

**Prudential – Investment, Insurance Intermediation and Banking  
~~Rules~~Rulebook (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.

Accepting Deposits	Means the Regulated Activity specified in paragraph 38 of Schedule 1 of <del>the</del> FSMR.
Acting as the Administrator of a Collective Investment Fund	Means the Regulated Activity specified in paragraph 60 of Schedule 1 of <del>the</del> FSMR.
Acting as the Trustee of an Investment Trust	Means the Regulated Activity specified in paragraph 61 of Schedule 1 of <del>the</del> FSMR.
Advising on Investments or Credit	Means the Regulated Activity specified in paragraph 28 of Schedule 1 of <del>the</del> FSMR.
Arranging Credit	Means the Regulated Activity specified in paragraph 50 of Schedule 1 of <del>the</del> FSMR.
Arranging Custody	Means the Regulated Activity specified in paragraph 46 of Schedule 1 of <del>the</del> FSMR.
Arranging Deals in Investments	Means the Regulated Activity specified in paragraph 16 of Schedule 1 of <del>the</del> FSMR.
Carrying Out Contracts of Insurance as Principal	Means the Regulated Activity specified in paragraph 32 of Schedule 1 of <del>the</del> FSMR.
Client	<del>A</del> Means a Retail Client, or Professional Client or Market Counterparty as defined in COBS 2.
Client Money	Means money of any currency which an Authorised Person holds on behalf of a Client (including any receivables of the Authorised Person in respect of bank accounts or clearing or brokerage accounts) or which an Authorised Person treats as Client Money, subject to the exclusions in COBS <del>14.2.6.14.3.1.</del>
CRA	<del>Credit Rating Agency.</del>
Credit Quality Grade	A credit quality step in a credit quality assessment scale. A credit quality assessment scale is a scale <del>on to</del> which the

	credit assessments of an ECAI <del>or an expert credit agency</del> are mapped.
Dealing in Investments as Agent	Means the Regulated Activity specified in paragraph 12 of Schedule 1 of <del>the</del> FSMR.
Dealing in Investments as Principal	Means the Regulated Activity specified in paragraph 4 of Schedule 1 of <del>the</del> FSMR.
ECAI	A <del>CRA</del> Credit Rating Agency or an external credit rating agency <del>approved</del> <u>recognised</u> by the Regulator for the <del>purpose</del> <u>purposes</u> of these Rules.
Effecting Contracts of Insurance	Means the Regulated Activity specified in paragraph 31 of Schedule 1 of <del>the</del> FSMR.
Financial Institution	Means: <ul style="list-style-type: none"> <li>(a) an Authorised Person; or</li> <li>(b) any Person which carries out as its principal business an activity which would, if carried out in ADGM, be a Regulated Activity; and</li> <li>(c) is not one of the following:               <ul style="list-style-type: none"> <li>(i) a governmental organisation, including the central bank of any <del>State</del> <u>state</u>; or</li> <li>(ii) a multilateral development bank.</li> </ul> </li> </ul>
Insurance Intermediation	Means the Regulated Activity specified in paragraph 33 of Schedule 1 of <del>the</del> FSMR.
Insurance Management	Means the Regulated Activity specified in paragraph 36 of Schedule 1 of <del>the</del> FSMR.
Managing a Collective Investment Fund	Means the Regulated Activity specified in paragraph 59 of Schedule 1 of <del>the</del> FSMR.
Managing a Profit Sharing Investment Account	Means the Regulated Activity specified in paragraph 64(2) of Schedule 1 of <del>the</del> FSMR.
Managing Assets	Means the Regulated Activity specified in paragraph 56 of Schedule 1 of <del>the</del> FSMR.
Market Counterparty	<u>Means a type of Professional Client specified under COBS 2.5.</u>

	<p>(1) <del>An Authorised Person may treat a Professional Client referred to in part (2) of the definition of Professional Client as a Market Counterparty provided that the firm:</del></p> <p>(a) <del>in the case of a Professional Client referred to in part (2)(a) to (f) of the definition of Professional Client, has given to that Client a prior written notification of the classification as a Market Counterparty and that Client has not requested to be treated otherwise; and</del></p> <p>(b) <del>in the case of a Professional Client referred to in part (2)(g), (h), or (i) of the definition of Professional Client, has obtained the prior written consent of that Client to be treated as a Market Counterparty.</del></p> <p>(2) <del>The notification and consent referred to in (1) may be given in respect of all services or in respect of each individual transaction.</del></p> <p>(3) <del>The notification in (1)(a) need only be given to one of:</del></p> <p>(a) <del>a Fund or its Fund Manager; or</del></p> <p>(b) <del>a pension fund or its management company.</del></p>
<u>NSFR Requirement</u>	<u>The requirement for an Authorised Firm to maintain a minimum NSFR under Rule 9.3.12 or, if applicable, Rule 9.3.14.</u>
Operating a Multilateral Trading Facility or Organised Trading Facility	Means the Regulated Activity specified in paragraph 54 of Schedule 1 of <del>the</del> FSMR.
Parent	Means a Holding Company as defined in section 1015 of the Companies Regulations <del>2015</del> .
Providing Credit	Means the Regulated Activity specified in paragraph 48 of Schedule 1 of <del>the</del> FSMR.
Providing Custody	Means the Regulated Activity specified in paragraph 43 of Schedule 1 of <del>the</del> FSMR.
Providing Money Services	Means the Regulated Activity specified in paragraph 52 of Schedule 1 of <del>the</del> FSMR.
PSE	<del>Public sector enterprise.</del>

Public Sector Entity (PSE)	Means a body owned by a central or regional government or local authority, which performs regulatory and other non-commercial functions.
Shari'a-compliant Regulated Activities	Means the Regulated Activities specified in paragraph 64 of Schedule 1 of the FSMR.

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**2.3.2** An Authorised Person must, subject to Rule 2.3.3:

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

**Guidance**

The ~~returns~~ Regulatory Returns and instructional guidelines are provided in these Rules and EPRS.

**2.3.3** The Regulator may by way of a written notice direct an Authorised Person to submit its ~~returns~~ Regulatory Returns in a form, manner or frequency other than as prescribed in Rule 2.3.2. An Authorised Person must continue to submit its ~~returns~~ Regulatory Returns in accordance with this direction until the Regulator by way of written notice directs otherwise.

- 2.3.4**
- (1) In relation to an annual ~~return~~ Regulatory Return the form must be certified through EPRS by the SEO, a Director or a Partner of the Authorised Person.
  - (2) In relation to a quarterly or a monthly ~~return~~ Regulatory Return the form must be certified through EPRS by an Officer of the Authorised Person which has previously been identified by the Authorised Person as having the authority to provide the certification for that purpose.

**2.3.5** If the Regulator notifies an Authorised Person, or the Authorised Person itself forms the view, that a ~~return~~ Regulatory Return that has been submitted to the Regulator appears to be inaccurate or incomplete, the Authorised Person must consider the matter and within a reasonable time it must correct any inaccuracies and make good any omissions, and re-submit the relevant parts of the ~~return~~ Regulatory Return.

- 2.3.6**
- (1) An Authorised Person must use the appropriate forms set out in EPRS for the preparation and submission of ~~returns~~ Regulatory Returns which are required under these Rules.
  - (2) All ~~returns~~ Regulatory Returns must be completed in dollars (\$).

- 2.3.7** (1) An Authorised Person must submit to the Regulator annual ~~returns~~Regulatory Returns, within four months of the end of the financial year of the Authorised Person.
- (2) An Authorised Person must submit to the Regulator quarterly ~~returns~~Regulatory Returns, in the applicable format prescribed by the Regulator, within one month of the end of the reporting period to which the ~~return~~Regulatory Return relates.
- (3) An Authorised Person must submit to the Regulator monthly ~~returns~~Regulatory Returns, in the applicable format prescribed by the Regulator, within fifteen days of the end of the reporting period to which the ~~return~~Regulatory Return relates.
- 2.3.8** (1) When a ~~return~~Regulatory Return which is required under these Rules is submitted after the due date, such non-submission incurs an administrative fee as prescribed in the FEES Rulebook.
- (2) Nothing in this Rule limits the right of the Regulator to take any other action.

#### Guidance

If a ~~return~~Regulatory Return is not submitted by the date on which it becomes due, the Person is in breach of a Rule and the Regulator is entitled to take action including, but not limited to, taking steps to withdraw authorisation to conduct Regulated Activities.

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- 3.3.2** The table below sets out the Base Capital Requirement for each Category of Authorised Persons.

Category	Base Capital Requirement (US \$)
3C	<p>250,000, except where an Authorised Person has a Financial Services Permission only to carry out the Regulated Activity of Managing a Collective Investment Fund, in which case the Base Capital Requirement is the higher of:</p> <p>a) 150,000 if the Authorised Person manages a Public Fund or any other type of fund that is available to retail customers; or</p> <p>b) 50,000 <del>otherwise</del> <u>if the Authorised Person manages a Fund other than those specified in a).</u></p>

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**3.7.1** An Authorised Person, other than one that has a Financial Services Permission to carry out the Regulated Activity of Providing Third Party Services, must calculate its Expenditure Based Capital Minimum as:

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- (c) in the case of an Authorised Person in Category 4, which does not hold Insurance Money or Client Assets, 6/52nds;

...

**3.7.4** (1) An Authorised Person to which this Section applies must maintain, at all times, an amount of assets which exceeds its Expenditure Based Capital Minimum in the form of liquid assets.

- (2) For the purpose of this Rule, and subject to (3), liquid assets comprise any of the following:

- (a) cash in hand;
- (b) Money deposited with a regulated bank or ~~Deposit-taker which has a short-term credit rating of A1 or P1 (or equivalent) and above from an ECAI;~~ deposit-taker where that entity has a Credit Grade Quality of II or better in the short-term rating category, or a Credit Grade Quality of 3 or better in the long-term rating category;
- (c) demand Deposits with a tenor of one year or less with a bank or ~~Deposit-taker in (b)~~ deposit-taker meeting the condition in (b) in relation to Credit Quality Grade;

...

- (3) For the purpose of this Rule, liquid assets do not include:

- (a) any Investment, asset or Deposit which has been pledged as security or Collateral for any obligations or liabilities assumed by it or by any other third party; or
- (b) cash held in Client Money, Relevant Money or Insurance Money accounts.

...

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

- (a) Central government and central bank.
- (b) Public ~~sector enterprises~~ Sector Entity

...

- 4.9.11** An Authorised Person using the FCCA approach for an SE Exposure must calculate E\*, the SE Exposure adjusted for eligible financial Collateral, in accordance with Rules in Section A4.3 of App4 and substitute E\* for E when calculating the RWA for SE Exposure under Section 4.8.

### Measurement of E for Counterparty Exposures

#### Guidance

Rules ~~4.19.12 to 4.19.21~~ 4.9.12 to 4.9.21 should be read in conjunction with Sections A4.6 to A4.8.

...

- 4.11.1** Where possible, an Authorised Person must assign a CR Exposure to a Credit Quality Grade based on the external credit assessment that is applicable to the CR Exposure in accordance with ~~the tables~~ mapping the ratings from an ECAI ~~recognised by the Regulator~~ to Credit Quality Grades, as published by the Regulator.

- 4.11.2** CR Exposures with external credit assessments from external credit rating agencies that are not ~~recognised by the Regulator~~ in the ~~tables~~ table mapping the ratings to the Credit Quality Grades must be assigned to the Credit Quality Grade associated with "unrated" Exposures.

...

- 4.11.4** An Authorised Person must only use external credit assessments by ~~a recognised~~ an ECAI for the purposes of mapping the ratings from that ECAI to Credit Quality Grades. The Regulator may impose conditions on the use of such external credit assessments.

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

...

- 4.11.7** Where a CR Exposure has an issue-specific external credit assessment from ~~a recognised~~ an ECAI, an Authorised Person must use such assessment. Where a CR Exposure does not have an issue-specific external credit assessment, an Authorised Person must:

...

- 4.12.5** An Authorised Person may apply a 0% risk weight to any CR Exposure to central governments or central banks of a GCC member country which are denominated and funded in the domestic currency of the GCC member country. For the purposes of this Rule,



individual Emirates of the UAE will be considered as though they were GCC member countries.

### Guidance

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

### ~~Public sector enterprises~~ **Sector Entities (PSE) asset class**

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

...

- 4.12.12** The CRW for any CR Exposure in the bank asset class that does not have an external credit assessment by ~~a recognised external credit rating agency~~ an ECAI must be the risk weight determined in accordance with the table in Rule 4.12.10 or the risk weight that is applicable to an CR Exposure to the central government of the jurisdiction in which the banking institution is incorporated or established, whichever is higher. If a short-term CR Exposure in the bank asset class with an issue-specific external credit assessment:

...

- 4.12.15** The risk weight for any CR Exposure in the corporate asset class that does not have an external credit assessment by ~~a recognised external credit rating agency~~ an ECAI must be the risk weight determined in accordance with the table under Rule 4.12.13 or the risk weight that is applicable to an CR Exposure to the central government of the jurisdiction in which the corporate is incorporated or established, whichever is higher. If a short-term CR Exposure in the corporate asset class with an issue-specific external credit assessment:

...

- 4.13.5** (1) For an Authorised Person using the FCSA, eligible financial Collateral comprises:
- (a) cash (as well as certificates of Deposit or other similar instruments issued by the Authorised Person) on Deposit with the Authorised Person;
  - ...
  - (d) any debt security issued by a bank that does not have an external credit assessment by ~~a recognised~~ an ECAI if it fulfils the following criteria:
    - (i) any debt security which is listed on a regulated exchange;
    - (ii) the debt security is classified as senior debt, not subordinated to any other debt obligations of its Issuer;
    - (iii) all other rated debt Securities issued by the same Issuer which rank equally with the mentioned debt security have a long term or short

term (as applicable) Credit Quality Grade by a ~~recognised~~ an ECAI of "3" or better;

...

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

(a) central government or central bank;

...

(f) any other entity that has an external credit assessment from a ~~recognised credit rating agency~~ an ECAI that maps to a Credit Quality Grade 3 or better.

...

**4.13.11** (1) An Authorised Person may recognise the effects of CRM of a Credit Derivative only if it is provided by any of the following entities:

(a) central government or central bank;

...

(f) any other entity that has an external credit assessment from a ~~recognised credit rating agency~~ an ECAI that maps to a Credit Quality Grade 3 or better.

...

**4.14.21** Credit assessments can only be considered from an ECAI, and must meet the following criteria:

...

(c) Authorised Persons must apply ~~external credit rating agency~~ ECAI ratings consistently to all tranches of securitisations;

(d) where an Exposure has two ratings from ~~external credit rating agencies~~ ECAIs the less favourable rating must be used; and

(e) where an Exposure has more than two assessments by ~~external credit rating agencies~~ ECAIs the two most favourable ratings can be selected, the review of these assessments is then determined in line with (d).

...

**4.14.25** An Authorised Person must not use an ~~external credit rating agency~~ ECAI rating for risk weighting purposes where the assessment is at least partly based on unfunded support provided by the Authorised Person itself.

...

### Calculation of RWA amounts for securitisation Exposures

- 4.14.27** (1) In order to calculate the RWA amount for a securitisation position, the relevant risk weight must be assigned to the Exposure value of the position in accordance with this Section, based on the credit quality of the position.
- (2) For the purposes of this Rule, the credit quality of a position must be determined by reference to the applicable credit quality assessment from ~~a recognised external credit rating agency~~ an ECAI.

...

## 4.15 Large Exposures

### Applicability and limits

- 4.15.1** This Section applies with respect to Trading Book transactions ~~as calculated in App2 and Non-Trading Book transactions as calculated in Section 4.8.~~

...

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

...

- (d) ~~claims arising as a result of Money~~ in the case of provision of money transmission, payment services, clearing and settlement, correspondent banking or Financial Instruments ~~financial instruments~~ clearing, settlement and custody services to clients, delayed receipts in funding and other ~~Exposures~~ exposures arising from Client activity which do not last longer than the following business day;
- (e) ~~in the case of the services outlined in (d) intra-day Exposures~~ provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking, intra-day exposures to Financial Institutions who provide these ~~providing those services are excluded;~~

...

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

...

- (b) guarantees the Exposure to a Counterparty or to a group of Closely Related Counterparties which are not Connected to the Authorised Person only if the following conditions are met:

...

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

...

- 7.4.1** (1) An Authorised Person must implement and maintain a policy which enables it to identify, assess, control and monitor its Non Trading Book interest rate risk.

...

### Guidance

...

2. The Regulator expects that an Authorised Person's framework for managing NonTrading Book interest rate risk will address the following:
- a. the Non Trading Book interest rate risk management framework should be integrated into the Authorised Person's enterprise-wide risk management framework, including but not limited to: integration with its daily risk management practices;

...

## 8 GROUP RISK

### Introduction

### Guidance

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3. This Chapter also includes requirements limiting Financial Group Exposures and restrictions on the ownership or control of ~~Deposit~~ deposit-taking firms.

...

- 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~~ a regulated bank or deposit-taker.

- (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 ~~Authorised Person~~ entity of the type specified under 1(a) or (b).

...

**9.3.10** (1) An Authorised Person in Category 1 or 5 must use the Liquidity Mismatch Approach, as set out in this Section, to measure its short-term liquidity.

- (2) When using the Liquidity Mismatch Approach, an Authorised Person must determine the net cumulative maturity mismatch position for the time band from sight to eight days by:

- (a) determining, in accordance with the Rules in ~~Sections A10.2 and Section A10.3~~, the inflows (assets) and outflows (liabilities) in that time band; and
- (b) subtracting outflows (liabilities) from inflows (assets) in that time band.

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**9.3.14** (1) The Regulator may by written notice to an Authorised Person in relation to the NSFR Requirement applying to it:

- (a) adjust the NSFR Requirement;
- (b) adjust requirements under section A10.4 of App10 for calculating its ASF or RSF;
- (c) alter the calculation methodologies or parameters for the purposes of the NSFR Requirement; or
- (d) disapply the NSFR Requirement.

- (2) If the Regulator amends a requirement under (1)(a), (b) or (c), the Authorised Person must comply with the requirement as amended. If the Regulator disapplies a requirement under (1)(d), the Authorised Person need not comply with that requirement.

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## APP1 CATEGORIES OF AUTHORISED PERSONS

### A1.1 Categorisation of Authorised Persons

#### Guidance

1. This Section contains the table referred to in the Guidance notes at the commencement of Section 1.3. This table is for guidance purposes only.
2. The activities set out in the boxes in the table are Regulated Activities (see the FSMR). The Regulated Activities that an Authorised Person is authorised to carry on are specified in its Financial Services Permission. The Regulated Activities described in the emboldened boxes in the table are the determinants for the prudential Category to which the Authorised Person is assigned.

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

- (a) the Exposure is marked to market daily (cash borrowed or lent under a repurchase agreement or a reverse repurchase agreement may be included in the Trading Book even if not marked to market provided that the residual maturity of the borrowing or lending is one month or less);

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#### Guidance

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

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### A3.2 Capital Requirements

#### Guidance

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

Capital Requirement(USD)				
Category	<-----maximum of----->			
	Base Capital Requirement <sup>2</sup>	Expenditure Based Capital Minimum <sup>3</sup>		Risk Capital Requirement <sup>5</sup>
		Holding Client Assets or Relevant Money <sup>4</sup> or Insurance Money?		
		No	Yes	
1	10mn			Credit, Market, Operational and CVA (plus, where appropriate, Displaced Commercial)
2	2mn			Credit, Market, Operational and CVA
3A	500k			See guidance note 8 for Money Remitters and Payment Service Providers
3B <sup>6</sup>	4mn	13/52nds of Annual Expenditure	18/52nds of Annual Expenditure	
3C <sup>6</sup>	250k except where an Authorised Person has a Financial Services Permission only to carry out the Regulated Activity of Managing a Collective Investment Fund, in			

## Appendix 11

	which case the Base Capital Requirement is the higher of: a) 150,000 if the Authorised Person manages a Public Fund or any other type of fund that is available to retail customers; or b) 50,000 otherwise if the Authorised Person manages a Fund other than those specified in a).			
4 <sup>6, 7</sup>	10k except where an Authorised Person has a Financial Services Permission: a) to carry out the Regulated Activity of Operating a Private Financing Platform and holds Client Assets, in which case the Base Capital Requirement is 150,000; or b) to carry out the Regulated Activity of Providing Third Party Services, in which case the Base Capital Requirement will be 50,000.	6/52nds of Annual Expenditure		
5	10mn			Credit, Market, Operational, CVA and Displaced Commercial



## Appendix 11

2. An Authorised Person, whichever Category it is a member of, must hold a minimum amount of CET1 Capital at the time that it obtains authorisation and at all times thereafter, in accordance with Rule 3.3.3, corresponding to the Base Capital Requirement.
3. The Expenditure Based Capital Minimum is calculated as the specified proportion of the Annual Audited Expenditure (AAE), calculated in accordance with Rule 3.7.2.
4. An Authorised Person in Category 3C undertaking the Regulated Activity of Providing Money Services that offers only one of or both currency exchange and Money Remittance to their customers, but not Payment Services, is considered not to hold Client Assets, in the form of Client Money, or Relevant Money.
5. Where the Risk Capital Requirement is the binding capital requirement for an Authorised Person in Category 1, 2 or 5 it must also hold a Capital Conservation Buffer of CET1 Capital of 2.5% of the Total Risk Exposure Amount and, where applicable, a Countercyclical Capital Buffer of CET1 Capital, to be determined in accordance with Section 3.18.
6. An Authorised Person in Category 3B, 3C or 4 must notify the Regulator immediately if its Capital Resources fall below 120% of its Capital Requirement, in accordance with Rule 3.20.2.
7. An Authorised Person in Category 4 is only permitted to hold Insurance Monies or, in the case of an Authorised Person engaged in the Regulated Activity of Operating a Private Financing Platform, Client Assets.

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## A4.11 Large Exposures

### Exempt Exposures

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

- (a) asset items or Exposures constituting claims on central governments and central banks which receive a Credit Quality Grade ~~rating of~~ 1 or 2 in accordance with Rule 4.12.4;
- (b) asset items or Exposures constituting claims on international organisations and multi-lateral development banks (MDBs) which receive a 0% (Credit Quality Grade ~~rating of~~ 1) risk weight as set out at Rule 4.12.7;
- (c) asset items or Exposures carrying the explicit guarantees of either (a) or (b) where the claims on the entity providing the guarantee would receive a 0% weighting (Credit Quality Grade ~~rating of~~ 1);

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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:

- (a) a single Counterparty;

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### Guidance

1. An individual Counterparty is a natural or legal Person, which include governments, local authorities, ~~public sector enterprises~~ Public Sector Entities (PSEs), trusts, corporations, unincorporated businesses and non-profit-making bodies.

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

1. Section 6.11 of these Rules provides that an Authorised Person in Categories 1, 2, 3A and 5 must use the Basic Indicator Approach to calculate its Operational Risk Capital Requirement, unless the firm has approval from the Regulator to use the Standardised Approach or Alternative Standardised Approach. In this App7:
  - a. the Basic Indicator Approach is prescribed in Section A7.1;
  - b. the Standardised Approach is prescribed in Section A7.2; and
  - c. the Alternative Standardised Approach is prescribed in Section A7.3.
2. ~~The application of various components of the rules on Operational Risk to Authorised Persons with a Financial Services Permission to carry out various Regulated Activities is detailed in the table below:~~

<b>Regulated Activities</b>	<b>Prudential Category</b>	<b>Capital requirement</b>	<b>Systems and controls requirement</b>	<b>PII cover</b>
Accepting Deposits	1	Yes	Yes	No
Providing Credit	2	Yes	Yes	No
Dealing in Investments as Principal (not as a Matched Principal)	2	Yes	Yes	No
Dealing in Investments as Principal (only as a Matched Principal)	3A	Yes	Yes	No
Dealing in Investments as Agent	3A	Yes	Yes	No
Acting as the Trustee of an Investment Trust	3B	No	Yes	Yes
Providing Custody	3B or 3C	No	Yes	Yes
Providing Trust Services	3C or 4	No	Yes	Yes
Managing Assets	3C	No	Yes	Yes

Regulated Activities	Prudential Category	Capital requirement	Systems and controls requirement	PH cover
Managing a Collective Investment Fund	3G	No	Yes	Yes
Managing a Profit Sharing Investment Account which is a PSIAr	3G	No	Yes	Yes
Providing Money Services	3G	No	Yes	Yes
Arranging Credit	4	No	Yes	Yes
Arranging Deals in Investments	4	No	Yes	Yes
Advising on Investments or Credit	4	No	Yes	Yes
Arranging Custody	4	No	Yes	No
Insurance Intermediation	4	No	Yes	Yes
Insurance Management	4	No	Yes	Yes
Acting as the Administrator of a Collective Investment Fund	4	No	Yes	Yes
Operating a Multilateral Trading Facility or Organised Trading Facility	4	No	Yes	Yes
Islamic Financial Business	5	Yes	Yes	No
Shari'a-compliant Regulated Activities	5	Yes	Yes	No
Managing a Profit Sharing Investment Account which is a PSIAu	5 or 1	Yes	Yes	No

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### Level 1 HQLA

- A10.2.6** (1) Level 1 HQLA must be valued at market value.
- (2) Level 1 HQLA consists of:
- (a) banknotes and coin;
  - (b) central bank reserves, to the extent that such reserves are capable of being drawn down immediately in times of stress;
  - (c) marketable Securities representing claims on or claims guaranteed by sovereigns, central banks, Public Sector Entities (PSEs), the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Commission or Multilateral Development Banks (MDBs), and that satisfy all of the following conditions:
    - (i) they are assigned a zero % risk-weight according to Chapter 4 and App4 of this Rulebook;
    - (ii) they are traded in large, deep and active repo or cash markets characterised by a low level of concentration;
    - (iii) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
    - (iv) they are not an obligation of a Financial Institution or any of its ~~associated~~affiliated entities;

...

### Level 2A HQLA

- A10.2.7** (1) Level 2A HQLA must be valued at market value and subject to a 15% haircut.
- (2) Level 2A HQLA consists of:
- (a) marketable Securities representing claims on or guaranteed by sovereigns, central banks, PSEs or MDBs that satisfy all of the following conditions:
    - (i) they are assigned a 20% or lower risk-weight according to Chapter 4 and App4 of this Rulebook;
  - ...
  - (iv) they are not an obligation of a Financial Institution or any of its ~~associated~~affiliated entities;

- (b) corporate debt Securities (including commercial paper) and covered bonds that satisfy all of the following conditions:
  - (i) in the case of corporate debt Securities: they must not be issued by a Financial Institution or any of its ~~associated~~affiliated entities and must include only plain vanilla assets (i.e. not include complex Structured Products or subordinated debt) whose valuation is readily available based on standard methods and does not depend on private knowledge;
  - (ii) in the case of covered bonds: they must not be issued by the Authorised Person itself or any of its ~~associated~~affiliated entities;
  - (iii) the assets must have a Credit Quality Grade of 1, or if the assets do not have a credit assessment by a ~~recognised~~an ECAI, they must be internally rated as having a probability of default (PD) corresponding to a Credit Quality Grade of 1;

...

### Level 2B HQLA

- A10.2.8** (1) Level 2B HQLA must be valued at market value and subject to an appropriate haircut, as specified in (2), for each type of asset.
- (2) Level 2B HQLA consists of:
- (a) residential mortgage-backed Securities that satisfy all of the following conditions, subject to a 25% haircut:
 

...
  - (b) corporate debt Securities (including commercial paper) that satisfy all of the following conditions, subject to a 50% haircut:
    - (i) they are not issued by a Financial Institution or any of its affiliated entities;
    - (ii) they have a Credit Quality Grade of 2 or 3 or, in the case the assets do not have a credit assessment by a ~~recognised~~an ECAI, are internally rated as having a probability of default (PD) corresponding to a Credit Quality Grade of 2 or 3;

...

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

- (2) Contingent liabilities may be excluded from the sight-eight day time band only if there is a high likelihood that the conditions necessary to trigger them will not be fulfilled.

...

### **Guidance**

1. In (1) the "earliest contractual maturity" relates to the first point in time at which the outflow might occur and over which the Authorised Person has no control to determine that point in time.

2. In (3) the "latest contractual maturity" relates to the last point in time at which the inflow might occur and over which the Authorised Person has no control to determine that point in time.

...

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

...

ASF factor	ASF category
50%	<ul style="list-style-type: none"> <li>funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers</li> <li>operational deposits generated by clearing, custody and cash management activities</li> <li>funding with residual maturity of less than one year from sovereigns, <del>public sector entities</del> <u>Public Sector Entities</u> (PSEs), and multilateral and national development banks</li> <li>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</li> </ul>

...

**A11.1 IRAP****Guidance****Application**

1. This Guidance is relevant to an Authorised Person described in Section 10.3 (that is, a firm in Category 1, 2, 3A, 3B, 3C, or 5) in regard to an Internal Risk Assessment Process (referred to in this Guidance as an IRAP).

...

8. The IRAP should:
  - a. identify and outline all related parties of the Authorised Person, and list the types of transactions that occur between those related parties and the firm;
  - b. identify the most significant risks to which the firm is exposed, which should, at a minimum, include the risks identified in Guidance note 911;

...

**A11.2 ICAAP****Guidance****Application**

1. This Guidance is relevant to an Authorised Person as described in Section 10.4 (that is, a firm in Category 1, 2, 3A or 5) in regard to an Internal Risk Capital Adequacy Assessment Process (referred to in this Guidance as an ICAAP).

**Purpose and process of the ICAAP**

2. The ICAAP is an internal process of an Authorised Person which enables it to determine and maintain the amount and quality of capital that is adequate in relation to the Authorised Person's risk profile as assessed in the IRAP. Authorised Persons are encouraged to maintain capital over and above the regulatory minimum capital. The ICAAP, in conjunction with the IRAP, should be embedded in the Authorised Person's business and organisational processes and be informed by the business plan of the Authorised Person, as required by GEN 3.3.16.
3. When assessing its capital needs, an Authorised Person should ~~take~~consider ~~a three- to five-year time horizon, taking into account its business model,~~ the impact of economic cycles, and sensitivity to other external risks and factors.



For larger or more complex institutions, this may mean developing an appropriate stress testing and scenario testing framework.

...