Risk weights for the PSE asset class

Credit Quality Grade	1	2	3	4	5	6	Unrated
Risk Weight	20%	50%	100%	100%	100%	150%	100%

- (2) In (1), sovereign PSEs in the UAE and GCC that exhibit Credit Risks comparable to their central government must be treated in accordance with the requirements set out in Rule 4.12.5, where they meet the requirements in relation to the denomination and funding of the CR Exposure, otherwise they must be treated in accordance with Rule 4.12.6(1).

....

#### **Guarantees**

- 4.13.9 (1) An Authorised Person may recognise the effects of CRM of a guarantee only if it is provided by any of the following entities:



- (a) central government or central bank;
- (b) MDB referred to in Rule 4.12.8;
- (c) International Organisations referred to in Rule 4.12.9;
- (d) PSE;
- (e) banks and Securities firms which qualify for inclusion in bank asset class;  
or
- (f) any other entity that has an external credit assessment from a recognised credit rating agency that maps to a Credit Quality Grade "3" or above better.

....

#### **Credit Derivatives**

- 4.13.11 (1) An Authorised Person may recognise the effects of CRM of a Credit Derivative only if it is provided by any of the following entities:
- (a) central government or central bank;
  - (b) MDB referred to in Rules 4.12.7 to 4.12.9;
  - (c) International Organisations referred to in Rule 4.12.9;
  - (d) PSE;
  - (e) banks and Securities firms which qualify for inclusion in bank asset class;  
or
  - (f) any other entity that has an external credit assessment from a recognised credit rating agency that maps to a Credit Quality Grade "3" or better.

...

#### **Exclusions from the Large Exposure limits**

- 4.15.8 (1) For the purposes of this Section, Exposure excludes:
- ...
- (g) Exposures that are guaranteed by the Authorised Person's Parent in accordance with Rule 4.15.18.

....

#### **Treatment of Parental Guarantees**

- 4.15.18 An Authorised Person may exclude an Exposure from the Concentration Risk limits set out in Rules 4.15.5 to 4.15.7 if the Authorised Person's Parent;

...

- (b) guarantees the Exposure to a Counterparty or to a group of Closely Related Counterparties which are not Connected to the Authorised Person only if the following conditions are met:
- (ii) the guarantee is to be provided by the Authorised Person's Parent, or regulated member of its Group;
  - (iii) ....
  - (v) the Parent must have an external credit assessment from ~~be rated as a Credit Quality Grade of 1 or 2~~ by a recognised credit rating agency that maps to a Credit Quality Grade of 1 or 2;

...

### 8.3 Financial Group Capital Requirements and Financial Group Capital Resources

#### Guidance

By Rule 8.1.1(2), this Section applies to an Authorised Person in Category 1, 2 or 5.

- 8.3.1 (1) The other Rules in Section 8.3 do not apply to an Authorised Person if:
- (a) the Authorised Person's Financial Group is already the subject of Financial Group prudential supervision by the Regulator as a result of the authorisation of another Financial Group member;
  - ...
  - (c) except where the Regulator has directed the inclusion of an entity pursuant to Rule 8.1.23, the percentage of total assets of Authorised Persons and Financial Institutions in the Financial Group is less than 40% of the total Financial Group assets.

...

#### Financial Group Capital Resources

- 8.3.4 (1) An Authorised Person in Category 1, 2 or 5 must calculate its Financial Group Capital Resources by applying either of the following methods, excluding those amounts referred to in Rule 8.3.5:
- (a) ...

#### Guidance

The calculation of Financial Group Capital Resources is subject to the provisions in Part 34 of Chapter 3.

....

### 8.4 Financial Group Concentration Risk limits

8.4.1 An Authorised Person in Category 1, 2 or 5 must ensure that its Financial Group Exposure, including the Financial Group's PSIAu's, to a Counterparty or group of Closely Related Counterparties does not exceed 25% of its Group's Capital Resources.

8.4.2 An Authorised Person in Category 1, 2 or 5 must ensure that the sum of its Financial Group Large Exposures, including the Financial Group's PSIAu's, to a Counterparty or group of Closely Related Counterparties does not exceed 800% of its Financial Group's Capital Resources.

....

## 9. Application

9.1.1 (1) This Chapter applies to an Authorised Person in Category 1, 2, 3A or 5.

(2) ...

### Guidance

1. In accordance with Rules 3.2.2 or Rule 3.2.4, an Authorised Person is required to ensure that there is no significant risk that liabilities cannot be met as they fall due. With specific reference to liquidity, an Authorised Person may meet its obligations in a number of ways, including:

....

## 10 SUPERVISORY REVIEW AND EVALUATION PROCESSES

### Introduction

### Guidance

1. This Chapter deals with the ~~Regulated Activities~~ ~~Regulatory~~ regulatory requirements arising out of the need for Authorised Persons to carry out a self-assessment of their risk which can be reviewed and assessed by the Regulator. This Chapter details the Rules stipulating the need to complete internal risk assessments by Authorised Persons in defined frequencies and the Regulator's role in reviewing the results of such assessments. In the case of Authorised Persons facing financial risks, the requirements in this Chapter mandate completion of an Internal Capital Adequacy Assessment Process. The Regulator will review the results of such internal risk assessments. This Chapter also sets out how the Regulator may impose an additional Capital Requirement on a firm-specific basis in addition to the minimum requirement specified in Chapter 3 of these Rules to address higher-than-normal risk.

...

## 10.2 Overview

### Guidance

1. These Rules are designed to implement key aspects of Pillar 2 of the revised framework of capital adequacy, commonly known as Basel III, published by the BCBS.

**Internal Risk Assessment Process (IRAP)**

2. An Authorised Person in Category 1, 2, 3A, 3B, 3C or 5 is required to carry out an IRAP as detailed in Section 10.3, which is proportionate to the nature, size and complexity of its business activities and risk profile. An IRAP is a comprehensive internal risk evaluation as detailed in Section 10.3. More detail on the establishment of an IRAP and the manner of carrying out an IRAP assessment is provided in App11.

**Internal Capital Adequacy Assessment Process (ICAAP)**

3. An Authorised Person in Category 1, 2, 3A or 5 is also required to carry out an ICAAP as detailed in Section 10.4, which is proportionate to the nature, size and complexity of its business activities and risk profile. This process enables such an Authorised Person to determine and maintain an adequate amount and quality of Capital Resources, relative to its risk profile. More detail on the establishment of an ICAAP and the manner of carrying out an ICAAP assessment is provided in App11.

...

**10.6 Imposition of an Individual Capital Requirement**

- 10.6.1 (1) This Section applies to an Authorised Person in Category 1, 2, 3A or 5.
- (2) The Regulator may, subject to (3) and (4), at any time by written notice to an Authorised Person:
- (a) impose an Individual Capital Requirement; or
- (b) vary or withdraw an Individual Capital Requirement.
- (3) The Regulator may act under (2) on its own initiative where the Regulator forms the view that the ~~firm's~~ Capital Requirement of the Authorised Person is insufficient to address adequately all its risks.
- (4) The Regulator will, ~~in addition to~~ where prescribing an Individual Capital Requirement, also specify in the notice the types and amounts of Capital Resources required to meet the Individual Capital Requirement.

....

- 10.6.2 An Authorised Person must have and maintain, at all times, minimum Capital Resources of the types and amounts specified in the notice issued to it under Rule 10.6.1 to meet its Individual Capital Requirement.

...

**APP1 CATEGORIES OF AUTHORISED PERSONS**

**A1.1 Categorisation of Authorised Persons**

...

*Note:* Table amended by inserting “Operating a Private Financing Platform” to Category 4 only.

Category 1	Category 2	Category 3A	Category 3B	Category 3C	Category 4	Category 5
Accepting Deposits	Providing Credit	Dealing in Investments as Principal (only as a Matched Principal)	Providing Custody (only if for a Fund)	Managing a Collective Investment Fund	Arranging Credit	An Islamic Financial Institution Managing a Profit Sharing Investment Account which is a PSIAu
Managing a Profit Sharing Investment Account which is a PSIAu	Dealing in Investments as Principal (not as Matched Principal)	Dealing in Investments as Agent	Acting as the Trustee of an Investment Trust	Managing Assets	Arranging Deals in Investments	
				Managing a Profit Sharing Investment Account which is a PSIAr	Advising on Investments or Credit	
				Providing Custody other than for a Fund	Arranging Custody	
				Providing Trust Services as a trustee of an express trust	Insurance Intermediation	
				Providing Money Services	Insurance Management	
					Acting as the Administrator of a Collective Investment Fund	
					Operating a Multilateral Trading Facility or Organised Trading Facility	
					Providing Trust Services other than as a trustee of an express trust	
					Operating a Private Financing Platform	

...

**Repurchase and reverse repurchase agreements**

**A2.1.9** An Authorised Person must include in its Trading Book an Exposure due to a repurchase agreement, reverse repurchase agreement, Securities and commodities borrowing, or Securities and commodities lending transactions if:

(a) ....

**Guidance**

Cash items include loans and Deposits and the cash legs of repurchase, stock borrowing, reverse repurchase and stock lending transactions. The Trading Book treatment for such Exposures is set out in Rule A4.7.

...

## A3.2 Capital Requirements

### Guidance

1. This table summarises the Capital Requirement that an Authorised Person is subject to and an Authorised Person should hold sufficient Capital Resources at all times to meet the Capital Requirement.

Capital Requirement				
Category	<-----maximum of----->			
	Base Capital Requirement <sup>2</sup> (USD)	Expenditure Based Capital Minimum		Risk Capital Requirement <sup>3</sup>
		Holding Client Assets or Insurance Money?		
		No	Yes	
1	10mn			Credit, Market, Operational and CVA (plus, where appropriate, Displaced Commercial)
2	2mn			Credit, Market, Operational and CVA
3A	500k			Credit, Market, Operational and CVA
3B <sup>4</sup>	4mn			
3C <sup>4</sup>	250k	13/52nds of Annual Expenditure	18/52nds of Annual Expenditure	
	or, where the Financial Services Permission permits only the Regulated Activity of Managing a Collective Investment Fund: (i) 150k for a Public Fund or one available to retail customers or (ii) 50k otherwise			
4 <sup>4,5</sup>	10k	6/52nds of Annual Expenditure		
5	10mn			Credit, Market, Operational, CVA and Displaced Commercial

...

....

**A4.6 Credit RWA - Unsettled Transactions, free deliveries and ~~OTC Derivatives~~, Derivatives and long settlement transactions**

**Guidance**

....

3. For ~~OTC Derivatives and other contracts~~ Derivatives (OTC and exchange-traded) and long settlement transactions, an Authorised Person is exposed to settlement risk. For an ~~OTC Derivative contract~~ Derivatives Contracts, the risk is that the price moves in an Authorised Person's favour so that it makes a book profit, but at maturity the Authorised Person cannot realise that profit because the other party defaults. ~~The amount at risk is therefore less than the Authorised Person's nominal Exposure and is measured by calculating the proportion of the nominal Exposure considered to be at risk – the Credit Equivalent Amount..~~

....

**Derivatives and long settlement transactions – Standardised Approach to Counterparty Credit Risk (SA-CCR)**

- A4.6.14** The exposure at default (EAD) of ~~derivative~~ Derivative transactions (OTC and exchange-traded) and long settlement transactions must be calculated in accordance with this Section unless the Authorised Person has been granted permission by the Regulator to use an internal model.

**Trade level adjusted notional – interest rate ( $d_j^{(IR)}$ ) and credit derivatives ( $d_j^{(Credit)}$ )**

- A4.6.35** For interest rate and credit derivatives, the trade-level adjusted notional is the product of the trade notional amount, converted to the domestic currency, and the supervisory duration ( $SD_i$ ):

$$\text{Trade-level adjusted notional} = \text{Trade notional amount} * SD_i$$

...

- A4.6.42** The Authorised Person must then determine the hedging set level add-on in accordance with the following formula:

$$AddOn_j^{(IR)} = SF_j^{(IR)} \Delta * EffectiveNotional_j^{(IR)}$$

...

- A4.12.4** Subject to Rules A4.12.5 and A4.12.6, an Authorised Person must risk-weight any CR Exposure in the central government and central bank asset class on the basis of the consensus country risk classifications of export credit agencies (referred to in this Section as "ECA") participating in the OECD's "Arrangement on Officially Supported Export Credits" and in accordance with the table below.



Risk weights for the central government and central bank asset class

Country risk classification	0 or 1	2	3	4 to 6	7
Risk Weights	0%	20%	50%	100%	150%

### Guidance

The consensus country risk classification for the purpose of the "Arrangement on Officially Supported Export Credits" is published by the OECD. At the time of the making of these Rules, the classification was available on the website of the OECD on the Export Credit Arrangement web-page of the Trade and Agriculture Directorate (<http://www.oecd.org/trade/xcred/cre-crc-current-english.pdf>).

....

### General Market Risk

- A6.2.15** (1) ....
- (2) An Authorised Person must calculate its General Market Risk requirement for each currency by applying ~~either~~ one of the following approaches:
- (a) the simplified framework set out in Rule A6.2.16;
  - (b) the Maturity Method set out in Rule A6.2.17; or
  - (c) with the consent of the Regulator, the Duration Method set out in Rule A6.2.19.

....

### ~~Simplified Framework~~ simplified framework

- A6.2.16** In applying the simplified framework, an Authorised Person must calculate its General Market Risk requirement for each currency by taking the following steps:
- (a) allocating the individual net positions to one of the time bands in the table below, as follows:
    - (i) fixed-rate instruments are ~~allotted~~ allocated to their time bands based upon the residual time to maturity; and

....

Zone	Time band		Risk percentage
	Coupon of 3% or more	Coupon of less than 3%	
<u>1A</u>	≤ 1month	0 ≤ 1month	0.00%

Zone	Time band		Risk percentage
	Coupon of 3% or more	Coupon of less than 3%	
	> 1 and ≤ 3 months	> 1 and ≤ 3 months	0.20%
	> 3 and ≤ 6 months	> 3 and ≤ 6 months	0.40%
	> 6 and ≤ 12 months	> 6 and ≤ 12 months	0.70%
<u>2B</u>	> 1 and ≤ 2 years	> 1.0 and ≤ 1.9 years	1.25%
	> 2 and ≤ 3 years	> 1.9 and ≤ 2.8 years	1.75%
	> 3 and ≤ 4 years	> 2.8 and ≤ 3.6 years	2.25%
<u>3C</u>	> 4 and ≤ 5 years	> 3.6 and ≤ 4.3 years	2.75%
	> 5 and ≤ 7 years	> 4.3 and ≤ 5.7 years	3.25%
	> 7 and ≤ 10 years	> 5.7 and ≤ 7.3 years	3.75%
	> 10 and ≤ 15 years	> 7.3 and ≤ 9.3 years	4.50%
	> 15 and ≤ 20 years	> 9.3 and ≤ 10.6 years	5.25%
	> 20 years	> 10.6 and ≤ 12.0 years	6.00%
		> 12.0 and ≤ 20.0 years	8.00%
	> 20 years	12.50%	

....

**A6.2.18** The General Market Risk requirement for each currency must be calculated as the sum of the following:

- (a) 10% of the matched weighted positions in each maturity band;
- (b) 40% of the matched weighted position in zone 1A;
- (c) 30% of the matched weighted position in zones 2B and 3C;
- (d) 40% of the matched weighted position between zones 1A and 2B, and between zones 2B and 3C;
- (e) 100% of the matched weighted position between zones 1A and 3C; and
- (f) 100% of the residual unmatched weighted positions.

**Guidance**

A worked example under the Maturity Method of the General Market Risk requirement calculation is as follows:

Zone	Time band (m = months, y = years)		Aggregate positions per time band (\$)		Risk percentages	Aggregate positions per time band – weighted (\$) (M = matched, U = unmatched)							
						By time band		By zone		Between zones			
	Coupon ≥3%	Coupon <3%	Long	Short	Long	Short	M	U	M	U	M	U	
1A	≤ 1m	0 ≤ 1m	100	-50	0.00%	0.00	0.00	0.00	0.00				
	> 1 and ≤ 3m	> 1 and ≤ 3m	200	-100	0.20%	0.40	-0.20	0.20	0.20	0.00	1.30		
	> 3 and ≤ 6 m	> 3 and ≤ 6 m	300	-200	0.40%	1.20	-0.80	0.80	0.40				
	> 6 and ≤ 12 m	> 6 and ≤ 12 m	400	-300	0.70%	2.80	-2.10	2.10	0.70				
2B	> 1 and ≤ 2 y	> 1.0 and ≤ 1.9 y	100	-200	1.25%	1.25	-2.50	1.25	-1.25			Zones 1A & 2B	
	> 2 and ≤ 3 y	> 1.9 and ≤ 2.8 y	200	-300	1.75%	3.50	-5.25	3.50	-1.75	0.00	-5.25	1.30	
	> 3 and ≤ 4 y	> 2.8 and ≤ 3.6 y	300	-400	2.25%	6.75	-9.00	6.75	-2.25			Zones 1A & 3C	
												0.00	
3C	> 4 and ≤ 5 y	> 3.6 and ≤ 4.3 y	100	-100	2.75%	2.75	-2.75	2.75	0.00			Zones 2B & 3C	
	> 5 and ≤ 7 y	> 4.3 and ≤ 5.7 y	200	-200	3.25%	6.50	-6.50	6.50	0.00			3.95	
	> 7 and ≤ 10 y	> 5.7 and ≤ 7.3 y	300	-100	3.75%	11.25	-3.75	3.75	7.50				
	> 10 and ≤ 15 y	> 7.3 and ≤ 9.3 y	100	-200	4.50%	4.50	-9.00	4.50	-4.50	4.50	8.25		
	> 15 and ≤ 20 y	> 9.3 and ≤ 10.6 y	200	-100	5.25%	10.50	5.25	5.25	5.25				
	> 20 y	> 10.6 and ≤ 12.0 y	300	-300	6.00%	18.00	-18.00	18.00	0.00				
		> 12 and ≤ 20 y	0	0	8.00%								
		> 20 y	0	0	12.50%								
Total							55.35			4.30			

....

**A6.2.20** Under the Duration Method, the following steps must be carried out:

(a) ...

Zone	Modified Duration	Assumed move in interest rates
<u>1A</u>	≤ 1 month	1.00%
	> 1 and ≤ 3 months	1.00%
	> 3 and ≤ 6 months	1.00%
	> 6 and ≤ 12 months	1.00%
<u>2B</u>	> 1.0 and ≤ 1.9 years	0.90%
	> 1.9 and ≤ 2.8 years	0.80%
	> 2.8 and ≤ 3.6 years	0.75%
<u>3C</u>	> 3.6 and ≤ 4.3 years	0.75%
	> 4.3 and ≤ 5.7 years	0.70%
	> 5.7 and ≤ 7.3 years	0.65%
	> 7.3 and ≤ 9.3 years	0.60%
	> 9.3 and ≤ 10.6 years	0.60%
	> 10.6 and ≤ 12.0 years	0.60%
	> 12.0 and ≤ 20.0 years	0.60%
	> 20 years	0.60%

....

**A6.2.22** The General Market Risk requirement for each currency must be calculated as the sum of the following:

- (a) 5% of the matched weighted positions in each time band;
- (b) 40% of the matched weighted position in zone 1A;
- (c) 30% of the matched weighted position in zones 2B and 3C;
- (d) 40% of the matched weighted position between zones 1A and 2B, and between zones 2B and 3C;
- (e) 100% of the matched weighted position between zones 1A and 3C; and

- (f) 100% of the residual unmatched weighted positions.

**Guidance**

A worked example of the General Market Risk requirement calculation under the Duration Method is as follows:

Zone	Time band (m = months, y = years)	Aggregate positions per time band (\$)		Assumed move in interest rates (% pa)	Modified duration (years)	Aggregate positions per time band – weighted (\$) (M = matched, U = unmatched)							
		Long	Short			By time band		By zone		Between zones			
						Long	Short	M	U	M	U	M	U
<u>1A</u>	≤ 1m	100	-50	1.00%	0.00	0.00	0.00	0.00	0.00	0.00	1.30		
	> 1 and ≤ 3m	200	-100	1.00%	0.20	0.40	-0.20	0.20	0.20				
	> 3 and ≤ 6 m	300	-200	1.00%	0.40	1.20	-0.80	0.80	0.40				
	> 6 and ≤ 12 m	400	-300	1.00%	0.70	2.80	-2.10	2.10	0.70				
<u>2B</u>	> 1.0 and ≤ 1.9 y	100	-200	0.90%	1.40	1.26	-2.52	1.26	-1.26	0.00	-5.27	Zones <u>1A</u> & <u>2B</u>	
	> 1.9 and ≤ 2.8 y	200	-300	0.80%	2.20	3.52	-5.28	3.52	-1.76			1.30	
	> 2.8 and ≤ 3.6 y	300	-400	0.75%	3.00	6.75	-9.00	6.75	-2.25				Zones <u>1A</u> & <u>3C</u>
													0.00
<u>3C</u>	> 3.6 and ≤ 4.3 y	100	-100	0.75%	3.65	2.74	-2.74	2.74	0.00	4.50	8.89	Zones <u>2B</u> & <u>3C</u>	
	> 4.3 and ≤ 5.7 y	200	-200	0.70%	4.65	6.51	-6.51	6.51	0.00			3.97	
	> 5.7 and ≤ 7.3 y	300	-100	0.65%	5.80	11.31	-3.77	3.77	7.54				
	> 7.3 and ≤ 9.3 y	100	-200	0.60%	7.50	4.50	-9.00	4.50	-4.50				
	> 9.3 and ≤ 10.6 y	200	-100	0.60%	9.75	11.70	-5.85	5.85	5.85				
	> 10.6 and ≤ 12.0 y	0	0	0.60%	11.00	0.00	0.00	0.00	0.00				
	> 12 and ≤ 20 y	300	-300	0.60%	14.50	26.10	-26.10	26.10	0.00				
	> 20 y	0	0	0.60%	22.00	0.00	0.00	0.00	0.00				

Zone	Time band (m = months, y = years)	Aggregate positions per time band (\$)		Assumed move in interest rates (% pa)	Modified duration (years)	Aggregate positions per time band – weighted (\$) (M = matched, U = unmatched)								
						By time band		By zone		Between zones				
		Long	Short			Long	Short	M	U	M	U	M	U	
Total								64.10				4.92		

Total General Market Risk requirement = 5% (\$64.10) + 40% (\$0) + 30% (\$4.50) + 40% (\$5.27) + 100% (\$0) + 100% (\$4.92) = \$11.58



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**APP7 CALCULATING THE OPERATIONAL RISK CAPITAL REQUIREMENT****Guidance**

1. ...
2. The application of various components of the rules on Operational Risk to Authorised Persons with a Financial Services Permission to carry out various Regulated Activities is detailed in the table below:

Regulated Activities	Prudential Category	Capital requirement	Systems and controls requirement	PII cover
Providing Trust Services	3BC	No	Yes	Yes

....

**Caps on different types of HQLA**

- A10.2.5** (1) Assets eligible to be included in the stock of HQLA for the purpose of the LCR calculation are classified under the following two categories:

....

**Guidance**

1. ...
3. The calculation of the stock of HQLA under Rule A10.2.5 can be expressed as the following formula:

Stock of HQLA = Level 1 HQLA + Level 2A HQLA + Level 2B HQLA – Adjustment for 15% cap – Adjustment for 40% cap

Where:

- a. Adjustment for 15% cap = Max (Adjusted Level 2B HQLA – 15/85 x (Adjusted Level 1 HQLA + Level 2A HQLA), Adjusted Level 2B HQLA – 15/60 x (Adjusted Level 1 HQLA, 0)

....

**Cash Outflows**

- A10.2.15** The following table specifies, for each of the various categories or types of liabilities and off-balance sheet commitments, the rates at which they are expected to run off or be drawn down for the purpose of calculating the LCR.

Cash Outflows	
Item	Factor
<b>D. Additional Requirements:</b>	
Outstanding debt Securities (unsecured and secured, term as well as short-term) <del>of affiliated dealers and market-makers</del> with remaining maturity > 30 days <u>of issuers with an affiliated dealer or market-maker</u>	100%

...

### Guidance

1. The following Guidance sets out the Regulator's views about how the Table ~~to~~ in Rule A10.2.15 should be applied to different items.

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## APP11 SUPERVISORY REVIEW AND EVALUATION PROCESS

### A11.1 IRAP

#### Guidance

....

9. The IRAP should, in addition to the aforementioned factors:
  - a. estimate, with the aid of historical data, where available, the range and distribution of possible losses which might arise from each of those risks and consider using stress tests to provide risk estimates;
  - b. consider the extent to which the firm's Capital Requirement adequately addresses the type of risks referred to under Guidance note 8.b. and c.; and
  - c. estimate the expected change in the firm's risk profile on the basis of projections of the firm's business activities for the next three to five years and be informed by the business plan of the Authorised Person, as required by GEN 3.3.16.

....

## A11.2 ICAAP

### Guidance

### Application

1. ...

### Purpose and process of the ICAAP

2. The ICAAP is an internal process of an Authorised Person which enables it to determine and maintain the amount and quality of capital that is adequate in relation to the Authorised Person's risk profile as assessed in the IRAP. Authorised Persons are encouraged to maintain capital over and above the regulatory minimum capital. The ICAAP, in conjunction with the IRAP, should be embedded in the Authorised Person's business and organisational processes and be informed by the business plan of the Authorised Person, as required by GEN 3.3.16.

....