

Large Exposures (CRR) part

Related Links

SS16/13 – Large Exposures	https://www.prarulebook.co.uk/guidance/supervisory-statements/ss16-13---large-exposures
SS3/25 – Identification of groups of connected clients for large exposures purposes (excluding section 3, which is replaced by our GN, see below) Section 2 is only relevant to exposures to group banks in Jersey	https://www.prarulebook.co.uk/guidance/supervisory-statements/ss03-25---identification-of-groups-of-connected-clients-for-large-exposures-purposes
GN – Variances for Exposures to group counterparties	GN-Variances-for-Exposures-to-group-counterparties-Near-Final.docx

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Chapter content

1	Application and definitions	4
2	Level of application	6
3	Organisational structure and control mechanisms	6
4	Large Exposures (Part Four CRR).....	6
	Article 390 Calculation of exposure value	6
	Article 394 Reporting requirements	7
	Article 395 Limits to large exposures.....	7
	Article 396 Compliance with large exposures requirements.....	8
	Article 397 Calculating additional own funds requirements for large exposures in the trading book.....	9
	Article 398 Procedures to prevent JIBs from avoiding the additional own funds requirement	9
	Article 399 Eligible credit risk mitigation techniques	9
	Article 400 Exemptions.....	10
	Article 401 Calculating the effect of the use of credit risk mitigation techniques	11
	Article 402 Exposures arising from mortgage lending.....	12
	Approach.....	13
5	Rules determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets	14
	Article 1 Subject matter	14
	Article 3 Identification of exposures resulting from Transactions.....	14
	Article 4 Transactions which themselves have underlying assets.....	15

Article 6 Procedure for determining the contribution of underlying Exposures to overall Exposures	15
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Article 7 Additional Exposure constituted by the structure of a Transaction ..	16
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1 Application and definitions

1.1 This Part applies to JIBs.

1.2 In this Part, the following definitions shall apply:

Control

means the relationship between a parent undertaking and a subsidiary undertaking:

(1) as defined in either:

(a) the accounting standards referred to in section 403(1) of the Companies Act 2006; or

(b) section 1162 of the Companies Act 2006; or

(2) a similar relationship between any natural or legal person and an undertaking.

Exposure

subject to Article 390(6), means any asset or off balance sheet item referred to in the Credit risk: standardised approach (CRR) part, without applying the risk weights or degrees of risk.

Group of Connected Clients

means any of the following:

(1) two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others; or

(2) two or more natural or legal persons between whom there is no relationship of control as described in point (1) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or others would also be likely to encounter funding or repayment difficulties, provided that:

notwithstanding points (1) and (2), where a central government has direct control over, or is directly interconnected with, more than one natural or legal person, the set consisting of the central government and all of the natural or legal persons directly or indirectly controlled by it in accordance with point (1), or interconnected with it in accordance with point (2), may be considered as not constituting a group of connected clients. Instead the existence of a group of connected clients formed by the central government and other natural or legal persons may be assessed separately for each of the natural or legal persons directly controlled by it in accordance with point (1), or

directly interconnected with it in accordance with point (2), and all of the natural or legal persons which are controlled by that natural or legal person according to point (1) or interconnected with that natural or legal person in accordance with point (2), including the central government. The same applies in cases of regional governments or local authorities to which Article 115(2) of the Credit risk: standardised approach (CRR) part applies and in the United Kingdom regional governments means the Scottish Government, the Welsh Government and the Northern Ireland Executive; and

(3) two or more natural or legal persons who fulfil the conditions set out in point (1) or (2) because of their direct exposure to the same central counterparty for clearing activities purposes are not considered as constituting a group of connected clients.

Large Exposure

means a JIB's Exposure to a client or group of connected clients where the value of the Exposure is equal to or exceeds 10% of its Tier 1 capital.

1.3 For the purposes of calculating the value of Exposures in accordance with this Part the term Institution shall include a private or public Undertaking, including its branches, which:

- (1) were it established in the United Kingdom, would fulfil the definition of the term Institution and has been authorised in a Third Country that applies prudential supervisory and regulatory requirements determined by the Treasury of the United Kingdom to be at least equivalent to those applied in the United Kingdom, or
- (2) were it established in Jersey would fulfil the definition of the term JIB and has been authorised in a Third Country that applies prudential supervisory and regulatory requirements determined by the JFSC to be at least equivalent to those applied in Jersey, or
- (3) is a JIB.

1.4 For the purposes of Chapter 5 of this Part the following definitions shall apply:

‘Transactions’

mean transactions referred to in points (m) and (o) of Article 112 of the Credit risk: standardised approach (CRR) part and other transactions where there is an Exposure to underlying assets;

‘Unknown Client’

means a single hypothetical client to which the JIB assigns all Exposures for which it has not identified the obligor, provided that Article 6(2)(a) and (b) and Article 6(3)(a) of Chapter 5 of this Part are not applicable.

2 Level of application

Application of requirements on an individual basis

2.1 This Part applies to a JIB.

2.2 A JIB must comply with this Part on the basis of its consolidated position, unless the JFSC has agreed a variance in accordance with the Risk-based capital requirements part.

3 Organisational structure and control mechanisms

3.1 A JIB must set up a proper organisational structure and appropriate Internal Control mechanisms in order to ensure that the data required for consolidation for the purposes of this Part is duly processed and forwarded.

3.2 A JIB must ensure that a subsidiary not subject to this Part implements arrangements, processes and mechanisms to ensure proper consolidation for the purposes of this Part.

3.3 A JIB must monitor and control its Large Exposures in accordance with this Part.

3.4 A JIB must have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying, managing, monitoring, reporting and recording all large exposures and subsequent changes to them, in accordance with this Part.

4 Large Exposures (Part Four CRR)

Article 390 Calculation of exposure value

1. A JIB must calculate the total Exposures to a group of connected clients by adding together the Exposures to individual clients in that group.
2. A JIB must calculate the overall Exposures to individual clients by adding the Exposures to the relevant individual client in the trading book and the Exposures to the relevant individual client in the non-trading book.
3. [Note: Provision left blank]
4. A JIB must calculate the exposure values of the derivative contracts listed in Annex II of CRR and of credit derivative contracts directly entered into with a client in accordance with the Counterparty credit risk (CRR) part, as applicable. The exposure value for securities financing transactions must be calculated by a JIB in accordance with the methods referred to in Section 4 of the Credit risk mitigation (CRR) part, as applicable. Exposures resulting from the transactions referred to in the section 'settlement risk' in the Counterparty Credit risk (CRR) part must be calculated by a JIB in the manner laid down.

5. A JIB must add to the total Exposure to a client the Exposures arising from derivative contracts listed in Annex II of CRR and credit derivative contracts, where the contract was not directly entered into with that client but the underlying debt or equity instrument was issued by that client.
6. The term Exposures does not include any of the following:
 - › in the case of foreign exchange transactions, Exposures incurred in the ordinary course of settlement during the two business days following payment;
 - › in the case of transactions for the purchase or sale of securities, Exposures incurred in the ordinary course of settlement during the five business days following payment or delivery of the securities, whichever is the earlier;
 - › in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking or financial instruments clearing, settlement and custody services to clients, delayed receipts in funding and other Exposures arising from client activity which do not last longer than the following business day;
 - (a) in the case of the provision of money transmission including the execution of payment services, clearing and settlement in any currency and correspondent banking, intra-day Exposures to JIBs providing those services; and
 - (b) Exposures deducted from Common Equity Tier 1 items or Additional Tier 1 items in accordance with the Own Funds (CRR) part or any other deduction from those items that reduces the solvency ratio.
7. To determine the overall Exposure to a client or a group of connected clients, in respect of clients to which the JIB has Exposures through transactions referred to in points (m) and (o) of Article 112 of the Credit risk: standardised approach (CRR) part or through other transactions where there is an Exposure to underlying assets, a JIB must assess its underlying Exposures taking into account the economic substance of the structure of the transaction and the risks inherent in the structure of the transaction itself, in order to determine whether it constitutes an additional Exposure.
8. [Note: Provision left blank]
9. [Note: Provision left blank]

Article 394 Reporting requirements

[Note: Provision left blank]

Article 395 Limits to large exposures

1. A JIB must not incur an Exposure, after taking into account the effect of the credit risk

mitigation in accordance with Articles 399 to 403, to a client or group of connected clients the value of which exceeds 25% of its Tier 1 Capital. Where that client is an Institution or where a group of connected clients includes one or more Institutions, that value must not exceed 25% of the JIB's Tier 1 Capital or GBP 130 million, whichever is higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to all connected clients that are not institutions does not exceed 25% of the JIB's Tier 1 Capital.

Where the amount of GBP 130 million is higher than 25% of the JIB's Tier 1 Capital, the value of the Exposure, after having taken into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of this Part, must not exceed a reasonable limit in terms of the JIB's Tier 1 Capital. That limit must be determined by the JIB in accordance with its procedures that address concentration risk. That limit must not exceed 100% of the JIB's Tier 1 Capital.

By way of derogation from the first subparagraph of this paragraph, a G-SII must not incur an Exposure to another G-SII or to a Non-UK G-SII, the value of which, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, exceeds 15% of its Tier 1 Capital. A G-SII must comply with such limit no later than 12 months from the date on which it came to be identified as a G-SII. Where the G-SII has an Exposure to another Institution or group which comes to be identified as a G-SII or as a Non-UK G-SII, it must comply with such limit no later than 12 months from the date on which that other Institution or group came to be identified as a G-SII or as a Non-UK G-SII.

3. Subject to Article 396, a JIB must at all times comply with the relevant limit laid down in paragraph 1.
4. Assets constituting claims and other Exposures to third-country Institutions may be subject to the same treatment as set out in paragraph 1.
5. [Note: Provision left blank]

Each time the limit has been exceeded, the JIB must report to the JFSC without delay the amount of the excess and the name of the client concerned and, where applicable, the name of the group of connected clients concerned.

Article 396 Compliance with large exposures requirements

1. If, in an exceptional case, Exposures exceed the limit set out in Article 395(1), the JIB must report the value of the Exposure without delay to the JFSC which may, where the circumstances warrant it, provide a variance to allow the JIB a limited period of time in which

to comply with the limit.

Where the amount of GBP 130 million referred to in Article 395(1) is applicable, the JFSC may provide a variance to allow the 100% limit in terms of the JIB's Tier 1 Capital to be exceeded on a case-by-case basis.

Where, in the exceptional cases referred to in the first and second subparagraph of this paragraph, the JFSC allows a JIB to exceed the limit set out in Article 395(1) for a period longer than three Months, the JIB must present a satisfactory plan for a timely return to compliance with that limit and must carry out that plan within the period agreed with the JFSC.

2. Where compliance by a JIB on an individual or sub-consolidated basis with the obligations imposed in this Part is waived under Article 7(1), or the provisions of Article 9 are applied in the case of parent JIBs, measures must be taken to ensure the satisfactory allocation of risks within the group.

Article 397 Calculating additional own funds requirements for large exposures in the trading book

[Note: Provision left blank]

Article 398 Procedures to prevent JIBs from avoiding the additional own funds requirement

[Note: Provision left blank]

Article 399 Eligible credit risk mitigation techniques

1. A JIB must use a credit risk mitigation technique in the calculation of an Exposure where it has used that technique to calculate capital requirements for credit risk in accordance with the Credit risk mitigation (CRR) part, provided that the credit risk mitigation technique meets the conditions set out in this Article.
For the purposes of Articles 400 to 403 the term 'guarantee' includes credit derivatives recognised under the Credit risk mitigation (CRR) part other than credit linked notes.
2. Subject to paragraph 3 of this Article, the recognition of funded or unfunded credit protection in accordance with Articles 400 to 403 is only permitted if the eligibility requirements and other requirements set out in the Credit risk mitigation (CRR) part are met.
3. Credit risk mitigation techniques which are available if a JIB is permitted to use one of the IRB approaches must not be used to reduce exposure values for Large Exposure purposes.
4. A JIB must analyse, to the extent possible, its Exposures to collateral issuers, providers of unfunded credit protection and underlying assets pursuant to Article 390(7) for possible concentrations and where appropriate take action and report any significant findings to the JFSC.

Article 400 Exemptions

1. The following Exposures shall be exempted from the application of Article 395(1):
 - (a) asset items constituting claims on central governments, central banks or public sector entities which, unsecured, would be assigned a 0% risk weight under the Credit risk: standardised approach (CRR) part;
 - (b) asset items constituting claims on international organisations or multilateral development banks which, unsecured, would be assigned a 0% risk weight under the Credit risk: standardised approach (CRR) part;
 - (c) asset items constituting claims carrying the explicit guarantees of central governments, central banks, international organisations, multilateral development banks or public sector entities, where unsecured claims on the entity providing the guarantee would be assigned a 0% risk weight under the Credit risk: standardised approach (CRR) part;
 - (d) other Exposures attributable to, or guaranteed by, central governments, central banks, international organisations, multilateral development banks or public sector entities, where unsecured claims on the entity to which the Exposure is attributable or by which it is guaranteed would be assigned a 0% risk weight under the Credit risk: standardised approach (CRR) part;
 - (e) asset items constituting claims on regional governments or local authorities of the United Kingdom where those claims would be assigned a 0% risk weight the Credit risk: standardised approach (CRR) part and other Exposures to or guaranteed by those regional governments or local authorities, claims on which would be assigned a 0% risk weight under the Credit risk: standardised approach (CRR) part;
 - (f) Exposures to counterparties referred to in Article 113(6) or (7) of the Credit risk: standardised approach (CRR) part if they would be assigned a 0% risk weight under the Credit risk: standardised approach (CRR) part. Exposures that do not meet those criteria, whether or not exempted from Article 395(1) must be treated as Exposures to a third party;
 - › asset items and other Exposures secured by collateral in the form of cash deposits placed with the lending JIB or with a JIB which is the Parent Undertaking or a subsidiary of the lending JIB;
 - › asset items and other Exposures secured by collateral in the form of certificates of deposit issued by the lending JIB or by a JIB which is the Parent Undertaking or a subsidiary of the lending JIB and lodged with either of them;
 - (g) Exposures arising from undrawn credit facilities that are classified as low-risk off- balance sheet items in Annex I of CRR and provided that an agreement has been concluded with the client or group of connected clients under which the facility may be drawn only if it has been ascertained that it will not cause the limit applicable under Article 395(1) to be

exceeded;

(h) clearing members' trade exposures and default fund contributions to qualifying central counterparties; and

(i) [deleted]

(j) clients' trade exposures referred to in the Counterparty credit risk (CRR) part.

1A. Cash received under a credit linked note issued by the JIB and loans and deposits of a counterparty to or with the JIB which are subject to an on-balance sheet netting agreement recognised under the Credit risk mitigation (CRR) part must be treated as falling under point (g) of paragraph 1 of this Article.

2. A JIB may, if granted a variance by the JFSC, treat as fully or partially exempt from the application of Article 395(1) the following types of Exposures:

(a) [Deleted]

(b) [Deleted]

(c) Exposures incurred by a JIB, including through participations or other kinds of holdings, to its Parent Undertaking, to other subsidiaries of that Parent Undertaking, or to its own subsidiaries and qualifying holdings, in so far as those Undertakings are covered by the supervision on a consolidated basis to which the JIB itself is subject. Exposures that do not meet those criteria, whether or not exempted from Article 395(1), must be treated as Exposures to a third party;

(d) [Deleted]

(e) [Deleted]

(f) [Deleted]

(g) asset items constituting claims on central banks in the form of required minimum reserves held at those central banks which are denominated in their national currencies; and

(h) asset items constituting claims on central governments in the form of statutory liquidity requirements held in government securities which are denominated and funded in their national currencies provided that the credit assessment of those central governments assigned by a nominated ECAI is investment grade.

A JIB must not simultaneously apply more than one exemption set out in paragraphs [1](#) and [2](#) to the same exposure.

Article 401 Calculating the effect of the use of credit risk mitigation techniques

1. For calculating the value of Exposures for the purposes of Article 395(1), a JIB may use the

fully adjusted exposure value (E^*) as calculated under the Credit risk mitigation (CRR) part taking into account the credit risk mitigation, volatility adjustments, and any maturity mismatch referred to in that Chapter.

2. With the exception of a JIB using the Financial Collateral Simple Method, for the purposes of the first paragraph, a JIB must use the Financial Collateral Comprehensive Method, regardless of the method used for calculating the own funds requirements for credit risk.
3. In calculating the value of Exposures for the purposes of Article 395(1), a JIB must conduct periodic stress tests of its credit-risk concentrations, including in relation to the realisable value of any collateral taken.

These periodic stress tests referred to in the first subparagraph must address risks arising from potential changes in market conditions that could adversely impact the JIB's adequacy of own funds and risks arising from the realisation of collateral in stressed situations.

The stress tests carried out must be adequate and appropriate for the assessment of those risks.

A JIB's strategy to address concentration risk must include the following:

- (a) policies and procedures to address risks arising from maturity mismatches between Exposures and any credit protection on those Exposures; and
 - (b) policies and procedures relating to concentration risk arising from the application of credit risk mitigation techniques, in particular from large indirect credit Exposures, for example to a single issuer of securities taken as collateral.
4. Where a JIB reduces an Exposure to a client using an eligible credit risk mitigation technique in accordance with Article 399(1), and Article 403 applies, the JIB, in the manner set out in Article 403, must treat the part of the Exposure by which the Exposure to the client has been reduced as having been incurred for the protection provider rather than for the client.

Article 402 Exposures arising from mortgage lending

1. A JIB may treat an Exposure to a counterparty that results from a reverse repurchase agreement under which the JIB has purchased from the counterparty non-accessory independent mortgage liens on immovable property of third parties as a number of individual Exposures to each of those third parties, provided that all of the following conditions are met:
 - (a) the counterparty is an Institution;
 - (b) the Exposure is fully secured by liens on the immovable property of those third parties that have been purchased by the JIB and the JIB is able to exercise those liens;
 - (c) the JIB has ensured that the requirements in Article 208 and Article 229(1) of the Credit

risk mitigation (CRR) part are met;

- (d) the JIB becomes beneficiary of the claims that the counterparty has against the third parties in the event of default, insolvency or liquidation of the counterparty; and
- (e) the JIB reports to the JFSC in accordance with Article 394 the total amount of Exposures to each other Institution that are treated in accordance with this paragraph.

For these purposes, the JIB must assume that it has an Exposure to each of those third parties for the amount of the claim that the counterparty has on the third party instead of the corresponding amount of the Exposure to the counterparty. The remainder of the Exposure to the counterparty, if any, shall continue to be treated as an Exposure to the counterparty.

Approach

1. Where an Exposure to a client is guaranteed by a third party or is secured by collateral issued by a third party, a JIB may:
 - (a) treat the portion of the Exposure which is guaranteed as an Exposure to the guarantor rather than to the client, provided that the unsecured Exposure to the guarantor would be assigned a risk weight that is equal to or lower than the risk weight of the unsecured Exposure to the client under the Credit risk: standardised approach (CRR) part;
 - (b) treat the portion of the Exposure collateralised by the market value of recognised collateral as Exposure to the third party rather than to the client, provided that the Exposure is secured by collateral and provided that the collateralised portion of the Exposure would be assigned a risk weight that is equal to or lower than the risk weight of the unsecured Exposure to the client under the Credit risk: standardised approach (CRR) part.

The approach referred to in point (b) of the first subparagraph must not be used by a JIB where there is a mismatch between the maturity of the Exposure and the maturity of the protection.

For the purpose of this Part, a JIB may use both the Financial Collateral Comprehensive Method and the treatment set out in point (b) of the first subparagraph of this paragraph only where it is permitted to use both the Financial Collateral Comprehensive Method and the Financial Collateral Simple Method.

2. Where a JIB applies point (a) of paragraph 1, the JIB:
 - (a) where the guarantee is denominated in a currency different from that in which the Exposure is denominated, must calculate the amount of the Exposure that is deemed to be covered in accordance with the provisions on the treatment of currency mismatch for unfunded credit protection set out in the Credit risk mitigation (CRR) part;

- (b) must treat any mismatch between the maturity of the Exposure and the maturity of the protection in accordance with the provisions on the treatment of maturity mismatch set out in the Credit risk mitigation (CRR) part; and
 - (c) may recognise partial coverage in accordance with the treatment set out in the Credit risk mitigation (CRR) part.
3. For the purposes of point (b) of paragraph 1, a JIB may replace the amount in point (a) of this paragraph with the amount in point (b) of this paragraph, provided that the conditions set out in points (c), (d) and (e) of this paragraph are met:
- (a) the total amount of the JIB's Exposure to a collateral issuer due to tri-party repurchase agreements facilitated by a tri-party agent;
 - (b) the full amount of the limits that the JIB has instructed the tri-party agent referred to in point (a) to apply to the securities issued by the collateral issuer referred to in that point;
 - (c) the JIB has verified that the tri-party agent has in place appropriate safeguards to prevent breaches of the limits referred to in point (b);
 - (d) the JFSC has not prohibited such replacement;
 - (e) the sum of the amount of the limit referred to in point (b) of this paragraph and any other Exposures of the JIB to the collateral issuer does not exceed the limit set out in Article 395(1).

5 Rules determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets

Article 1 Subject matter

A JIB must use the conditions and methodologies specified in this Chapter 5 to determine the overall Exposure of a JIB to a client or group of connected clients in respect of Exposures through Transactions with underlying assets and the conditions under which the structure of Transactions with underlying assets does not constitute an additional Exposure.

Article 3 Identification of exposures resulting from Transactions

1. A JIB must determine the contribution to the overall Exposure to a certain client or group of connected clients that results from a certain Transaction in accordance with the methodology set out in Articles 4, 5 and 6.
The JIB must determine separately for each of the underlying assets its Exposure to this underlying asset in accordance with Article 5.
2. A JIB must assess whether a certain Transaction constitutes an additional Exposure in accordance with Article 7.

Article 4 Transactions which themselves have underlying assets

1. When assessing the underlying Exposures of a Transaction (transaction A) which itself has an underlying Exposure to another Transaction (transaction B) for the purpose of Articles 5 and 6, a JIB must treat the Exposure to transaction B as replaced with the Exposures underlying transaction B.
2. Paragraph 1 applies as long as the underlying Exposures are Exposures to Transactions with underlying assets.

Article 5 Calculation of the Exposure value

1. The Exposure of a JIB to an underlying asset of a Transaction is the lower of the following:
 - (a) the exposure value of the Exposure arising from the underlying asset;
 - (b) the total exposure value of the JIB's Exposures to the underlying asset resulting from all Exposures of the JIB to the Transaction.
2. For each Exposure of a JIB to a Transaction, the exposure value of the resulting Exposure to an underlying asset shall be determined as follows:
 - (a) if the Exposures of all investors in this Transaction rank pari passu, the exposure value of the resulting Exposure to an underlying asset shall be the pro rata ratio for the JIB's Exposure to the Transaction multiplied by the exposure value of the Exposure formed by the underlying asset;
 - (b) in cases other than those referred to in point (a) the exposure value of the resulting Exposure to an underlying asset shall be the pro rata ratio for the JIB's Exposure to the Transaction multiplied by the lower of:
 - (i) the exposure value of the Exposure formed by the underlying asset;
 - (ii) the total exposure value of the JIB's Exposure to the Transaction together with all other Exposures to this Transaction that rank pari passu with the JIB's Exposure.
3. The pro rata ratio for a JIB's Exposure to a Transaction shall be the exposure value of the JIB's Exposure divided by the total exposure value of the JIB's Exposure together with all other Exposures to this Transaction that rank pari passu with the JIB's Exposure.

Article 6 Procedure for determining the contribution of underlying Exposures to overall Exposures

1. For each credit risk Exposure for which the obligor is identified, a JIB must include the exposure value of its Exposure to the relevant underlying asset when calculating the overall Exposure to this obligor as an individual client or to the group of connected clients to which this obligor belongs.
2. If a JIB has not identified the obligor of an underlying credit risk Exposure, or where

a JIB is unable to confirm that an underlying Exposure is not a credit risk Exposure, the JIB must assign this Exposure as follows:

- (a) where the exposure value does not exceed 0.25% of the JIB's Tier 1 Capital, it must assign this Exposure to the Transaction as a separate client;
 - (b) where the exposure value is equal to or exceeds 0.25% of the JIB's Tier 1 Capital and the JIB can ensure, by means of the Transaction's mandate, that the underlying Exposures of the Transaction are not connected with any other Exposures in its portfolio, including underlying exposures from other Transactions, it must assign this Exposure to the Transaction as a separate client;
 - (c) in cases other than those referred to in points (a) and (b), it must assign this Exposure to the Unknown Client.
3. If a JIB is not able to distinguish the underlying Exposures of a Transaction, the JIB must assign the total exposure value of its Exposures to the Transaction as follows:
- › where. this total exposure value does not exceed 0.25% of the JIB's Tier 1 Capital, it must assign this total exposure value to the Transaction as a separate client;
 - (a) in cases other than those referred to in point (a), it must assign this total exposure value to the Unknown Client.
4. For the purposes of paragraphs 1 and 2, a JIB must regularly, and at least on a monthly basis, monitor such Transactions for possible changes in the composition and the relative share of the underlying Exposures.

Article 7 Additional Exposure constituted by the structure of a Transaction

1. The structure of a Transaction does not constitute an additional Exposure if the Transaction meets both of the following conditions:
 - (a) the legal and operational structure of the Transaction is designed to prevent the manager of the Transaction or a third party from redirecting any cash flows which result from the Transaction to persons who are not otherwise entitled under the terms of the Transaction to receive these cash flows; and
 - (b) neither the issuer nor any other person can be required, under the Transaction, to make a payment to the JIB in addition to, or as an advance payment of, the cash flows from the underlying assets.
2. The condition in point (a) of paragraph 1 is met where the Transaction is one of the following:
 - (a) a UK UCITS; or
 - › an Undertaking established in a Third Country that carries out activities similar to those carried out by a UCITS and which is subject to supervision pursuant to legislation of a Third Country which applies supervisory and regulatory requirements which are at least equivalent to those applied in the UK to UK UCITS.