
WRITTEN NOTICE
IMA PERMISSION

To: MUFG Securities EMEA plc ‘MUSE’ (FRN124512) (the “firm”)
Of: Ropemaker Place 25 Ropemaker Street London EC2Y 9AJ
Reference Number: 5495110 (00002869)
Date: 28 January 2020

DECISIONS

1. In accordance with Chapter 5, Part 3, Title IV of Regulation 575/2013 of the European Parliament and of the Council of 26th June 2013 on prudential requirements for credit institutions and investment firms (as amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019) (the “CRR”), the PRA has decided to grant the firm permission to use the internal model approach in its calculation of own funds requirements for market risk, on the terms and conditions set out in Annex 1 (the “IMA Permission”).
2. Further to Article 101 and 104 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “CRD”) and an application made by the firm in accordance with section 55M(5) of the Financial Services and Markets Act 2000 (the “Act”) for certain requirements, the PRA has decided to grant to the firm the requirements specified in Annex 2.¹
3. If the firm ceases to comply with the conditions in Chapter 5, Part 3, Title IV of the CRR, the requirements set out in Annex 1, or the requirements set out in Annex 2, the PRA will re-consider the terms and conditions of the IMA Permission and the requirements relevant to it, which may include a revocation of the IMA Permission in whole or in part.
4. The IMA Permission takes effect on 23rd January 2020.

PROCEDURAL MATTERS

5. If you wish to challenge the decisions taken by the PRA in relation to the IMA Permission, you may refer the matter to the Upper Tribunal.
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6. Details of the IMA Permission and the attendant requirements imposed under section 55M will be published on the PRA Register. The full text of this Decision Notice will not be published.

There is no decision maker name on the version sent to the firm

James Tansley
Manager
International Banks Supervision

ANNEX 1

THE INTERNAL MODEL APPROACH PERMISSION

Legal Entities

1. The IMA Permission means that the firm[s] may use, for the legal entities listed in Table 1, on a solo and/or consolidated basis as indicated, the internal model approach in its calculation of own funds requirements for market risk in relation to the risk categories and categories of position described in paragraphs 3 and 4 of this Annex, in accordance with Section 1[2][3],² Chapter 5, Part 3, Title IV of the CRR.

Table 1

Legal entity	Solo
MUFG Securities EMEA plc	

Trading Locations

2. The IMA Permission is granted on the basis that the following are the trading locations for the above legal entities to which the internal model approach has been permitted.

Table 2

Trading Location	Note
London and trades booked in London but executed in other locations such as New York, Hong Kong, Singapore and Tokyo.	

3. In accordance with Article 363(1) of the CRR, but subject to the specific inclusions or exclusions outlined in Table 4 below, the firm must use the IMA Permission to calculate the own funds requirement for the following risk categories and categories of position.

Table 3

	Categories of Position (see Supervisory Statement SS13/13, para 9.4)			
Risk Categories	Category (1)	Category (2)	Category (3)	Category (4)
General Risk:	Yes	Yes	Yes	Yes
Equity instruments	Yes	Yes	Yes	Yes
Debt instruments	Yes	Yes	Yes	Yes
Specific Risk:				
Equity instruments	Yes	Yes	Yes	Yes

Debt instruments	Yes	Yes	No	No
Foreign-exchange risk	Yes	Yes	Yes	Yes
Commodities Risk	Yes	Yes	Yes	Yes

4. The following are specific exclusions or inclusions with respect to the risk categories and categories of position outlined in Table 3 above, for which permission has been granted.

- 4.1. When what are specified in Table 4 for any particular Risk Category are “Exclusions” (or when there are no positions or sets of positions listed in Table 3), then permission is granted for all other types of positions or sets of positions within that Risk Category except for those specifically listed in Table 4.
- 4.2. When what are specified in Table 4 for any particular Risk Category are “Inclusions”, then permission is granted within that specific Risk Category only for those types of positions or sets of positions listed in Table 4.
- 4.3. Unless otherwise stated, references in Table 4 to Specific Risk models include models for Specific Risk VaR, Specific Risk Stressed VaR, Incremental Risk Charge, and Correlation Trading.

Table 4

	Exclusion/ Inclusion³	Types of Positions or Sets of Positions
Risk Categories		
General Risk:		
Equity instruments	[Exclusion]	Equity ETFs are restricted to physicals only
Debt instruments	[Exclusion]	Permission excludes category 3 and 4 inflation products
Specific Risk:		
Equity instruments	[Exclusion]	Equity ETFs are restricted to physicals only
Debt instruments	[Exclusion]	• Permission excludes category 3 and 4 inflation products Permission excludes unmatched portfolio credit derivatives that involve correlation in their pricing
Foreign-exchange risk	[Exclusion]	None
Commodities Risk	[Exclusion]	Category 4 permission is restricted to quanto options only
Other⁴	[Exclusion]	All CIUs excluded other than as provided above

Other Matters

5. Positions for which no pricing model is in place within the standard VaR system must be capitalised under Standard Rules.

6. For the purposes of Article 373 of the CRR, the firm shall not include listed equity positions and derivative positions based on listed equities in the scope of its IRC model.
7. Positions for which no pricing model is in place within the standard VaR system must be capitalised under Standard Rules.
8. For the purposes of Article 366(2) of the CRR, the multiplication factor is the sum of 3.4 and an addend between 0 and 1 that will vary as specified in Table 1 of that Article.
9. In accordance with Article 363(3) of the CRR, the PRA grants permission for the initial stressed value-at-risk calculation submitted by the firm.

For the purposes of paragraph 9.8 of Supervisory Statement 13/13, the firm shall determine the aggregate VaR measure by the firm's own method of aggregating VaR measures as set out in its application for the IMA Permission.

10. The firm should identify any risks that are not adequately captured by its models and hold additional own funds against those risks, as outlined in chapter 2 of Supervisory Statement 13/13.

Changes and extensions

11. In accordance with Article 363(3) of the CRR and Commission Delegated Regulation (EU) 529/2014 (the "Delegated Regulation"), the prior approval of the PRA is required for any material change to the models subject to the IMA Permission or any material extension of use of those models. All other changes to, or extensions of use of, the models must be notified to the PRA. As specified by the Delegated Regulation, in certain cases such notification must be made two weeks before the proposed date of implementation.
12. In accordance with Fundamental Rule 7, the PRA expects a firm to discuss with the PRA in advance of implementation details of any significant planned changes or extensions which are relevant to the internal models covered by this permission and which do not necessarily require the prior approval of the PRA under Article 363(1) of the CRR. Such changes might include, for example:
 - 12.1. new models and systems;
 - 12.2. changes to existing models and systems;
 - 12.3. the inclusion of significant new types of positions;
 - 12.4. the inclusion of significant new sets of positions, e.g. trading strategies, business units;
 - 12.5. significant changes to existing types of position, e.g. currencies, geographies, sectors, maturities/tenors.

These details should include information about the nature of the change, including an estimate of the impact of the change on key risk measures (e.g. VaR) and on the firm's own funds requirements for market risk. They should also include the impact on the own funds requirements for other risk types (such as CVA risk), where relevant.

For avoidance of doubt, this expectation is in addition to the requirements of prior approval or notification under Article 363(3) of the CRR and the Delegated Regulation and the ongoing reporting requirements referred to in Annex 2 below.

ANNEX 2

REQUIREMENTS RELEVANT TO THE IMA PERMISSION GRANTED FOLLOWING AN APPLICATION IN ACCORDANCE WITH SECTION 55M(5) OF THE ACT

The firm must submit a quarterly report to the PRA with certain information about developments and changes with respect to the internal models, as well as the systems and controls relating to them for that quarter.

Note on disclosure

The PRA has decided not to publish the full text and annexes of IMA permission notices as it has been deemed inappropriate and unnecessary. In particular, to do so might prejudice, to an unreasonable degree, the commercial interests of the firms concerned. However, in the interests of transparency, the PRA's policy is to publish an abridged version of the permission notice, as a record that the IMA permission has been granted