

**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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## 1.2 Glossary

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

<u>Available Stable Funding</u>	<u>The amount calculated in accordance with Rule A10.4.8.</u>
<u>ASF</u>	<u>Available Stable Funding.</u>
<u>Carrying Value</u>	<p><u>In relation to:</u></p> <p>(a) <u>a liability or equity instrument the amount at which the liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments, as determined in accordance with the International Financial Reporting Standards; or</u></p> <p>(b) <u>an asset the amount at which the asset is recorded, net of specific allowances, as determined in accordance with the International Financial Reporting Standards.</u></p>
Connected Counterparty	<p>For <del>Concentration Risk</del> <u>the purposes of Large Exposures</u>, and in relation to a Person <u>to which the Authorised Person has an Exposure</u>, a Connected Counterparty means another Person to whom the <del>first</del> <u>Authorised Person has an Exposure</u> and who fulfils one <u>or more</u> of the following conditions:</p> <p>(a) <del>he</del><u>it</u> is Connected to the first Person;</p> <p>(a) <del>he</del><u>it</u> is an Associate of the first Person;</p> <p>(b) the same Persons significantly influence the Governing Body of each of them; or</p> <p>(c) one of those Persons has an Exposure to the other that was not incurred for the clear commercial advantage of both of them and which is not on arm's length terms.</p>
<del>Concentration Risk</del>	<del>The risk faced by an Authorised Person arising out of its Large Exposures.</del>

Derivative or Derivative Contract	Means Specified Investments falling within paragraphs 94 to 96 of Schedule 1 of FSMR or, so far as relevant to such investments, any investment falling within paragraph 98 or 99 of that Schedule.
Early Amortisation	A mechanism that, once triggered, allows investors to be paid out prior to the originally stated maturity of the <del>Amortisation</del> <u>amortisation</u> provision will be considered either controlled or non-controlled.
Large Exposure	An Exposure <u>aggregated across</u> , <del>whether in an Authorised Person's Non-Trading Book or and Trading Book, or both,</del> to a Counterparty, <u>a group of Connected Counterparties</u> or <u>a group of Closely Related Counterparties</u> <del>or a group of Counterparties Connected to the Authorised Person which in aggregate that</del> equals or exceeds 10% of the Authorised Person's Capital Resources.
<u>Liquidity Mismatch Approach</u>	<u>For the purposes of liquidity, an assessment of the short-term liquidity of an Authorised Person.</u>
Market Counterparty	... (2) The notification and consent referred to in (1) may be given in respect of all services or in respect of each individual <del>Transaction</del> . ...
Maturity Mismatch	<u>For the purposes of credit risk mitigation, a</u> <del>A</del> difference between the maturity of an asset and <u>that of the</u> corresponding liability.
<u>Net Stable Funding Ratio</u>	<u>The amount of Available Stable Funding relative to the amount of Required Stable Funding.</u>
<u>NSFR</u>	<u>Net Stable Funding Ratio.</u>
Professional Client	<del>(1) An Authorised Person may classify a Person as a Professional Client only if such a Person:</del>  <del>(a) either:</del>  <del>(i) has net assets of at least \$500,000 (excluding the value of the primary residence of that Person). Assets held</del>

	<p><del>directly or indirectly by that Person may be included; or</del></p> <p><del>(ii) is, or has been in the previous 2 years:</del></p> <p><del>(A) an Employee of the Authorised Person; or</del></p> <p><del>(B) an Employee in a professional position in another Authorised Person;</del></p> <p><del>(b) subject to (2), appears, on reasonable grounds, to the Authorised Person, to have sufficient experience and understanding of relevant financial markets, products or transactions and any associated risks following the analysis specified in the COB rules; and</del></p> <p><del>(c) has not elected to be treated as a Retail Client in accordance with the COB rules.</del></p> <p><del>(2) An Authorised Person may consider the following Persons as possessing the necessary degree of experience and understanding of relevant financial markets, products or transactions without having to undertake the analysis referred to in (1)(b):</del></p> <p><del>(a) a Collective Investment Fund or a regulated pension fund;</del></p> <p><del>(b) a Financial Institution or the management company of a regulated pension fund;</del></p> <p><del>(c) a properly constituted government, government agency, central bank or other national monetary authority of any country or jurisdiction;</del></p> <p><del>(d) a public authority or state investment body;</del></p> <p><del>(e) a supranational organisation whose members are either countries, central banks or national monetary authorities;</del></p> <p><del>(f) a Recognised Body, regulated exchange or regulated clearing house;</del></p>
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	<p><del>(g) a Body Corporate whose Shares are listed or admitted to trading on any regulated exchange of an IOSCO member country;</del></p> <p><del>(h) a Body Corporate which has called up Share capital of at least \$10,000,000; or</del></p> <p><del>(i) any other institutional investor whose main activity is to invest in Financial Instruments, including an entity dedicated to the securitisation of assets or other financial transactions.</del></p> <p><del>(3) A personal investment vehicle may be classified as a Professional Client without having to meet the requirements in (1)(a)(i) if it is established and operated for the sole purpose of facilitating the management of the investment portfolio of an existing Professional Client.</del></p>
<u>Required Stable Funding</u>	<u>The amount calculated in accordance with Rule A10.4.9.</u>
<u>RSF</u>	<u>Required Stable Funding.</u>

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### 3.12 Tier 2 capital

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3.12.3 (1) For the purpose of Rule 3.12.2(a), a capital instrument or subordinated loan is eligible for inclusion in T2 Capital where all the following conditions are met:

(a) the instruments are issued and fully paid-up;

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### 3.14 Qualifying Holdings outside the financial sector

3.14.1 (1) Where an Authorised Person has a Qualifying Holding in an Undertaking which is not one of the following:

(a) an Undertaking that is a Relevant Entity; or

(b) an Undertaking that carries on activities that are:

(i) a direct extension of banking;

(ii) ancillary to banking; or

- (iii) leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity,

and the amount of the holding exceeds 15% of the eligible total ~~Capital Resources~~ Tier 1 of the Authorised Person, the Authorised Person must comply with the requirements in (3).

- (2) The total amount of the Qualifying Holdings of an Authorised Person in those Undertakings other than those referred to in (1) that exceeds 60% of its ~~Capital Resources~~ Tier 1 are subject to the requirements in (3).
- (3) An Authorised Person must apply ~~the following requirements~~ a risk weight of 1000% to the greater of the total amount of Qualifying Holdings referred to in (1) and that in (2);

~~(a) a risk weight of 1000% to the following:~~

~~(i) the amount of Qualifying Holdings referred to in (1) in excess of 15% of Capital Resources; and~~

~~(ii) the total amount of Qualifying Holdings referred to in (2) in excess of 60% of the Capital Resources of the Authorised Person; and~~

~~(b) must not count Qualifying Holdings referred to in (1) and (2) where the amount of those holdings exceeds the percentages of Capital Resources laid down in (1) and (2).~~

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#### **4.9 Methodology for measurement of Exposures**

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##### **Measurement of E for on-balance sheet assets**

- 4.9.3** For each on-balance sheet asset, E should be the ~~carrying value~~ Carrying Value of the asset ~~as determined in accordance with the International Financial Reporting Standards.~~

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#### **4.13 Credit Risk mitigation**

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##### **General Requirements**

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- 4.13.3** (1) An Authorised Person must take all appropriate steps to ensure the effectiveness of the CRM arrangements it employs and to address related risks.
- (2) Where an Authorised Person reduces or transfers Credit Risk by the use of CRM, an Authorised Person must employ appropriate and effective policies and procedures to identify and control other risks which arise as a consequence of the transfer.

### Guidance

1. The use of techniques to reduce or transfer Credit Risk may simultaneously increase other risks (residual risks) which include legal, operational, liquidity and Market Risks. The Regulator expects an Authorised Person to employ methods to identify and control these risks, including:
    - a. strategy;
    - b. consideration of the underlying credit;
    - c. valuation;
    - d. policies and procedures;
    - e. systems;
    - f. control of roll-off risks; and
    - g. management of ~~Concentration Risk~~ any Large Exposures and other concentration risks, e.g. sectoral or geographic, arising from the use of CRM and the interaction of such risk with the overall Credit Risk profile of the Authorised Person.

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  8. Taking as Collateral large quantities of instruments issued by one obligor potentially creates ~~Concentration Risk~~ Large Exposures and other concentration risks, e.g. sectoral or geographic. An Authorised Person should have a clearly defined policy with respect to the amount of ~~Concentration Risk~~ those risks it is prepared to run. Such a policy might, for example, include a cap on the amount of Collateral it would be prepared to take from a particular Issuer or market. The Authorised Person should also take Collateral and purchased credit protection into account when assessing the potential concentrations in its overall credit profile.
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## 4.14 Securitisation

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### Assigning risk weights

**4.14.31** An Authorised Person must assign a risk weight for any SE Exposure in accordance with the tables below, to calculate the Credit RWA amounts for that Exposure.

#### Risk Weights for Long-Term securitisation Exposures

Long Term rating category					
Credit Quality Grade	1	2	3	4	5 and above including unrated
Risk Weight to be applied to securitisation Exposures (excluding Re-securitisation Exposures)	20%	50%	100%	350%	1000% or deduction from Capital Resources
Risk weight applied to Re-securitisation Exposures	40%	100%	225%	650%	1000% or deduction from Capital Resources

#### Risk Weights for Short-Term securitisation Exposures

Short-term rating category				
Credit Quality Grade	I	II	III	IV and above including unrated
Risk Weight to be applied	20%	50%	100%	1000%
<del>Deduction from Capital Resources</del> Risk Weight applied to Re-securitisation Exposures	40%	100%	225%	1000% or deduction from Capital Resources

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### **4.15** ~~Concentration Risk~~ Large Exposures

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4.15.3 For the purposes of this Section an Authorised Person must:

- (a) ....
- (e) determine the size of its Exposures as a proportion of its ~~Capital Resources~~ Tier 1;
- (f) ....
- (i) monitor and control its Exposures on a daily basis within the ~~Concentration Risk~~ Large Exposures limits; and
- (j) notify the Regulator immediately of any breach of the limits set out in this Section and confirm it in writing.

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### **Large Exposures limits**

4.15.4 A Large Exposure of an Authorised Person means a total Exposure which is equal to or greater than 10% of the firm's ~~Capital Resources~~ Tier 1, to any Counterparty, ~~Connected Counterparty~~, group of Connected Counterparties, or group of Closely Related Counterparties, ~~whether in aggregated across the Authorised Person's Trading Book or and Non-Trading Book, or both.~~

4.15.5 Subject to IFR Rule 5.4.15, an Authorised Person must ~~ensure that~~ not incur any Large Exposures in its Non-Trading Book and, subject to Rule 4.15.6, Trading Book ~~to a Counterparty or to a group of Closely Related Counterparties or to a group of Connected Counterparties~~, after taking into account the effect of any eligible CRM, ~~do not exceed that exceeds~~ 25% of its ~~Capital Resources~~ Tier 1.

4.15.6 Where the portion of a Large Exposure in an Authorised Person's Trading Book Exposure to a Counterparty or to a group of Closely Related Counterparties or to a group of Connected Counterparties, on its own or when added to any Non-Trading Book portion of a Large Exposure, is likely to exceed cause the 25% limit of its ~~Capital Resources~~ Tier 1 to be exceeded, the Authorised Person must immediately give the Regulator written notice, explaining the nature of its Trading Book Exposure and seeking specific guidance from the Regulator regarding the prudential treatment of any such Exposure.

### **Guidance**

1. The effect of Rules 4.15.5 and 4.15.6, when taken together, impose a binding upper limit of 25% of Tier 1 on the portion of a Large Exposure in the Non-Trading Book.
2. Where, under exceptional circumstances, the portion of the Large Exposure arising in the Trading Book causes the aggregate limit of 25% to be exceeded the Authorised Person is obliged to notify the Regulator in order to agree remedial actions to resolve the breach at the earliest opportunity.

4.15.7 Subject to IFR Rule 5.4.16 an Authorised Person must ensure that the sum of its Large Exposures does not exceed 800% of its ~~Capital Resources~~ Tier 1.

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#### **Exclusions from the Large Exposures limits**

4.15.8 (1) For the purposes of this Section, Exposure excludes:

- (a) claims and other assets required to be deducted for the purposes of calculating an Authorised Person's ~~Capital Resources~~ Tier 1;

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(2) For the purposes of this Section, Exposure to a central counterparty which carry a 0% CCFR in accordance with Section 4.8 are excluded.

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#### **Institutional exemption**

4.15.10 For Exposures to a Financial Institution, or a group of Connected Counterparties one of which is a Financial Institution, the total amount of an Authorised Person's Exposures may exceed 25% of its ~~Capital Resources~~ Tier 1, provided those institutions are Investment Grade (Credit Quality Grades 1 to 3) and subject to the following:

- (a) Exposures to any entities within the group of Connected Counterparties that are not Financial Institutions are limited to 25% of ~~Capital Resources~~ Tier 1 after taking account of CRM;
- (b) the Exposures must not form part of the ~~Capital Resources~~ Tier 1 of the Counterparty;
- (c) the Counterparty Risk profile must be subject to review on at least an annual basis; and
- (d) Exposures of this nature must not in any case exceed a maximum of \$100 million or 100% of ~~Capital Resources~~ Tier 1, whichever is the lower.

#### **Systems and Controls**

4.15.11 (1) An Authorised Person must implement and maintain systems and controls to identify its Exposures and effectively manage ~~Concentration Risks~~ Large Exposures as a result of its activities.

(2) Such systems and controls in place must be proportionate to the nature, scale and complexity of the Authorised Person and must include written policies and procedures to address ~~Concentration Risks~~ Large Exposures, both on and off balance sheet, which:

- (a) are approved by the Governing Body on at least an annual basis; and
- (b) include internal approval limits for Exposures as well as limits for the risks associated with specific sectors, geographic location and single economic risk factors.

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4.15.13 An Authorised Person intending to utilise any of the provisions contained in Section 4.13 (CRM) for the purposes of reducing Exposure values should have in place policies and procedures addressing the following:

- (a) risks arising from Maturity Mismatches between Exposures and any credit protection on those Exposures;
- (b) ~~the Concentration Risk~~ any Large Exposures risks arising from the application of CRM techniques, including indirect Large Exposures – for example to a single Issuer of Securities taken as Collateral; and
- (c) the conduct of stress testing on CRM taken as Collateral.

4.15.14 Where an Authorised Person has availed itself of the reductions to Exposure values as set out in A4.11 the Authorised Person must calculate the Exposure as a percentage of its ~~Capital Resources~~ Tier 1 on both a gross and net basis.

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

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

- (a) is set to increase, on the basis of a legally binding agreement, the Authorised Person's ~~Capital Resources~~ Tier 1, promptly and on demand, by:

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- (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:

- (i) the guarantee is to be provided by the Authorised Person's Parent, or regulated member of its Group;

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- (iv) the total amount of guarantees provided to the Authorised Person must be less than 10% of the ~~Capital Resources~~ Tier 1 of the entity providing the guarantee;

- (v) the Parent must ~~be rated as~~ have an external credit assessment from a Credit Quality Grade of 1 or 2 by a recognised credit rating agency that corresponds to a Credit Quality Grade 1 or 2;

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- (viii) the Authorised Person must notify the Regulator when such guarantees represent 200%, 400% and 600% of ~~Capital Resources~~ Tier 1. The overall Large Exposure limit of 800% will apply.

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## 6.1 Application

6.1.1 This Chapter applies to an Authorised Person as follows:

- (a) Sections 6.1 to 6.9 apply to an Authorised Person in any Category;
- (b) Sections 6.10 and 6.11 apply only to an Authorised Person in Category 1, 2, 3A or 5;
- (c) Section 6.12 applies ~~only~~ to an Authorised Person in Category 3B, 3C or 4 ~~which undertakes one or more of the following Regulated Activities:~~
- ~~(i) Arranging Credit;~~
  - ~~(ii) Arranging Deals in Investments;~~
  - ~~(iii) Managing Assets;~~
  - ~~(iv) Advising on Investments or Credit;~~
  - ~~(v) Managing a Collective Investment Fund;~~
  - ~~(vi) Providing Custody;~~
  - ~~(vii) Insurance Intermediation;~~
  - ~~(viii) Insurance Management;~~
  - ~~(ix) Managing a Profit Sharing Investment Account (unrestricted);~~
  - ~~(x) Providing Trust Services;~~
  - ~~(xi) Acting as the Administrator of a Collective Investment Fund;~~
  - ~~(xii) Acting as the Trustee of an Investment Trust;~~
  - ~~(xiii) Operating a Multilateral Trading Facility or Organised Trading Facility; or~~
  - ~~(xiv) Providing Money Services; or~~

~~(xv) Operating a Private Financing Platform.~~

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## **6.12 Professional indemnity insurance**

6.12.1 This Section applies to an Authorised Person in Category 3B, 3C or 4 ~~which undertake one or more of the Regulated Activities prescribed in Rule 6.1.1(c).~~

6.12.2 An Authorised Person must:

- (a) take out and maintain professional indemnity insurance cover appropriate to the nature, size, complexity and risk profile of the Authorised Person's business;
- (b) at least annually, provide the Regulator with a copy of the professional indemnity insurance cover in (a) covering the following 12 month period and be able to demonstrate its adequacy in relation to the nature, size, complexity and risk profile of the Authorised Person's business; and
- (c) notify the Regulator of any material changes to the cover in (a), including the level of cover, its renewal or termination.

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## **8.4 Financial Group ~~Concentration Risk~~ Large Exposure limits**

8.4.1 ~~Subject to IFR Rule 5.4.15, a~~ An Authorised Person in Category 1, 2 or 5 must ~~ensure that its~~ not incur any Financial Group Large Exposure, including the Financial Group's PSIAu's, to a Counterparty or group of Closely Related Counterparties does not ~~that exceeds~~ 25% of its Group's Capital Resources Tier 1.

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~~ Tier 1.

## **8.5 Restrictions on ownership or control**

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### **Parents of Category 1 and 5 Authorised Persons**

8.5.1 (1) No entity other than one of the following may be the Parent of, or any of the Parents of, an Authorised Person in Category 1 or 5:

- (a) another Authorised Person in Category 1 or 5; or
- (b) an Authorised Person with a Financial Services Permission to carry on the activities of Accepting Deposits.

- (2) An entity other than one referred to in (1)(a) or (b) may be the Parent of an Authorised Person in Category 1 or 5 where the ultimate, or any intermediate, Parent is an ~~entity~~ Authorised Person of the type specified under 1(a) or (b).

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### Liquidity Coverage Ratio

- 9.3.4** An Authorised Person must, except as provided in Rule 9.3.7, maintain an LCR of at least ~~the level specified in the table below from the date specified in the table~~ 100%.

#### Minimum LCR levels:

Date	1 October 2015	1 January 2016	1 January 2017	1 January 2018	1 January 2019
Minimum LCR	60%	70%	80%	90%	100%

#### Guidance

~~The minimum LCR level will increase each year until it is fully phased in on 1 January 2019. Rule 9.3.4 sets a minimum levels and is not intended to limit the generality of the requirement in Rule 9.3.3.~~

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### ~~The Maturity Liquidity Mismatch a~~ Approach

#### Guidance

~~The Maturity Liquidity Mismatch a~~ Approach measures an Authorised Person's short-term liquidity by assessing the maturity mismatch between its inflows (assets) and outflows (liabilities) ~~within different timebands on a Maturity Ladder over an eight-day time horizon.~~

- ~~**9.3.10** If an Authorised Person in Category 1 or 5 exceeds one or both of the net cumulative Maturity Mismatch limits referred to in Rule 9.3.10(2)(b) it must immediately inform the Regulator in writing and clearly explain what steps the Authorised Person will take to bring its liquidity position back within the limits:~~

- ~~9.3.10~~ (1) An Authorised Person in Category 1 or 5 must use the Maturity Liquidity Mismatch a Approach, as set out in this Section, to measure its short-term liquidity.
- (2) When using the Maturity Liquidity Mismatch a Approach, an Authorised Person must determine the net cumulative ~~M~~ maturity ~~M~~ mismatch position for each the time band from sight to eight days by:

- (a) determining, in accordance with the Rules in Sections A10.2 and A10.3 of App10, the inflows (assets) and outflows (liabilities) ~~which are, subject to their falling within one of the time bands, to be included in the Maturity Ladder and at what maturities in that time band;~~ and
- ~~(b) inserting each inflow (asset) and outflow (liability) into one or more of the following time bands on the Maturity Ladder:~~
- ~~(i) sight – eight days; or~~
- ~~(ii) sight – one month; and~~
- (e) subtracting outflows (liabilities) from inflows (assets) in ~~each~~ that time band.

### Measuring liquidity for Category 1 and Category 5

- 9.3.121 (1) An Authorised Person in Category 1 or 5 must determine a net cumulative ~~M~~maturity ~~M~~mismatch position for each the sight-eight day time band in respect of each of the following means of funding used by the Authorised Person:
- (a) PSIAu's; and
- (b) Deposits.
- (2) An Authorised Person in Category 1 or 5 must calculate its short-term liquidity by using the net cumulative ~~M~~maturity ~~M~~mismatch position separately for each means of funding used by the Authorised Person as a percentage of the means of funding in ~~each~~ the sight-eight day time band as follows:
- (a) PSIAu's net cumulative ~~M~~maturity ~~M~~mismatch % =
- $$\frac{\text{Net cumulative } \del{M} \text{maturity } \del{M} \text{mismatch} \times 100}{\text{Total PSIAu's}}$$
- (b) Total Deposit liabilities net cumulative ~~M~~maturity ~~M~~mismatch % =
- $$\frac{\text{Net cumulative } \del{M} \text{maturity } \del{M} \text{mismatch} \times 100}{\text{Total Deposits}}$$
- (3) If an Authorised Person exceeds ~~one or both of the following~~ a net cumulative ~~M~~maturity ~~M~~mismatch limits of -15% in respect of any of the means of funding it must immediately inform the Regulator in writing and clearly explain what steps ~~the Authorised Person~~ it will take to bring its liquidity position back within the limits:
- ~~(a) sight – eight days, negative 15%; and~~

(b) ~~sight – one month, negative 25%.~~

### **Net Stable Funding Ratio - NSFR**

9.3.12 An Authorised Person must maintain an NSFR of at least 100% at all times, calculated using the following formula.

$$\text{NSFR} = \frac{\text{Available Stable Funding}}{\text{Required Stable Funding}}$$

#### **Guidance**

1. The NSFR complements the LCR and is designed to enable Authorised Persons to maintain a stable funding profile over a longer time horizon than that associated with the LCR. It is based on assigning factors to the liabilities, and capital instruments of an Authorised Person that reflect their stability, and to the assets and off-balance sheet items of an that Authorised Person that reflect their liquidity.
2. Section A10.4 of App10 sets out how the amounts of Available Stable Funding and Required Stable Funding are to be calculated.

9.3.13 An Authorised Person must notify the Regulator immediately and confirm in writing if its NSFR falls below 100% or if it believes that is likely to happen.

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## **APP4 CREDIT RISK**

### **A4.1 Credit Risk systems and controls**

#### **Guidance**

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26. Notwithstanding the ~~Concentration Risk limit~~ threshold specified as part of the prudential Rules on Large Exposures, Authorised Persons should exercise particular care in relation to facilities exceeding 10% of ~~capital base~~ Tier 1.

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### **A4.3 Collateral calculations and haircuts**

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#### **Standard supervisory haircuts**

**A4.3.13** The standard supervisory haircuts,  $H_E$ ,  $H_C$  and  $H_S$ , referred in Rules A4.3.6 to A4.3.8 (assuming daily remargining, ~~or daily~~ revaluation and a ten-business day holding period), are subject to Rule A4.3.14, as follows:

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#### **A4.11 ~~Concentration Risk~~ Large Exposures**

##### **Exempt Exposures**

**A4.11.1** An Authorised Person may treat the following Exposures as exempt from the ~~Concentration Risk~~ Large Exposures limits in Chapter 4 if they are to Counterparties not Connected to the Authorised Person:

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**A4.11.3** If an Exposure is partially guaranteed by an Authorised Person's Parent Financial Institution, and would be assigned a lower risk weight under Section 4.12, only that part of the Exposure subject to the guarantee is exempt from the ~~Concentration Risk~~ Large Exposure limits in Rule 4.15.5. When considering the treatment of this Rule an Authorised Person may also consider the exemptions permitted under Rule 4.15.18 relating to parental guarantees.

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**A4.11.4** When calculating the Exposures of an Authorised Person, the firm must include Trading Book Exposures and Non Trading Book Exposures to:

....

(d) ~~Tr~~ansactions, schemes or Funds.....

....

##### **Group of Closely Related Counterparties**

**A4.11.5** (1) For ~~Concentration Risk~~ Large Exposures purposes, Persons are Closely Related if:

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##### **Connected Counterparties**

**A4.11.7** For ~~Concentration Risk~~ Large Exposures purposes, and in relation to a Person, a Connected Counterparty means another Person to whom the first Person has an Exposure and who fulfils one of the following conditions:

....

**A4.11.8** Where an Authorised Person has an Exposure to a transaction, scheme, Fund, or other Exposure to a pool of underlying Exposures, the Authorised Person must assess the Exposure to determine whether the Exposure is a group of Closely Related Counterparties in its economic substance.

## Guidance

1. When considering this Rule the Authorised Person should consider the following factors:

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2. An Authorised Person should look through the structure to determine whether there are any Counterparties or Exposures that ~~should be considered~~ might give rise to risks arising from a ~~Concentration Risk Large Exposure~~.

## Connected Counterparty exemptions

**A4.11.9** An Authorised Person may treat as exempt from the ~~Concentration Risk Large Exposure~~ limits in Chapter 4 an Exposure to a Counterparty or Counterparties Connected to the Authorised Person if all of the following conditions are met:

- (a) the Authorised Person has given the Regulator written notice one month in advance of its intention to use the exemption and explained how it will ensure that it will still meet the ~~Concentration Risk Large Exposure~~ limits on a continuing basis when using the exemption;
- (b) the total amount of the Exposures that an Authorised Person is treating as exempt under this Rule does not exceed 50% of the Authorised Person's ~~Capital Resources Tier 1~~;

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**A4.11.13** A net short position is not an Exposure for the purposes of ~~Concentration Risk Large Exposures~~.

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**A4.11.24** An Authorised Person must, for the purposes of ~~Concentration Risk Large Exposures~~, treat an Exposure to an Issuer arising from an index or basket of debt Securities or a non-broad-based equity index or basket, as a series of Exposures to the Issuers of the underlying instruments or equities in accordance with the procedures in Chapter 4.

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## APP5 CREDIT VALUATION ADJUSTMENT (CVA) RISK

### A5.1 Meaning of Credit Valuation Adjustment

For the purposes of this Appendix, "Credit Valuation Adjustment" or "CVA" means an adjustment to the fair value of the portfolio of transactions with a counterparty. The adjustment reflects the current market value of the Credit Risk of the counterparty to the Authorised Person, but does not reflect the current market value of the credit risk of the Authorised Person to the counterparty.

**A5.2 Scope**

- A5.2.1** (1) Subject to (2), aAn Authorised Person must calculate its capital requirement for CVA risk in accordance with this Appendix for all OTC Derivative Contracts in respect of all of its business activities, other than Credit Derivatives recognised to reduce risk-weighted exposure amounts for Credit Risk.
- (2) Subject to the written approval of the Regulator, an Authorised Person whose aggregate notional amount of OTC Derivatives is less than or equal to US \$100 billion ~~euro~~ may choose to set its capital requirement for CVA risk as equal to 100% of its capital requirement for Counterparty Credit Risk, where this treatment must be applied to the entire portfolio of the Authorised Person and CVA hedges are not recognised.

**Guidance**

The Regulator may remove this option if it determines that the CVA risk resulting from the derivative positions of the Authorised Person materially contributes to the overall risk profile of the Authorised Person.

....

**General Market Risk**

- A6.2.15** (1) Subject to (3), aAn Authorised Person must calculate its General Market Risk on a currency by currency basis, irrespective of where the individual instruments are physically traded or listed. The calculations for each currency must then be added together to determine the amount of the Authorised Person's General Market Risk requirement.
- (2) An Authorised Person must calculate its General Market Risk requirement for each currency by applying ~~either one of the following approaches to all currencies, including to the single maturity ladder derived from the currencies identified under (3):~~
- (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.
- (3) For currencies in which business is not material, separate maturity ladders for each currency are not required, and the Authorised Person must calculate its General Market Risk requirement by constructing a single maturity ladder and slot, within each appropriate time-band, the net long

or short position for each of those currencies after converting them into US \$s.

....

## **A6.8 Securities Underwriting Risk Capital Requirement**

### **Guidance**

Section A6.8 presents the method for calculating a net Underwriting position or reduced net Underwriting position, which is then included in the calculation of Market Risk Capital Requirements as specified in this Chapter. Section A6.8 also deals with concentration Risks.

....

### **Large Exposures risk from Underwriting Securities: Calculating the net Underwriting Exposure**

- A6.8.11** For ~~Concentration Risk~~ Large Exposures purposes, the total amount of an Authorised Person's Trading Book Exposures to any Person must include net Underwriting Exposure to that Person.
- A6.8.12** An Authorised Person must include any other Exposures arising out of Underwriting (including any Counterparty Exposures to any sub-underwriters) for the purposes of calculating the total amount of its Trading Book Exposures to a Person for ~~Concentration Risk~~ Large Exposures purposes.
- A6.8.13** An Authorised Person, before entering into a new Underwriting commitment, must be able to recalculate the ~~Concentration~~ Counterparty Credit Risk capital component to the level of detail necessary to ensure that the firm's Capital Resources Requirement does not exceed the firm's Capital Resources.
- A6.8.14** An Authorised Person must calculate the net Underwriting Exposure to an Issuer by applying the relevant reduction factors in the table below to its net Underwriting position calculated under Rule A6.8.6.

<b>Time</b>	<b>Reduction factor to be applied to net Underwriting position</b>
Initial commitment to working day 0	100%
Working day 0	100%
Working day 1	90%
Working day 2	75%
Working day 3	75%

Time	Reduction factor to be applied to net Underwriting position
Working day 4	50%
Working day 5	25%
Working day 6 onwards	0%

### Guidance

The effect of the Rule and the table above is that there is no concentration limit for net Underwriting.

### Exposures between initial commitment and the end of working day 0.

....

## A6.9 Use of internal models for Market Risk

### A6.9.1 Criteria for use of internally developed Market Risk models

#### Guidance

#### Qualitative standards

1. Any internal model used for purposes of Chapter 5 of these Rules should be conceptually sound and implemented with integrity and, in particular, all of the following qualitative requirements should be met:

....

- g. the Authorised Person should frequently conduct a rigorous programme of stress testing, including reverse stress tests, which encompasses any internal model used for purposes of Chapter 5 and the results of these stress tests should be reviewed by senior management and reflected in the policies and limits it sets. This process should particularly address illiquidity of markets in stressed market conditions, Large Exposures and Concentration Risks, one way markets, event and jump-to-default risks, non-linearity of products, deep out-of-the-money positions, positions subject to the gapping of prices and other risks that may not be captured appropriately in the internal models. The shocks applied should reflect the nature of the portfolios and the time it could take to hedge out or manage risks under severe market conditions; and

....

## Internal Validation

19. Authorised Persons should have processes in place to ensure that all their internal models used for purposes of Chapter 5 have been adequately validated by suitably qualified parties independent of the development process to ensure that they are conceptually sound and adequately capture all material risks. The validation should be conducted when the internal model is initially developed and when any significant changes are made to the internal model.

The validation should also be conducted on a periodic basis but especially where there have been any significant structural changes in the market or changes to the composition of the portfolio which might lead to the internal model no longer being adequate. As techniques and best practices for internal validation evolve, Authorised Persons should apply these advances. Internal model validation should not be limited to back-testing, but should, at a minimum, also include the following:

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- c. the use of hypothetical portfolios to ensure that the internal model is able to account for particular structural features that may arise, for example material basis risks and concentration risks.

....

## APP7 CALCULATING THE OPERATIONAL RISK CAPITAL REQUIREMENT

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### A7.1 Basic Indicator Approach

- A7.1.1** (1) (a) (i) An Authorised Person which uses the Basic Indicator Approach must calculate its Operational Risk Capital Requirement equal to the average over the previous three years of a fixed percentage (denoted by alpha) of positive annual gross income.
- (ii) For any year that annual gross income is zero or negative, that year must be excluded from both the numerator and the denominator in the calculation.
- (b) (i) Where an Authorised Person does not have sufficient data to meet the three-year requirement in (a) it must use its forecast annual gross income projections for that part of the three year time period for which it does not have sufficient historical data.
- (ii) The Authorised Person must start using historical data as soon as it is available.

.....

## Guidance

1. In ~~A7.1.1(1)(a)~~, the three-year average should be calculated on the basis of the last three yearly observations at the end of the Authorised Person's financial year. When audited figures are not available, business estimates may be used.
2. ~~If an Authorised Person does not have sufficient income data to meet the three year requirement (e.g. a start-up), it may use its forecasted gross income projections for all or part of the three year time period. As an example of the approach to be used for (2a)(ii), For example,~~ if an Authorised Person has two positive yearly gross incomes of \$20 each and the final yearly observation shows a negative figure of \$5, then the average should be calculated as \$20 being \$40 (the sum of the positive figures) divided by 2 (the number of years for which positive the figures are available positive).
3. The circumstances in (b) may arise, for example, where an Authorised Person is a start-up, is part of a merger or it acquires or divests itself of a significant business unit.
34. Net interest income in A7.1.1(4) is the interest income minus interest expense. Guidance on what constitutes interest income and interest expense can be found in the PRU rules.
45. Net non-interest income in A7.1.1(4) includes the income from fees and commissions, net income from trading Securities, net income from Investment Securities, income from Islamic Contracts and other operating income minus fee and commission expense. Guidance on non-interest income can be found in the PRU rules.
56. In A7.1.1(4)(ii), outsourcing fees paid by the Authorised Person should be excluded whereas any outsourcing fee received by the Authorised Person should be included as part of the gross income.
67. When income from revaluation of trading items is included in the income statement, such revaluation income should be included in the calculation of the gross income.

## A7.2 Standardised Approach

### A7.2.1 An Authorised Person which uses the Standardised Approach:

- (a) (i) subject to (ii), must calculate its Operational Risk Capital Requirement ~~equal to the average annual gross income over the previous three years for each of the business lines in Rule A7.2.3 multiplied by the fixed percentage (denoted beta) in Rule A7.2.3~~ in accordance with Rule A7.2.2;

- (ii) where an Authorised Person does not have sufficient data to meet the three-year requirement in (i) it must use its forecast annual gross income projections for that part of the three year time period for which it does not have sufficient historical data, and must start using historical data as soon as it is available;
- (b) (i) subject to (eii), may in any given year offset ~~negative a Capital Requirement (resulting from negative gross income)~~ in any business line against positive ~~capital charges~~ gross income in other business lines without limit; and
- (c) (ii) must input to the numerator a value of zero if the aggregate ~~Operational Risk Capital Requirement~~ annual gross income across all business lines within a given year is negative.

**A7.2.2** An Authorised Person which uses the Standardised Approach must calculate its Operational Risk Capital Requirement,  $K_{SA}$ , according to the following formula:

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### **A7.3 Alternative Standardised Approach**

**A7.3.1** An Authorised Person which uses the Alternative Standardised Approach must calculate its Operational Risk Capital Requirement in accordance with the Standardised Approach in Section A7.2 as modified by replacing annual gross income for its retail banking and commercial banking business lines with loans and advances multiplied by a fixed factor 'm'.

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#### **Guidance**

1. For the purposes of the Alternative Standardised Approach, total loans and advances in the retail banking business line consist of the total drawn amounts in the following credit portfolios: retail, SMEs treated as retail, and purchased retail receivables.
2. For commercial banking, total loans and advances consist of the drawn amounts in the following credit portfolios: corporate, sovereign, bank, specialised lending, SMEs treated as corporate and purchased corporate receivables. The book value of Securities held in the Non-Trading Book should also be included.
3. The three year average should be calculated on the basis of the last three yearly observations at the end of the Authorised Person's financial year. When audited figures are not available, business estimates may be used.

4. ~~If~~ Where an Authorised Person does not have sufficient annual gross income data to meet the three year requirement (e.g. a start-up) for the Standardised Approach, or on the level of loans and advances for the Alternative Standardised Approach, it may use its ~~forecasted~~ forward-looking gross income projections for all or part of the three year time period.
5. In accordance with Rule 6.11.3 ~~of these Rules,~~ an Authorised Person seeking to apply the Standardised Approach or the Alternative Standardised Approach must develop specific policies and have documented criteria for mapping gross income for current business lines and activities into the Standardised Approach or the Alternative Standardised Approach. The criteria must be reviewed and adjusted for new or changing business activities as appropriate. The principles for business line mapping are set out below.

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### 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.

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### Guidance

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

### Retail Deposits:

2. Retail Deposits should include Deposits from individuals placed with an Authorised Person. Deposits from legal entities, sole proprietorships or Partnerships should be included in wholesale Deposit categories. Deposits may include demand Deposits and term Deposits, unless otherwise excluded.
- ~~3. Under COB Section 4.2, an Authorised Person can only accept Deposits from individuals who are Professional Clients.~~
4. Deposits from individuals are divided under the Table into 'stable' and 'less stable' Deposits. Stable Deposits should include the portion of Deposits that are fully covered by an effective Deposit insurance scheme or by a public guarantee that provides equivalent protection and where:
  - a. the depositor has other established relationships with the Authorised Person that make Deposit withdrawal highly unlikely; or

b. the Deposits are in transactional accounts (e.g. accounts where salaries are automatically credited).

- ~~54.~~ If an Authorised Person is not able to readily identify which retail Deposits would qualify as "stable" according to paragraph 4, it should place the full amount in the "less stable" buckets.
- ~~65.~~ Less stable Deposits should consist of the portion of Deposits that do not meet the conditions in paragraph 4 and also include types of Deposits more likely to be withdrawn in a time of stress. These should include high-value Deposits (i.e. Deposits above any Deposit insurance limit), Deposits from customers who do not have established relationships with an Authorised Person that make the Deposit withdrawal unlikely, Deposits from sophisticated or high net worth individuals, Deposits where the internet is integral to the design, marketing and use of the account (on-line accounts) and Deposits with promotional interest rates (i.e. that are heavily rate-driven).
- ~~76.~~ Cash outflows related to retail term Deposits with a residual maturity or withdrawal notice period of greater than 30 days should be excluded from total expected cash outflows only if the depositor has no legal right to withdraw Deposits within the 30-day period of the LCR, or if early withdrawal results in a significant penalty that is materially greater than the loss of interest. If an Authorised Person allows a depositor to withdraw such Deposits despite a clause that says the depositor has no legal right to withdraw, the entire category of these funds should be treated as demand Deposits.

#### **Unsecured wholesale funding:**

- ~~87.~~ Unsecured wholesale funding should consist of liabilities and general obligations raised from non-natural Persons (i.e. legal entities, including sole proprietorships and Partnerships) and not collateralised by legal rights to specifically designated assets owned by the Authorised Person accepting the Deposit in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to Derivative contracts should be excluded from this category.
- ~~98.~~ The wholesale funding included in the LCR should consist of all funding that is callable within the LCR's period of 30 days or that has its earliest possible contractual maturity date within this period (such as maturing term Deposits and unsecured debt Securities), as well as funding with an undetermined maturity. This should include all funding with Options that are exercisable at the investor's discretion within the 30-day period.
- ~~109.~~ Wholesale funding that is callable by the funds provider subject to a contractually defined and binding notice period longer than the 30-day period should not be included.

- ~~140.~~ Unsecured wholesale funding provided by small and medium-sized enterprise customers should be treated as Deposits from individuals where:
- a. the Deposits and other extensions of funds made by non-financial small and medium-sized enterprise customers are managed as retail accounts and are generally considered as having similar Liquidity Risk characteristics to retail accounts; and
  - b. the total aggregated funding raised from a small and medium-sized enterprise customer is less than \$1 million (on a consolidated basis where applicable).

### **Operational Deposits**

- ~~121.~~ Operational Deposits should consist of those Deposits where customers place, or leave, Deposits with an Authorised Person to facilitate their access and ability to use payment and settlement systems and otherwise make payments. Balances can be included only if the customer has a substantive dependency on the Authorised Person and the Deposit is required for such activities.
- ~~132.~~ Qualifying activities in this context refer to clearing, custody or cash management activities where the customer is reliant on the Authorised Person to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days. These services should be provided to institutional customers under a legally binding agreement and the termination of such agreements should be subject either to a notice period of at least 30 days or to significant switching costs to be borne by the customer if the operational Deposits are moved before 30 days.
- ~~143.~~ Qualifying operational Deposits generated by such an activity should consist of Deposits which are:
- a. by-products of the underlying services provided by the Authorised Person;
  - b. not offered by the Authorised Person in the wholesale market in the sole interest of offering interest income; and
  - c. held in specifically designated accounts and priced without giving an economic incentive to the customer to leave excess funds on these accounts.
- ~~154.~~ Any excess balances that could be withdrawn without jeopardising these clearing, custody or cash management activities should not qualify as operational Deposits.

## Liquidity facilities

165. A liquidity facility should consist of any committed, undrawn back-up facility that would be used to refinance the debt obligations of a customer in situations where such a customer is unable to roll over that debt in financial markets. The amount of any commitment to be treated as a liquidity facility should consist of the amount of the outstanding debt issued by the customer (or proportionate share of a syndicated facility) maturing within a 30-day period that is backstopped by the facility. Any additional capacity of the facility should be treated as a committed Credit Facility. General working capital facilities for corporate entities (e.g. revolving credit facilities in place for general corporate or working capital purposes) should not be classified as liquidity facilities, but as credit facilities.
176. Despite paragraph 165, any facilities provided to hedge funds, Money market funds and special purpose funding vehicles, or other vehicles used to finance an Authorised Person's own assets, should be captured in their entirety as a liquidity facility to a Financial Institution.

## Unrestricted PSIA's and other Shari'a compliant products

187. For the purposes of calculating cash outflows, Unrestricted PSIA's should be treated similarly to the relevant category of Deposits specified in the Table. The appropriate run-off factor for a PSIA will depend on the contractual withdrawal rights of the investment account holders and whether it is a retail or wholesale account.
198. For commodity Murabaha transactions, a run-off factor of 100% should be applied to the balance of the Murabaha payable, if the remaining term of the contract does not exceed 30 days. If early withdrawal of the original amount is allowed at the discretion of the Authorised Person with no mark-up, then the applicable run-off factor will be the same as that for the relevant category of Deposit or Unrestricted PSIA under the Table.

## Outstanding debt securities

19. Issuers with an affiliated dealer or market-maker must include outstanding debt securities (unsecured and secured, term as well as short-term) with remaining maturities greater than thirty days in order to cover the potential repurchase of such outstanding securities.

....

### **A10.3 The ~~Maturity~~ Liquidity Mismatch ~~a~~ Approach**

#### **Including inflows (assets) and outflows (liabilities) in the time bands**

- A10.3.1** (1) Outflows (liabilities) must be included in the ~~Maturity Ladder~~ sight-eight day time band according to their earliest contractual maturity.

- (2) Contingent liabilities may be excluded from the ~~Maturity Ladder~~ sight-eight day time band only if there is a likelihood that the conditions necessary to trigger them will not be fulfilled.
- (3) Inflows (assets) must be included in the ~~Maturity Ladder~~ sight-eight day time band according to their latest contractual maturity, except that the following assets must be included regardless of their contractual maturity:
- (a) undrawn committed standby facilities provided by other banks ~~are included at sight; and~~
- (b) marketable assets ~~are included at sight, at a discount, and~~
- (e4) Assets which have been pledged as Collateral are must be excluded from the ~~Maturity Ladder~~ sight-eight day time band.

#### **Including marketable assets in the Maturity Ladder**

- A10.3.2** (1) Assets which are readily marketable are included in the Maturity Ladder in the ~~sight-8-~~ sight-eight days time band, generally at a discount to their recorded value calculated in accordance with (4).
- (2) An asset is regarded as readily marketable if:
- (a) prices are regularly quoted for the asset;
- (b) the asset is regularly traded;
- (c) the asset may readily be sold, including by repurchase agreement, either on an exchange, or in a deep and liquid market for payment in cash; and
- (d) settlement is according to a prescribed timetable rather than a negotiated timetable.
- (3) The Regulator may allow, on a case by case basis, an Authorised Person to include a longer term asset which is relatively easy to liquidate in the ~~sight - 8~~ sight-eight days time band.
- (4) The discount factor to be applied to types of marketable assets must be determined by reference to the following table and Rules A10.2.6 to A10.2.9:

	<b>Benchmark discount</b>
<del>Central government debt, Local Authority paper and eligible bank bills</del> <del>(Credit Quality Grade of 1, 2 or 3)</del>	

<ul style="list-style-type: none"> <li>Central government and central government guaranteed marketable Securities with twelve or fewer months' residual maturity, including treasury bills; and eligible local authority paper and eligible bank bills.</li> </ul>	0%
<ul style="list-style-type: none"> <li>Other central government, central government guaranteed and local authority marketable debt with five or fewer years' residual maturity or at variable rates.</li> </ul>	5%
<ul style="list-style-type: none"> <li>Other central government, central government guaranteed and local authority marketable debt with over five years' residual maturity.</li> </ul>	10%
<b>Other Securities denominated in freely tradable currencies (Credit Quality Grade of 1, 2 or 3)</b>	
<ul style="list-style-type: none"> <li>Non-government debt Securities which are Investment Grade, and which have six or fewer months' residual maturity.</li> </ul>	5%
<ul style="list-style-type: none"> <li>Non-government debt Securities which are Investment Grade, and which have five or fewer years' residual maturity.</li> </ul>	10%
<ul style="list-style-type: none"> <li>Non-government debt Securities which are Investment Grade, and which have more than five years' residual maturity.</li> </ul>	15%
<ul style="list-style-type: none"> <li>Equities which qualify for a Specific Risk weight no higher than 4%.</li> </ul>	20%
<b>Other central government debt</b>	
<ul style="list-style-type: none"> <li>Where such debt is actively traded.</li> </ul>	20%
<ul style="list-style-type: none"> <li>Exposures to a central government or a central bank where such Exposures are actively traded</li> </ul>	20%
<ul style="list-style-type: none"> <li>Where the Issuer is a central government or a central bank and the issue is actively traded but the credit Exposure is not to the Issuer</li> </ul>	40%
<ul style="list-style-type: none"> <li>Non-government, actively traded Exposures, which are Investment Grade</li> </ul>	60%

<u>Marketable Asset</u>	<u>Discount factor</u>
<u>Level 1 HQLA</u>	<u>0%</u>

<u>Level 2A HQLA</u>	<u>15%</u>
<u>Level 2B HQLA – eligible asset –backed securities</u>	<u>25%</u>
<u>Level 2B HQLA – other HQLA</u>	<u>50%</u>
<u>Non-HQLA eligible trading assets that are Investment Grade</u>	<u>60%</u>

- (5) The Regulator may vary the discounts factors to reflect the conditions of a particular market or institution.

#### **A10.4 The Net Stable Funding Ratio**

##### **Guidance**

1. Neither the NSFR, nor the LCR, should be seen by an Authorised Person as providing a complete picture of its funding profile or the stability of the funding available to it. An Authorised Person should always conduct further assessments of its funding needs and sources of funding to complement the information obtained from the two measures.
2. Terms used for the NSFR mirror those in use for the LCR, unless otherwise stated.

#### **A10.4.1 An Authorised Person must calculate its NSFR on an ongoing basis, using the total amount of Available Stable Funding calculated in accordance with Rule A10.4.8 and the total amount of Required Stable Funding calculated in accordance with Rule A10.4.9.**

##### **Guidance**

1. An Authorised Person should calculate its NSFR with appropriate frequency to ensure that it is able to monitor its satisfaction of the requirement in Rule 10.4.1 at all times and, additionally, where it believes that a change has happened to its Available Stable Funding or Required Stable Funding that might result in a material change to the level of its NSFR.
2. For Available Stable Funding, i.e. on the funding side, the ASF factors have been calibrated to reflect the tenor of the funding with longer-term liabilities assumed to be more stable than short-term liabilities, and also the nature of the counterparty providing the funding.
3. For Required Stable Funding, i.e. covering assets and off-balance sheet items, the RSF factors again reflect the tenor of the assets. The calibration of the factors assumes that short-dated assets should attract lower RSF factors as a proportion of them could be allowed to run to maturity instead of requiring further funding in the event of their being rolled over, which may also be influenced by the desire to maintain customer relationships.

Similarly, unencumbered, high-quality assets may be more easily securitised or traded to provide additional funding and this is recognised in lower RSF factors.

### **Available Stable Funding (ASF)**

**A10.4.2** Subject to Rule A10.4.6, an Authorised Person must identify its capital instruments that are to be included in its Available Stable Funding by considering the capital elements that are meet the requirements for eligibility under:

- (a) Rule 3.10.2;
- (b) Rule 3.11.2; and
- (c) Rule 3.12.2, excluding all Tier 2 capital instruments with residual maturity of less than one year.

**A10.4.3** Subject to Rule A10.4.6, an Authorised Person must include in the calculation of its Available Stable Funding the total amount of its other capital instruments that are not captured under A10.4.2 and that have a residual maturity of one year or more.

**A10.4.4** Where the value of a Derivative Contract represents a liability for an Authorised Person, the Authorised Person must:

- (a) calculate the negative value of the liability as the replacement cost for the contract, obtained by marking-to-market; and
- (b) deduct any collateral posted in the form of variation margin from the negative replacement cost amount.

**A10.4.5** An Authorised Person may use the net replacement cost as the replacement cost for a set of derivative exposures between the Authorised Person and a Counterparty where the following conditions are met:

- (a) an eligible bilateral netting contract must be in place between the Authorised Person and the Counterparty that is binding on the Authorised Person and the Counterparty and that is legally enforceable in all relevant jurisdictions;
- (b) that contract is a qualified financial contract as specified in the ADGM Insolvency Regulations and meets the conditions specified in Part 7, Chapter 2 therein; and
- (c) the Authorised Person meets the disclosure requirements for the NSFR as specified in App12.

**A10.4.6** In determining the residual maturity of an instrument captured under Rule A10.4.2 or Rule A10.4.3 or any other liability that is to be included in the Available Stable Funding, an Authorised Person must calculate the residual

maturity of each instrument or liability as being that period up to the earliest point in time at which an investor has the right to exercise their right to redeem their investment or withdraw that source of funding.

**A10.4.7** For long-dated liabilities, the portion of cashflows falling at or beyond the six-month and one-year time horizons must be treated as having an effective residual maturity of six months or more and one year or more, respectively.

#### **Guidance**

1. When determining the maturity of a liability or a capital instrument, investors should be assumed to redeem a call option at the earliest possible date available to them. For funding with options exercisable at the discretion of an Authorised Person, the Regulator will take into account reputational factors that may limit the ability of the Authorised Person not to exercise the option.
2. In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, Authorised Persons and the Regulator should assume such behaviour for the purpose of calculating the NSFR and include these liabilities in the corresponding ASF category.

**A10.4.8** An Authorised Person must calculate its Available Stable Funding by:

- (a) assigning each capital instrument and liability to one of the categories in the following table;
- (b) multiplying the Carrying Value of each capital instrument and liability by the ASF factor associated with that category; and
- (c) summing those weighted values.

<b><u>ASF factor</u></b>	<b><u>ASF category</u></b>
<u>100%</u>	<ul style="list-style-type: none"> <li>• <u>amounts from Rule A10.4.2</u></li> <li>• <u>amounts from Rule A10.4.3</u></li> <li>• <u>the total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more, excluding all cashflows falling below the one-year horizon that are associated with such borrowings and liabilities</u></li> </ul>
<u>95%</u>	<ul style="list-style-type: none"> <li>• <u>stable</u> <ul style="list-style-type: none"> <li>○ <u>demand Deposits; and</u></li> <li>○ <u>term Deposits and PSIAus with residual maturities of less than one year from retail and small business customers</u></li> </ul> </li> </ul>
<u>90%</u>	<ul style="list-style-type: none"> <li>• <u>less stable</u> <ul style="list-style-type: none"> <li>○ <u>demand Deposits; and</u></li> <li>○ <u>term Deposits and PSIAus with residual maturities of less than one year</u></li> </ul> </li> </ul>

<u>ASF factor</u>	<u>ASF category</u>
	<u>from retail and small business customers</u>
<u>50%</u>	<ul style="list-style-type: none"> <li>• <u>funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers</u></li> <li>• <u>operational deposits generated by clearing, custody and cash management activities</u></li> <li>• <u>funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks</u></li> <li>• <u>other funding (secured and unsecured) not included in the categories above with residual maturity between six months to less than one year, including funding from central banks and financial institutions</u></li> </ul>
<u>0%</u>	<ul style="list-style-type: none"> <li>• <u>all other liabilities and equity categories not included in the above categories, including other funding with residual maturity of less than six months from central banks and financial institutions</u></li> <li>• <u>other liabilities without a stated maturity, and this category may include short positions and open maturity positions</u> <ul style="list-style-type: none"> <li>○ <u>Two exceptions may be recognised for liabilities without a stated maturity:</u> <ul style="list-style-type: none"> <li>▪ <u>deferred tax liabilities, which should be treated according to the nearest possible date on which such liabilities could be realised; and</u></li> <li>▪ <u>minority interest, which should be treated according to the term of the instrument, usually in perpetuity</u></li> </ul> </li> <li>○ <u>These liabilities would then be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50%, if the effective maturity is between six months and less than one year</u></li> </ul> </li> <li>• <u>NSFR derivative liabilities as calculated according to Rule A10.4.4 net of NSFR derivative assets as calculated according to Rule A10.4.11, if NSFR derivative liabilities are greater than NSFR derivative assets</u></li> <li>• <u>Net NSFR Shari'a compliant hedging liabilities (where NSFR Shari'a compliant hedging liabilities are greater than NSFR Shari'a compliant hedging assets)</u></li> <li>• <u>“trade date” payables arising from purchases of financial instruments, foreign currencies and commodities that:</u> <ul style="list-style-type: none"> <li>○ <u>are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or</u></li> <li>○ <u>have failed to, but are still expected to, settle</u></li> </ul> </li> </ul>

### **Guidance**

1. Guidance on the characteristics of “stable”, “less stable” and “operational” Deposits and PSIAus is given under A10.2.15.
2. In order to calculate the value of Shari’a compliant hedging liabilities (e.g. Islamic swaps), the replacement cost must be obtained for the Shari’a compliant hedging contracts (obtained by marking to market), such as ISDA/IIFM Tahawwut Master Agreement (TMA), where the contract has a negative value. When an eligible bilateral netting contract is in place, the replacement cost for the set of Shari’a compliant hedging exposures covered by the contract will be the net replacement cost.
3. In calculating the NSFR, collateral posted in the form of variation margin that follows Shari’a principles in connection with Shari’a compliant hedging contracts as in the TMA contract, regardless of the asset type, must be deducted from the negative replacement cost amount of the corresponding Shari’a compliant hedging liabilities.

### **Required Stable Funding (RSF)**

**A10.4.9** Subject to Rules A10.4.15, an Authorised Person must calculate its Required Stable Funding as the sum of the Required Stable Funding for its assets and for its off-balance sheet items, calculated in accordance with Rules A10.4.16, A10.4.18 and A10.4.19.

**A10.4.10** In calculating the Required Stable Funding, an Authorised Person must, subject to (b) and (c):

- (a) (i) include financial instruments, foreign currencies and commodities for which a purchase order has been executed; and
- (ii) exclude financial instruments, foreign currencies and commodities for which a sales order has been executed.
- (b) (i) The effects of such transactions must be reflected in the balance sheet of the Authorised Person when settled; and
- (ii) such transactions must not be reflected as derivatives or secured financing transactions in the balance sheet of the Authorised Person.
- (c) This treatment is to be applied whether or not such transactions have been reflected in the balance sheet under a settlement-date accounting model.

**A10.4.11** Where the value of a Derivative Contract represents an asset for an Authorised Person, the Authorised Person must:

- (a) calculate the positive value of the asset as the replacement cost for the contract, obtained by marking-to-market; and
- (b) deduct any collateral received in the form of variation margin from the positive replacement cost amount.

**A10.4.12** An Authorised Person may use the net replacement cost as the replacement cost for a set of derivative exposures between the Authorised Person and a Counterparty where the following conditions are met:

- (a) an eligible bilateral netting contract must be in place between the Authorised Person and the Counterparty that is binding on the Authorised Person and the Counterparty and that is legally enforceable in all relevant jurisdictions;
- (b) that contract is a qualified financial contract as specified in the ADGM Insolvency Regulations and meets the conditions specified in Part 7, Chapter 2 therein; and
- (c) the Authorised Person meets the disclosure requirements for the NSFR as specified in App12.

**A10.4.13** Where an Authorised Person has entered into secured funding arrangements, the Authorised Person must:

- (a) include in its calculation of the RSF;
  - (i) securities it has lent in SFTs where it retains beneficial ownership; and
  - (ii) encumbered securities in repos or other securities financing transactions where it has retained beneficial ownership and those assets remain on its balance sheet; and
- (b) exclude from its calculation of the RSF;
  - (i) securities which it has borrowed in SFTs (such as reverse repos and collateral swaps) and to which it does not have beneficial ownership; and
  - (ii) any securities it has received through collateral swaps if those securities do not appear on its balance sheet.

**A10.4.14** An Authorised Person may measure SFTs with a single Counterparty net when calculating the NSFR where the following conditions are met:

- (a) an eligible bilateral netting contract must be in place between the Authorised Person and the Counterparty that is binding on the Authorised Person and the Counterparty and that is legally enforceable in all relevant jurisdictions;

- (b) that contract is a qualified financial contract as specified in the ADGM Insolvency Regulations and meets the conditions specified in Part 7, Chapter 2 therein; and
- (c) the Authorised Person meets the disclosure requirements for the NSFR as specified in App12.

**A10.4.15** In determining the residual maturity of both assets and off-balance sheet items that are to be included in the Required Stable Funding, an Authorised Person must calculate the residual maturity of each individual asset or off-balance sheet item as being that period up to the latest point in time to which investors have the right to extend the maturity of an asset or an off-balance sheet item.

### **Guidance**

1. When determining the residual maturity of assets and off-balance sheet items, investors should be assumed to exercise any option to extend maturity. For assets with options exercisable at the discretion of the Authorised Person, the Regulator will take into account reputational factors that may limit the ability of the Authorised Person not to exercise the option.
2. In particular, where the market expects certain assets to be extended in their maturity, Authorised Persons and the Regulator should assume such behaviour for the purpose of the NSFR and include these assets in the corresponding RSF category. For amortising loans, the portion that comes due within the one-year horizon may be considered as having a residual maturity of less than one year and included in the appropriate RSF category.

**A10.4.16** Subject to A10.4.17, an Authorised Person must calculate the Required Stable Funding that it needs for its assets by:

- (a) assigning each asset to one of the RSF asset categories in the following table;
- (b) multiplying the Carrying Value of each asset by the RSF factor associated with that asset category; and
- (c) summing those weighted values.

<b><u>RSF factor</u></b>	<b><u>RSF asset category</u></b>
<u>0%</u>	<ul style="list-style-type: none"> <li>• <u>coins and banknotes immediately available to meet obligations</u></li> <li>• <u>all central bank reserves (including required reserves and excess reserves)</u></li> <li>• <u>all claims on central banks with residual maturities of less than six months</u></li> <li>• <u>“trade date” receivables arising from sales of financial instruments, foreign currencies and commodities that:</u> <ul style="list-style-type: none"> <li>○ <u>are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or</u></li> <li>○ <u>have failed to, but are still expected to, settle</u></li> </ul> </li> </ul>

<u>RSF factor</u>	<u>RSF asset category</u>
<u>5%</u>	<ul style="list-style-type: none"> <li>• <u>unencumbered Level 1 HQLA as defined in Rule A10.2.6(2), excluding those assets receiving an RSF factor of 0% as above</u></li> </ul>
<u>10%</u>	<ul style="list-style-type: none"> <li>• <u>unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 HQLA as defined in Rule A10.2.7(2), and where the bank has the ability to freely re-hypothecate the received collateral for the life of the loan</u></li> </ul>
<u>15%</u>	<ul style="list-style-type: none"> <li>• <u>unencumbered Level 2A assets as defined in Rule A10.2.8(2)</u></li> <li>• <u>all other unencumbered loans to financial institutions with residual maturities of less than six months not receiving an RSF factor of 10%</u></li> </ul>
<u>50%</u>	<ul style="list-style-type: none"> <li>• <u>unencumbered Level 2B assets as defined and subject to the conditions set forth in Rule A10.2.8</u></li> <li>• <u>any HQLA as defined in Rule A10.2.6, Rule 10.2.7 or Rule 10.2.8 that are encumbered for a period of between six months and less than one year</u></li> <li>• <u>all loans to financial institutions and central banks with residual maturity of between six months and less than one year</u></li> <li>• <u>operational deposits held at other financial institutions for operational purposes that are subject to the 50% ASF factor</u></li> <li>• <u>all other non-HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail customers (i.e. natural persons) and small business customers, and loans to sovereigns and PSEs</u></li> </ul>
<u>65%</u>	<ul style="list-style-type: none"> <li>• <u>unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 50% or lower risk weight under Rule 4.12.17</u></li> <li>• <u>other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 50% or lower risk weight under Section 4.12</u></li> </ul>
<u>85%</u>	<ul style="list-style-type: none"> <li>• <u>cash, securities or other assets posted as initial margin for Derivative Contracts or Shari'a compliant hedging contracts and cash or other assets provided to contribute to the default fund of a central counterparty (CCP). Where securities or other assets posted as initial margin for Derivative Contracts would otherwise receive a higher RSF factor, they must retain that higher factor</u></li> <li>• <u>other unencumbered performing loans<sup>19</sup> that do not qualify for a 50% or lower risk weight under Section 4.12 and have residual maturities of one year or more, excluding loans to financial institutions</u></li> <li>• <u>unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA according to the LCR</u></li> </ul>

<u>RSF factor</u>	<u>RSF asset category</u>
	<ul style="list-style-type: none"> <li>• <u>physical traded commodities, including gold</u></li> </ul>
<u>100%</u>	<ul style="list-style-type: none"> <li>• <u>all assets on the balance sheet that are encumbered for a period of one year or more</u></li> <li>• <u>NSFR derivative assets as calculated according to A10.4.11, net of NSFR derivative liabilities as calculated according to A10.4.4, if NSFR derivative assets are greater than NSFR derivative liabilities</u></li> <li>• <u>NSFR Shari'a compliant hedging assets net of NSFR Shari'a compliant hedging liabilities (where NSFR Shari'a compliant hedging assets are greater than NSFR Shari'a compliant hedging liabilities)</u></li> <li>• <u>all other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities</u></li> <li>• <u>20% of derivative liabilities (i.e. negative replacement cost amounts) as calculated according to A10.4.4(a) (before deducting variation margin posted)</u></li> <li>• <u>20% of Shari'a compliant hedging liabilities</u></li> </ul>

### Guidance

Guidance on the characteristics of "operational" Deposits is given under Rule A10.2.15.

**A10.4.17** For encumbered assets not captured in the table in Rule A10.4.16, an Authorised Person must assign an RSF factor for Required Stable Funding in accordance with the following.

- (a) Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50% must receive an RSF factor of 50%.
- (b) Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50% retain that higher RSF factor.
- (c) Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered.
- (d) For the purposes of calculating the NSFR, assets that are encumbered for exceptional central bank liquidity operations must receive the RSF factor that they would if they were unencumbered.

**A10.4.18** An Authorised Person must calculate the Required Stable Funding that it needs for the assets to which Rule A10.4.17 applies by:

- (a) multiplying the Carrying Value of each of those assets by the RSF factor identified in Rule A10.4.17; and
- (b) summing those weighted values.

**A10.4.19** An Authorised Person must calculate the Required Stable Funding that it needs for its off-balance sheet items, including potential liquidity exposures, by:

- (a) assigning each off-balance sheet items to one of the RSF off-balance categories in the following table;
- (b) multiplying the value of each of those items by the RSF factor associated with that off-balance sheet category; and
- (c) summing those weighted values.

<u>RSF factor</u>		<u>RSF off-balance sheet category</u>
<u>5% of the currently undrawn portion</u>		<ul style="list-style-type: none"> <li>• <u>Irrevocable and conditionally revocable credit and liquidity facilities to any client</u></li> </ul>
<u>National discretion</u>	<u>5%</u>	<ul style="list-style-type: none"> <li>• <u>Other contingent funding obligations, including products and instruments such as:</u> <ul style="list-style-type: none"> <li>○ <u>unconditionally revocable credit and liquidity facilities</u></li> </ul> </li> </ul>
	<u>3%</u>	<ul style="list-style-type: none"> <li>○ <u>trade finance-related obligations (including guarantees and letters of credit)</u></li> </ul>
	<u>10%</u>	<ul style="list-style-type: none"> <li>○ <u>guarantees and letters of credit unrelated to trade finance obligations</u></li> </ul>
	<u>100%</u>	<ul style="list-style-type: none"> <li>○ <u>non-contractual obligations such as:</u> <ul style="list-style-type: none"> <li>▪ <u>potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities</u></li> <li>▪ <u>structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs)</u></li> <li>▪ <u>managed funds that are marketed with the objective of maintaining a stable value</u></li> </ul> </li> </ul>

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**APP11 SUPERVISORY REVIEW AND EVALUATION PROCESS****A11.1 IRAP****Guidance**

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**Guidance on risks to be covered as part of the IRAP**

11. An Authorised Person should consider the following risks, where relevant, in its IRAP:

- a. Credit Risk, including Large Exposures and ~~C~~concentration ~~R~~isks;

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**APP12 PUBLIC DISCLOSURE REQUIREMENTS****Table 1 – Scope of application**

Qualitative Disclosures	(a)	The name of the Authorised Person.
	(b)	<p>In the case of a Financial Group, a list of all the entities forming part of the Financial Group and a brief description of each of those entities. In addition, a description of differences in the basis of consolidation for regulatory purposes compared to that required under the International Financial Reporting Standards. The description must include a brief description of the entities:</p> <p>(i) that are fully consolidated;</p> <p>(ii) that are consolidated on a pro-rata basis;</p> <p>(i) that are equity-accounted</p> <p>(ii) that are included as deductions from any of the components of Capital Resources;</p> <p>(v) from which surplus capital is recognised, if any; and</p> <p>(vi) that are not consolidated and not deducted.</p>
	(c)	Any restrictions or impediments on transfer of funds or regulatory capital within the Financial Group.

**Table 2 – Capital**

Qualitative Disclosures	(a)	A description of the terms and conditions and main features of all capital instruments included within every component of Capital Resources – CET 1 Capital, AT1 Capital and T2 Capital.
Quantitative Disclosures	(b)	(i) Amounts of every element eligible for inclusion in CET1 Capital; (ii) Regulatory adjustments to CET1 Capital; (iii) Deductions from CET1 Capital; and (iv) Amount of total CET1 Capital.
	(c)	(i) Amounts of every element eligible for inclusion in AT1 Capital; (ii) Regulatory adjustments to AT1 Capital; (iii) Deductions from AT1 Capital; and (iv) Amount of total AT1 Capital.
	(d)	(i) Amounts of every element eligible for inclusion in T2 Capital; (ii) Regulatory adjustments to T2 Capital; (iii) Deductions from T2 Capital; and (iv) Amount of total T2 Capital.
	(e)	Amount of eligible Capital Resources.

**Table 3 – Capital Adequacy and Leverage**

Qualitative Disclosures	(a)	A description of the overall capital management system and approach to assessing the adequacy of its capital to support current and future activities.  This should include description of systems, controls and processes for capital management and capital mobilisation plans for the medium term.
Quantitative Disclosures	(b)	(i) <del>Amount of CRCOM</del> <u>Total Credit Risk RWA</u> ;

	<ul style="list-style-type: none"> <li>(ii) Amount of Credit RWA for each asset class giving rise to CR Exposures and Counterparty Risk Exposures, and for SE Exposures; and</li> <li>(iii) Amount of Credit RWAs for Early Amortisation Exposures, included in SE Exposures, if any.</li> </ul>
(c)	<p>Market Risk Capital Requirement for each component of Market Risk as listed in Rule 5.1.1, calculated using:</p> <ul style="list-style-type: none"> <li>(i) Rules prescribed in Chapter 5;</li> <li>(ii) Internal Models Approach;</li> <li>(iii) both (i) and (ii).</li> </ul>
(d)	<p>Operational Risk Capital Requirement calculated under the following approaches, where applicable:</p> <ul style="list-style-type: none"> <li>(i) Basic Indicator Approach;</li> <li>(ii) Standardised Approach;</li> <li>(iii) Alternative Standardised Approach; or</li> <li>(iv) a combination of any of the above.</li> </ul>
(e)	<p><del>Capital Requirement</del> <u>Total Risk Exposure Amount</u> at the solo and at the Financial Group level.</p>
(f)	<ul style="list-style-type: none"> <li>(i) CET1 Capital ratio as a percentage of Total Risk Exposure Amount;</li> <li>(ii) T1 Capital ratio as a percentage of Total Risk Exposure Amount;</li> <li>(iii) Capital Resources as a percentage of Total Risk Exposure Amount; and</li> <li>(iv) These ratios must be disclosed at both the Authorised Person level and at the Financial Group level.</li> </ul>
(g)	<p>The ratios referred to in (f) must be disclosed for each significant entity in the case of a Financial Group.</p>
(h)	<ul style="list-style-type: none"> <li>(i) The Leverage Ratio;</li> <li>(ii) the Capital Measure; and</li> </ul>

	(i) the Exposure Measure.
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**Table 4 – Credit Risk – general disclosures**

Qualitative Disclosures	(a)	<p><del>A description of the policies of the Authorised Person in relation to:</del></p> <p><del>(i) past due and impaired loans in accordance with the International Financial Reporting Standards;</del></p> <p><del>(ii) assessment of the level of individual and collective impairment provisions in accordance with the International Financial Reporting Standards;</del></p> <p><del>(iii) Credit Risk management; and</del></p> <p><del>(iv) the nature of the Exposures within each asset class.</del></p> <p><del>For each asset class:</del></p> <p><del>(i) the name of each recognised external credit rating agency used by the Authorised Person, and the reasons for any changes in the use of a recognised external credit rating agency;</del></p> <p><del>(ii) the types of Exposure for which ratings of each recognised external credit rating agency are used;</del></p> <p><del>(iii) a description of the process used to transfer public issue ratings onto comparable assets in the Non-Trading Book; and</del></p> <p><del>(iv) the alignment of the alphanumerical scale of each recognised external credit rating agency used by the Authorised Person with relevant risk weights.</del></p>
Quantitative Disclosures	(b)	<del>Total gross credit Exposures, and average gross credit Exposures over the reporting period, broken down by major types of credit Exposure.</del>
	(c)	<del>Geographic distribution of credit Exposures, broken down in significant areas by major types of credit Exposure.</del>
	(d)	<del>Industry or Counterparty type distribution of credit Exposures, broken down by major types of credit Exposure.</del>

	(e)	<del>Residual contractual maturity broken down by major types of credit Exposure.</del>
	(f)	<del>By major industry or Counterparty type:  (i) — amount of classified loans;  (ii) — amount of past due loans;  (iii) — individual and collective impairment provisions; and  (iv) — charges for individual impairment provisions and charge-offs during the period.</del>
	(g)	<del>By significant geographic area:  (i) — amount of classified loans;  (ii) — amount of past due loans; and  (iii) — individual and collective impairment provisions, where feasible.</del>
	(h)	<del>Reconciliation of changes in the provisions for loan impairment, and separate disclosures for charge-offs and recoveries that are recorded directly to the income statement.</del>
	(i)	<del>An analysis by risk weights (including deducted Exposures) for the total rated and unrated credit Exposures after taking into account the effects of CRM.</del>

**Table 5 – Credit Risk mitigation disclosures**

Qualitative Disclosures	(a)	<del>A description of the following items with respect to CRM:  (i) — policies and procedures for, and an indication of the extent to which the Authorised Person makes use of, on balance sheet Netting;  (ii) — policies and procedures for Collateral valuation and management;  (iii) — the main types of Collateral taken by the Authorised Person;</del>
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		<p><del>(iv) the main types of guarantor or Credit Derivative Counterparty and their creditworthiness; and</del></p> <p><del>(v) information about Market Risk or Credit Risk concentrations within the mitigation taken.</del></p>
Quantitative Disclosures	<del>(b)</del>	<del>For each separately disclosed asset class, the extent to which credit Exposures are covered by eligible financial Collateral, after the application of haircuts.</del>
	<del>(c)</del>	<del>For each separately disclosed asset class, the amount by which credit Exposures have been reduced by eligible credit protection.</del>

**Table 6 – General disclosures for Exposures related to Counterparty Credit Risk**

Qualitative Disclosures	<del>(a)</del>	<p><del>A description of the following items in relation to OTC Derivative transactions and Counterparty Credit Risk:</del></p> <p><del>(i) methodologies used to assign economic capital and credit limits for Counterparty credit Exposures;</del></p> <p><del>(ii) policies for securing Collateral and establishing credit reserves;</del></p> <p><del>(iii) policies with respect to Exposures that give rise to general or specific wrong-way risk; and</del></p> <p><del>(iv) impact of the amount of Collateral the Authorised Person would have to provide given a credit rating downgrade.</del></p>
Quantitative Disclosures	<del>(b)</del>	<p><del>(i) Gross positive fair value of contracts, Netting benefits, netted current credit Exposure, amount and type of Collateral held, and the net Derivatives credit Exposure;</del></p> <p><del>(ii) Exposure amounts calculated under the current Exposure method; and</del></p> <p><del>(iii) The notional value of Credit Derivative hedges, and the distribution of current credit Exposure by types of credit Exposure.</del></p>
	<del>(c)</del>	<del>Credit Derivative transactions that create Exposures to Counterparty Credit Risk (notional value), segregated between use for the credit portfolio of the Authorised Person</del>

		and the intermediation activities of the firm, including the distribution of Credit Derivatives used, analysed further in terms of protection bought and sold within each type of Credit Derivative.
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**Table 7—Securitisation Exposures**

Qualitative Disclosures	(a)	<p>A description of the following items with respect to securitisation (including Synthetic Securitisation):</p> <ul style="list-style-type: none"> <li>(i) objectives of the Authorised Person in relation to its securitisation, including the extent to which the securitisation transfers Credit Risk of the underlying securitised Exposures away from the Authorised Person to other entities and including the types of risks assumed and retained with Re-securitisation activity;</li> <li>(ii) the nature of other risks (e.g. Liquidity Risk) inherent in securitised assets;</li> <li>(iii) the various roles played by the Authorised Person in the securitisation process and an indication of the extent of the involvement of the firm in each of them;</li> <li>(iv) the processes in place to monitor changes in the Credit Risk and Market Risk of securitisation Exposures (e.g., how the behaviour of the underlying assets impacts securitisation Exposures) including how those processes differ for Re-securitisation Exposures;</li> <li>(v) the Authorised Person's policy governing the use of CRM to mitigate the risks retained through securitisation and Re-securitisation Exposures;</li> <li>(vi) the regulatory capital approaches applied to the securitisation activities of the Authorised Person, including the type of securitisation Exposures to which each approach applies; and</li> <li>(vii) where an Authorised Person provides Implicit Support to a securitisation, a statement that it has provided non-contractual support and a description of the capital impact of doing so.</li> </ul>
	(b)	A list of:

	<p><del>(i) the types of SPEs that the Authorised Person, as a Sponsor, uses to securitise third party Exposures, indicating whether the firm has Exposure to these SPEs, either on or off balance sheet; and</del></p> <p><del>(ii) entities that the firm manages or advises that invest either in the securitisation Exposures that the firm has securitised or in SPEs that the firm Sponsors.</del></p>
	<p><del>(c) A summary of the accounting policies of the Authorised Person for securitisation, including:</del></p> <p><del>(i) whether the securitisation is treated as sales or financings;</del></p> <p><del>(ii) recognition of gain on sale;</del></p> <p><del>(iii) methods and key assumptions (including inputs) for valuing positions retained or purchased;</del></p> <p><del>(iv) changes in methods and key assumptions from the previous period and the impact of such changes;</del></p> <p><del>(v) treatment of Synthetic Securitisation if this is not covered by other accounting policies (e.g. on Derivatives);</del></p> <p><del>(vi) how Exposures intended to be securitised (e.g. in the pipeline or warehouse) are valued and whether they are recorded in the Non Trading Book or the Trading Book; and</del></p> <p><del>(vii) policies for recognising liabilities on the balance sheet for arrangements that could require the Authorised Person to provide financial support for securitised assets.</del></p>
	<p><del>(d) In the Non Trading Book, the names of recognised external credit rating agencies used for securitisations and the types of securitisation Exposure for which each agency is used.</del></p>
	<p><del>(e) An explanation of significant changes to any of the quantitative information (e.g. amounts of assets intended to be securitised, movement of assets between Non Trading Book and Trading Book) since the last reporting period.</del></p>
	<p><del>(f) The total amount of outstanding Exposures securitised by the Authorised Person and defined under the securitisation framework set out in Chapter 4, broken down in terms of</del></p>

	<p>traditional and Synthetic, and by Exposure type, separately for securitisations of third party Exposures for which the firm acts only as Sponsor.</p>
(g)	<p>For Exposures securitised by the Authorised Person and defined under the securitisation framework set out in Chapter 4:</p> <p>(i) the amount of securitised assets that are classified or past due under these Rules, broken down by Exposure type; and</p> <p>(ii) losses recognised by the firm during the current period broken down by Exposure type.</p>
(h)	<p>The total amount of outstanding Exposures intended to be securitised broken down by Exposure type.</p>
(i)	<p>Summary of securitisation of the current period, including the total amount of Exposures securitised by Exposure type, and the recognised gain or loss on sale by Exposure type.</p>
(j)	<p>Aggregate amount of:</p> <p>(i) on balance sheet securitisation Exposures retained or purchased broken down by Exposure type; and</p> <p>(ii) off balance sheet securitisation Exposures broken down by Exposure type.</p>
(k)	<p>Aggregate amount of securitisation Exposures retained or purchased and the associated capital charges, broken down between securitisation and Re-securitisation Exposures and further broken down into a meaningful number of risk weight bands for each regulatory capital approach. Exposures included as deductions from T1 Capital, credit-enhancing interest only strips and other Exposures included as deductions from T1 Capital and deductions from T2 Capital must be disclosed separately by Exposure type.</p>
(l)	<p>For securitisation subject to the Early Amortisation treatment, the following items by Exposure type for securitised facilities:</p> <p>(i) the aggregate drawn Exposures attributed to the interests of the seller and the investor;</p> <p>(ii) the aggregate capital charges incurred by the Authorised Person against its retained (i.e. the</p>

		<p>seller's) shares of the drawn balances and undrawn lines; and</p> <p>(iii) the aggregate capital charges incurred by the firm against the shares of drawn balances and undrawn lines of the investor.</p>
	(m)	<p>Aggregate amount of Re-securitisation Exposures retained or purchased broken down according to:</p> <p>(i) Exposures to which CRM is applied and those not applied; and</p> <p>(ii) Exposures to guarantors broken down according to guarantor credit worthiness categories or guarantor name.</p>
Quantitative disclosures: Trading Book	(n)	The total amount of outstanding Exposures securitised by the Authorised Person and defined under the securitisation framework set out in Chapter 4, broken down in terms of traditional and Synthetic, and by Exposure type, separately for securitisations of third-party Exposures for which the firm acts only as Sponsor.
	(o)	The total amount of outstanding Exposures intended to be securitised broken down by Exposure type.
	(p)	Summary of securitisation of the current period, including the total amount of Exposures securitised by Exposure type, and the recognised gain or loss on sale by Exposure type.
	(q)	Aggregate amount of Exposures securitised by the Authorised Person for which the firm has retained some Exposures and which is subject to the Market Risk approach, broken down in terms of traditional and Synthetic, by Exposure type.
	(r)	Aggregate amount of:
		<p>(i) on balance sheet securitisation Exposures retained or purchased broken down by Exposure type; and</p> <p>(ii) off balance sheet securitisation Exposures broken down by Exposure type.</p>
(s)	Aggregate amount of securitisation Exposures retained or purchased separately for:	

	<p>(i) <del>securitisation Exposures retained or purchased subject to the comprehensive risk measure for Specific Risk; and</del></p> <p>(ii) <del>securitisation Exposures subject to the securitisation framework for Specific Risk broken down into a meaningful number of risk weight bands for each regulatory capital approach.</del></p>
	<p>(t) <del>Aggregate amount of:</del></p> <p>(i) <del>the Capital Requirements for the securitisation Exposures (Re securitisation or securitisation), subject to the securitisation framework broken down into a meaningful number of risk weight bands for each regulatory capital approach; and</del></p> <p>(ii) <del>securitisation Exposures that are included as deductions from CET1 Capital, credit enhancing interest only strips and other Exposures included as deductions from AT1 Capital and deductions from T2 Capital disclosed separately by Exposure type.</del></p>
	<p>(u) <del>For securitisation subject to the Early Amortisation treatment, the following items by Exposure type for securitised facilities:</del></p> <p>(i) <del>the aggregate drawn Exposures attributed to the interests of the seller and the investor;</del></p> <p>(ii) <del>the aggregate capital charges incurred by the Authorised Person against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and</del></p> <p>(iii) <del>the aggregate capital charges incurred by the firm against the shares of drawn balances and undrawn lines of the investor.</del></p>
	<p>(v) <del>Aggregate amount of Re securitisation Exposures retained or purchased broken down according to:</del></p> <p>(i) <del>Exposures to which CRM is applied and those not applied; and</del></p> <p>(ii) <del>Exposures to guarantors broken down according to guarantor creditworthiness categories or guarantor name.</del></p>

**Table 8 – Market Risk Disclosures**

Qualitative Disclosures	(a)	<del>A description of risk management objectives and policies covering all Market Risk Exposures.</del>
Quantitative Disclosures	(b)	<del>The Capital Requirements for the following risks as set out in Chapter 5 of these Rules:</del>  <del>(i) Interest Rate Risk;</del>  <del>(ii) Equity Position Risk;</del>  <del>(iii) Foreign Exchange Risk;</del>  <del>(iv) Commodity Risk;</del>  <del>(v) Option Risk;</del>  <del>(vi) Collective Investment Fund Risk; and</del>  <del>(vii) Securities Underwriting Risk.</del>

**Table 9 – Market Risk – disclosures for the internal models approach**

Qualitative Disclosures	(a)	<del>A description of the valuation methodologies employed by the Authorised Person.</del>
	(b)	<del>A description of the soundness standards on which the internal capital adequacy assessment of the Authorised Person is based, as well as the methodologies used to achieve a capital adequacy assessment that is consistent with those soundness standards.</del>
	(c)	<del>For each portfolio covered by the internal models approach:</del>  <del>(i) the characteristics of the models used;</del>  <del>(ii) a description of stress testing applied to the portfolio; and</del>  <del>(iii) a description of the approach used for back testing and validating the accuracy and consistency of the internal models and modelling processes.</del>

	(d)	The scope of approval by the Regulator.
	(e)	<p>A description of the methodologies used and the risks measured through the use of internal models for the incremental risk capital charge and the comprehensive risk capital charge. Included in the qualitative description should be:</p> <p>(i) the approach used by the Authorised Person to determine liquidity horizons;</p> <p>(ii) the methodologies used to achieve a capital assessment that is consistent with the required soundness standard; and</p> <p>(iii) the approaches used in the validation of the models.</p>
Quantitative Disclosures	(f)	<p>For trading portfolios under the internal models approach:</p> <p>(i) the high, mean and low VaR values over the reporting period and period-end;</p> <p>(ii) the high, mean and low stressed VaR values over the reporting period and period-end;</p> <p>(iii) the high, mean and low incremental and comprehensive risk capital charges over the reporting period and period-end; and</p> <p>(iv) a comparison of VaR estimates with actual gains or losses experienced by the Reporting Firm, with analysis of outliers in back test results.</p>

**Table 10 – Operational Risk**

Qualitative Disclosures	(a)	A description of the regulatory approach or approaches to the calculation of Operational Risk Capital Requirements.
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**Table 11 – Interest rate risk in the Non-Trading Book**

Qualitative Disclosures	(a)	A description of the key assumptions made by the Authorised Person including assumptions regarding loan prepayments and behaviour of non-maturity Deposits, and frequency with which interest rate risk in the Non-Trading Book is measured,
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		<del>in addition to the general disclosures set out in Chapter 9 in respect of interest rate risk in the Non Trading Book.</del>
Quantitative Disclosures	<del>(b)</del>	<del>The changes in earnings or economic value (or relevant measure used by the Authorised Person) for upward and downward rate shocks according to the internal method of the Authorised Person for measuring interest rate risk in the Non Trading Book, broken down by currency, where applicable.</del>

Table 12 – Liquidity Risk

Quantitative Disclosures	(a)	(i) The Liquidity Coverage Ratio; (ii) total high-quality liquid assets (HQLA) – unweighted; (iii) total high-quality liquid assets (HQLA) – weighted; (iv) total net cash outflows – unweighted; and (v) total net cash outflows – weighted.
	(b)	<u>(i) The Net Stable Funding Ratio;</u> <u>(ii) Available Stable Funding – capital instruments;</u> <u>(iii) Available Stable Funding – other liabilities;</u> <u>(iv) Required Stable Funding – assets;and</u> <u>(v) Required Stable Funding – off-balance sheet items</u>