PRUDENTIAL REPORTING FOR MARKET RISK BY BANKS INSTRUMENT 2004

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 138 (General rule-making power);
(2) section 156 (General supplementary powers); and
(3) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. The annexes to this instrument come into force as follows:

(1) Annexes A and B come into force on 1 November 2004; and
(2) Annex C comes into force as follows:
  (a) (in the case of a firm that under paragraph 1 of Chapter TRANS of IPRU(BANK) is treating the material added to IPRU(BANK) by the Interim Prudential Sourcebook for Banks (Market Risk) Instrument 2004 as being in force) it comes into force on 1 November 2004; and
  (b) (in other cases) it comes into force on 1 July 2005.

Amendments to the Supervision manual

D. The Supervision manual is amended in accordance with the Annexes to this instrument.

Citation

E. This instrument may be cited as the Prudential Reporting for Market Risk by Banks Instrument 2004.

By order of the Board
20 October 2004

Annex A

Amendments to SUP 16 Ann 1R

In this Annex, underlining indicates new text and striking through indicates deleted text.

Amend Form BSD3 (Capital Adequacy Return) as follows. The pages of the form that are changed are the cover page and pages 24, 25, 33, 35 and 36 (these are in the position of pages 3 to 8 of this instrument).

Private and confidential

To be used for all reports completed as at 1 ~~March 2004~~ January 2005 or after

FORM BSD3 - Capital Adequacy Return

Reporting institution ______________________________

as at.. [ ] [ ] [ ] **FSA number *** [ ] [ ] [ ] [ ] [ ] [ ]

(eg 31 12 2001)

Unconsolidated/solo consolidated/consolidated - tick as appropriate

Unconsolidated [ ] Solo consolidated [ ] Consolidated [ ]

Knowingly or recklessly giving the FSA information which is false or misleading in a material particular may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000). SUP 15.6.1R and SUP 15.6.3R require an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the FSA and to notify the FSA immediately if materially inaccurate information has been provided. SUP 16.3.10R requires an authorised person to submit reports containing all the information required. Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the FSA. It should not be assumed that information is known to the FSA merely because it is in the public domain or has previously been disclosed to the FSA or another regulatory body. Any additional information of relevance should be provided by letter direct to the FSA.

I confirm the information in this form is accurate and complete to the best of my knowledge and belief and that I have read the Guidance Notes to this form.

Signature of authorised signatory: ______________________ Date: ______________

Name: ______________________ Position held: ______________

In the event of a query, the FSA or the Bank of England may, in the first instance, contact (block letters please)

______________________ Tel No ______________ Ext ______________

Notes on Completion

1 If you have any difficulty in completing this return, please telephone your normal supervisory contact at the FSA for guidance.

2 Complete the return quarterly on an unconsolidated/solo consolidated basis as at end of March, June, September and December. Institutions wishing to report at dates which coincide with the financial year end should apply to the FSA for a waiver (see SUP 8).

3 Complete the return half-yearly on a consolidated basis as at end of June and December. Institutions wishing to report at dates which coincide with the financial year end should apply to the FSA for a waiver (see SUP 8).

4 Enter amounts to the nearest thousands omitting £000s/€000s.
Calculated amounts should be rounded to the nearest thousands, or two decimal places as appropriate.

5 For definitions of items, refer to the Guidance Notes

6 To assist with the scanning process, please enter all data neatly within the relevant boxes and do not enter the % symbol in any boxes on this return.

7 Submit within 10 business days for unconsolidated/solo consolidated returns and 20 business days for consolidated returns or 12 and 22 business days respectively for those institutions reporting electronically to:

The Financial Services Authority
c/o Monetary and Financial Statistics Division
Domestic Banking Statistics (HO-4)
Bank of England
Threadneedle Street
London EC2R 8AH

8 Returns may also be delivered to the Works Gate at the Lothbury entrance of the Bank of England between 9.00am and 5.00pm, Monday to Friday. Envelopes should be clearly addressed as above.

FSA use only	Logged in	Data entered

* For unconsolidated/solo-consolidated entities, this should be the FSA firm reference number. For consolidated reports, this will be the FSA firm reference number of the institution on whom the requirement to report has been placed. This box must be filled in by all reporters (SUP 16.3.7R).

MARKET RISKS IN THE TRADING BOOK

I STANDARD APPROACH

FOREIGN EXCHANGE RISK

		Capital Requirement (000)s
B150	For basic approach (from Appendix B-V)………………………………………………….	
B160	For backtesting approach (from Appendix B-V)………………………………………….	
B170	Additional Capital Charge for Options…………………………………………………..	
B170.1	Using Carve Out……………………………………………………………………….	
B170.2	Using CAD1 Models Approach………………………………………………………...	
<u>B170.3</u>	<u>Using the standard method</u> ………………………………………...…………………….	
<u>B170.4</u>	<u>Using the hedging method</u> ……………………………………………...……..…………	
B180	**Total foreign exchange risk <u>requirement</u>……………...…………….……………….**	

INTEREST RATE POSITION RISK

		Amount (000s)	Specific Risk Weights	Capital Requirement (000)s
B190	Specific Risk..…………….			
B190.1	………………………………………………………………………..		0.00%	
B190.2	………………………………………………………………………..		0.25%	
B190.3	………………………………………………………………………..		1.00%	
B190.4	………………………………………………………………………..		1.60%	
B190.5	………………………………………………………………………..		8.00%	
B200	General Market Risk (from Appendix B-VI)……………………………………………….			
B210	Additional Capital Charge for Options:…………………………………….…………….			
B210.1	Using Carve Out………………………………………………………………………..			
B210.2	Using CAD1 Models Approach…………………………………………………………….			
<u>B210.3</u>	<u>Using the standard method</u> ……………………………………...…………………….			
<u>B210.4</u>	<u>Using the hedging method</u> ……………………………………………...……..…………			
B215	Embedded Interest Rate Risk in Equity Derivatives…………………………………….			
B220	**Total interest rate position risk <u>requirement</u>**……………….…………..………….			

		Capital Requirement (000s)
	EQUITY POSITION RISK REQUIREMENT	
B230	Specific Risk (from Appendix B-VII)……………………………………………………….	
B240	General Market Risk (from Appendix B-VII)……………………………………………….	
B250	Additional Capital Charge for Options:……………………………………………………..	
B250.1	Using Carve Out……………………………………………………………………………..	
B250.2	Using CAD1 Models Approach………………………………………………………………..	
B250.3	Using the standard method ………………………………………...……………………	
B250.4	Using the hedging method …………………………………………….....…...…………	
B270	**Total equity position risk requirement**……………….…………………………	

		Capital Requirement (000s)
	COMMODITY POSITION RISK REQUIREMENT	
B280	Commodity position risk (from Appendix B-VIII)………………………………………………..	
B282	Additional Capital Charge for Options:………………………………………………………….	
B282.1	Using Carve Out……………………………………………………………………………….	
B282.2	Using CAD1 Models Approach……………………………………………………………….	
B282.3	Using the standard method ………………………………………...……………………	
B282.4	Using the hedging method …………………………………………….....…...…………	
B284	**Total commodity position risk requirement** …………………………………………	

II INTERNAL MODELS APPROACH

			Capital Requirement (000s)
B290	Previous day's value at risk..…		
B300	Average of previous 60 days' value at risk ....… …		
B310	Multiplication factor (rounded to 2 decimal places and multiplied by 100) .		
B320	Capital requirement for general market risk ....…		
B330	Capital surcharge for specific risk ....…		
B340	**Total capital requirement for risks subject to internal models** (items B320 + B330) ….		

APPENDIX B-V: CAPITAL REQUIREMENT FOR FOREIGN EXCHANGE POSITION RISK REQUIREMENT (000s)

			Column 1 Net Overall Long (short) Position (1 = 2 + 3)	Column 2 Positions to be treated under basic method	Column 3 Positions being treated under backtesting approach
BASE CURRENCY					
Other Currencies					
Belgium/Luxembourg Francs	BE	BELG			
Canadian Dollars	CA	CANA			
Danish Kronor	DK	DENM			
EUROS	ER	EURO			
French Francs	FR	FRAN			
Deutschmarks	DE	RGER			
Irish Pounds	IE	EIRE			
Italian Lire	IT	ITAL			
Japanese Yen	JP	JAPA			
Netherlands Guilders	NL	NETH			
Spanish Pesetas	ES	SPAI			
Swedish Kroner	SE	SWED			
Swiss Francs	CH	SWIT			
Sterling	UK	UKIN			
US Dollars	US	USA			
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
Other Material currencies	U9	UNAL			
Other Aggregate Net Long Positions		OTHL			
Other Aggregate Net Short Positions		OTHS			
TOTAL			ZERO		
Higher of aggregate net short/long open positions					
GOLD	GO	GOLD			
SUM OF GROSS POSITION………………………………………					
CAPITAL REQUIREMENT…………………………………………..					

APPENDIX B-VI: CAPITAL REQUIREMENT INTEREST RATE GENERAL MARKET RISK - continued **(000s)**

			6 Zone Three Net Short Position	7 Maturity ~~based approach~~ method ~~(Method one)~~	8 Duration ~~based approach~~ method ~~(Method two)~~	9 Simplified Maturity Method	10 Total General Market Interest Rate Risk (7 + 8 + 9)
Australia	AU	AUSL					
Austria	AT	AUSR					
Belgium	BE	BELG					
Brazil	BR	BRAZ					
Canada	CA	CANA					
Denmark	DK	DENM					
EUROS	ER	EURO					
Finland	FI	FINL					
France	FR	FRAN					
Germany	DE	RGER					
Greece	GR	GREE					
Ireland	IE	EIRE					
Italy	IT	ITAL					
Japan	JP	JAPA					
Malaysia	MY	MALA					
Mexico	MX	MEXI					
Netherlands	NL	NETH					
Norway	NO	NORW					
Portugal	PT	PORT					
Singapore	SG	SING					
South Africa	RA	SAFR					
Spain	ES	SPAI					
Sweden	SE	SWED					
Switzerland	CH	SWIT					
Turkey	TR	TURK					
UK	UK	UKIN					
Sterling Index Linked Gilts							
USA	US	USA					
Other Material Countries							
....							
....							
....							
....							
....							
....							
....							
....							
....							
....							
....							
Other...........	U9	UNAL					
Non Material Countries	XF	NONM					
TOTAL	....						

APPENDIX B-VII: EQUITY POSITION RISK (000s)

			Gross Positions for Specific Risk			
			1	2	3	4
			Positions attracting 8% specific ~~/ Execution~~ risk	Positions attracting 4% specific ~~/ Execution~~ risk	Positions attracting 0% specific ~~/ Execution~~ risk	Total Gross Equity Positions for specific ~~/ Execution~~ risk (1 + 2 + 3)
Positions, including positions in indices, allocated by country						
Australia	AU	AUSL.....				
Belgium	BE	BELG.....				
Canada	CA	CANA.....				
France	FR	FRAN.....				
Germany	DE	RGER....				
Japan	JP	JAPA.....				
Netherlands	NL	NETH.....				
Spain	ES	SPAI......				
Sweden	SE	SWED....				
Switzerland	CH	SWIT......				
United Kingdom	UK	UKIN......				
United States	US	USA.......				
Denmark	DK	DENM....				
Finland	FI	FINL.......				
Greece	GR	GREE.....				
Ireland	IE	EIRE.......				
Italy	IT	ITAL........				
Luxembourg	LU	LUXE......				
Portugal	PT	PORT......				
....						
....						
....						
....						
....						
Other material ctry.	U9	UNAL				
Non material ctry...	XF	NONM				
TOTAL.....................................						

Annex B

Amendments to SUP 16 Ann 2G

In this Annex, underlining indicates new text and striking through indicates deleted text.

Part 1

BSD3 REPORTING INSTRUCTIONS

...

BSD3-SECTION B: TRADING BOOK FOR SOLO BANK AND LINE BY LINE CONSOLIDATED ENTITIES

General Notes

1 For consolidated returns, the companies to be included in the consolidation should be those agreed between the reporting institution and the FSA in accordance with the FSA's Policy on Consolidated Supervision (Chapter CS (Consolidated supervision) of the FSA Policy Guide/IPRU (BANK)).

1A New market risk provisions were added to IPRU(BANK) in July 2004. They come into force for all banks on 1 July 2005. However banks may choose to apply them before then in accordance with paragraph 1 of chapter TRANS of IPRU(BANK).

If a bank has chosen to apply the new provisions before 1 July 2005 the following applies.

(1) It should use boxes B170.2-B170.4, B210.2-B210.4, B250.2-B250.4 and B282.2-B282.4 as appropriate.

(2) It should not use boxes B160, B170.1, B210.1, B250.1 or B282.1.

(3) It should use these guidance notes in the form that was amended in October 2004 by the Prudential Reporting for Market Risk by Banks Instrument 2004. These amendments are set out in the Annexes to that Instrument. That instrument can be found at www.fsa.gov.uk/handbook/instruments.html.

If a bank has not chosen to apply the new provisions then, until 1 July 2005, the following applies.

(4) It should use boxes B160, B170.1-B170.2, B210.1-B210.2, B250.1-B250.2 and B282.1-B282.2 as appropriate.

(5) It should not use boxes B170.3-B170.4, B210.3-B210.4, B250.3-B250.4 or B283.2-B282.4.

(6) It should use the form of these guidance notes that does not incorporate the amendments contained in Annex C of the Prudential Reporting for Market Risk by Banks Instrument 2004. This unamended version can be found at:

http://www.fsa.gov.uk/pubs/other/sup_chapter16_annex2g.pdf.

…

FORM BSD3 - SECTION B : TRADING BOOK FOR SOLO BANK AND LINE BY LINE

INTERNAL VALIDATIONS

Ref No	Item No	
…		
17	~~B170~~	~~= B170.1 + B170.2~~ Superseded by validation 37, January 2005
…		
21	~~B210~~	~~= B210.1 + B210.2~~Superseded by validation 38, January 2005
…		
25	~~B250~~	~~= B250.1 + B250.2~~ Superseded by validation 39, January 2005
…		
31	~~B282~~	~~= B282.1 + B282.2~~ Superseded by validation 40, January 2005
…		
37	B170	= B170.1 + B170.2 + B170.3 + B170.4
38	B210	= B210.1 + B210.2 + B210.3 + B210.4
39	B250	= B250.1 + B250.2 + B250.3 + B250.4
40	B282	= B282.1 + B282.2 + B282.3 + B282.4

Part 2

Amend the version of Form BSD3 (Capital Adequacy Return) whose boxes have been completed with references to validation and other items as follows.

The pages of the form that are changed are the cover page and pages 24, 25, 33, 35 and 36 (these are in the position of pages 12 to 17 of this instrument).

Private and confidential

To be used for all reports completed as at 1 ~~March 2004~~ January 2005 or after

FORM BSD3 - Capital Adequacy Return

FSA

Reporting institution ______________________________

as at..					**FSA number** *			F	S	A	
(eg	31	12	2001)								

Unconsolidated/solo consolidated/consolidated - tick as appropriate

Unconsolidated ☐ Solo consolidated ☐ Consolidated ☐

Knowingly or recklessly giving the FSA information which is false or misleading in a material particular may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000). SUP 15.6.1R and SUP 15.6.3R require an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the FSA and to notify the FSA immediately if materially inaccurate information has been provided. SUP 16.3.10R requires an authorised person to submit reports containing all the information required. Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the FSA. It should not be assumed that information is known to the FSA merely because it is in the public domain or has previously been disclosed to the FSA or another regulatory body. Any additional information of relevance should be provided by letter direct to the FSA.

I confirm the information in this form is accurate and complete to the best of my knowledge and belief and that I have read the Guidance Notes to this form.

Signature of authorised signatory: ______________________ Date: ______________

Name: ______________________ Position held: ______________

In the event of a query, the FSA or the Bank of England may, in the first instance, contact (block letters please)

______________________ Tel No ______________ Ext ______________

Notes on Completion

1. If you have any difficulty in completing this return, please telephone your normal supervisory contact at the FSA for guidance.
2. Complete the return quarterly on an unconsolidated/solo consolidated basis as at end of March, June, September and December. Institutions wishing to report at dates which coincide with the financial year end should apply to the FSA for a waiver (SUP 8).
3. Complete the return half-yearly on a consolidated basis as at end of June and December. Institutions wishing to report at dates which coincide with the financial year end should apply to the FSA for a waiver (SUP 8).
4. Enter amounts to the nearest thousands omitting £000s/€000s.
   Calculated amounts should be rounded to the nearest thousands, or two decimal places as appropriate.
5. For definitions of items, refer to the Guidance Notes
6. To assist with the scanning process, please enter all data neatly within the relevant boxes and do not enter the % symbol in any boxes on this return.
7. Submit within 10 business days for unconsolidated/solo consolidated returns and 20 business days for consolidated returns or 12 and 22 business days respectively for those institutions reporting electronically to:

   The Financial Services Authority
   c/o Monetary and Financial Statistics Division
   Domestic Banking Statistics (HO-4)
   Bank of England
   Threadneedle Street
   London EC2R 8AH
8. Returns may also be delivered to the Works Gate at the Lothbury entrance of the Bank of England between 9.00am and 5.00pm, Monday to Friday. Envelopes should be clearly addressed as above.

FSA use only	Logged in	Data entered

~~March 2004~~January 2005

* For unconsolidated/solo-consolidated entities, this should be the FSA firm reference number. For consolidated reports, this will be the FSA firm reference number of the institution on whom the requirement to report has been placed. This box must be filled in by all reporters (SUP 16.3.7R).

MARKET RISKS IN THE TRADING BOOK

I STANDARD APPROACH

FOREIGN EXCHANGE RISK

		Capital Requirement (000)s
B150	For basic approach (from Appendix B-V)……………………………………………….	B150
B160	For backtesting approach (from Appendix B-V)………………………………………….	B160
B170	Additional Capital Charge for Options………………………………………………………..	B170
B170.1	Using Carve Out………………………………………………………………………….	B170.1
B170.2	Using CAD1 Models Approach………………………………………………………………..	B170.2
<u>B170.3</u>	<u>Using the standard method</u> ……………………………………...………………….	<u>B170.3</u>
<u>B170.4</u>	<u>Using the hedging method</u> ……………………………………………...……..…………	<u>B170.4</u>
B180	**Total foreign exchange risk <u>requirement</u>……………..……………..………………….**	B180

INTEREST RATE POSITION RISK

		Amount (000s)	Specific Risk Weights	Capital Requirement (000)s
B190	Specific Risk...………………..			B190
B190.1	………………………………………………………………………..		0.00%	B190.1
B190.2	………………………………………………………………………..		0.25%	B190.2
B190.3	………………………………………………………………………..		1.00%	B190.3
B190.4	………………………………………………………………………..		1.60%	B190.4
B190.5	………………………………………………………………………..		8.00%	B190.5
B200	General Market Risk (from Appendix B-VI)……………………………………………….			B200
B210	Additional Capital Charge for Options:…………………………………………………….			B210
B210.1	Using Carve Out…………………………………………………………………………..			B210.1
B210.2	Using CAD1 Models Approach…………………………………………………………….			B210.2
<u>B210.3</u>	<u>Using the standard method</u> ……………………………………...………………….			<u>B210.3</u>
<u>B210.4</u>	<u>Using the hedging method</u> ……………………………………………...……..…………			<u>B210.4</u>
B215	Embedded Interest Rate Risk in Equity Derivatives………………………………………			B215
B220	**Total interest rate position risk <u>requirement</u>**…………………….…….…………..			B220

EQUITY POSITION RISK REQUIREMENT

		Capital Requirement (000s)
B230	Specific Risk (from Appendix B-VII)……………………………………………………….	B230
B240	General Market Risk (from Appendix B-VII)……………………………………………….	B240
B250	Additional Capital Charge for Options:……………………………………………………..	B250
B250.1	Using Carve Out………………………………………………………………………………..	B250.1
B250.2	Using CAD1 Models Approach…………………………………………………………..	B250.2
B250.3	Using the standard method ………………………………………...…………………….	B250.3
B250.4	Using the hedging method …………………………………………...……..…………	B250.4
B270	**Total equity position risk requirement**……………….……………………………….	B270

COMMODITY POSITION RISK REQUIREMENT

		Capital Requirement (000s)
B280	Commodity position risk (from Appendix B-VIII)………………………………………………..	B280
B282	Additional Capital Charge for Options:…………………………………………………………	B282
B282.1	Using Carve Out………………………………………………………………………………….	B282.1
B282.2	Using CAD1 Models Approach……………………………………………………….……….	B282.2
B282.3	Using the standard method ………………………………………...…………………….	B282.3
B282.4	Using the hedging method …………………………………………...……..…………	B282.4
B284	**Total commodity position risk requirement** …………………………………………	B284

II INTERNAL MODELS APPROACH

			Capital Requirement (000s)
B290	Previous day's value at risk...…	B290	
B300	Average of previous 60 days' value at risk ....… …	B300	
B310	Multiplication factor (rounded to 2 decimal places and multiplied by 100) .	B310	
B320	Capital requirement for general market risk ....…		B320
B330	Capital surcharge for specific risk ....…		B330
B340	**Total capital requirement for risks subject to internal models** (items B320 + B330) ….		B340

APPENDIX B-V: CAPITAL REQUIREMENT FOR FOREIGN EXCHANGE POSITION RISK REQUIREMENT (000s)

			Column 1 Net Overall Long (short) Position (1 = 2 + 3)	Column 2 Positions to be treated under basic method	Column 3 Positions being treated under backtesting approach
BASE CURRENCY					
Other Currencies					
Belgium/Luxembourg Francs	BE	BELG			
Canadian Dollars	CA	CANA			
Danish Kronor	DK	DENM			
EUROS	ER	EURO			
French Francs	FR	FRAN			
Deutschmarks	DE	RGER			
Irish Pounds	IE	EIRE			
Italian Lire	IT	ITAL			
Japanese Yen	JP	JAPA			
Netherlands Guilders	NL	NETH			
Spanish Pesetas	ES	SPAI			
Swedish Kroner	SE	SWED			
Swiss Francs	CH	SWIT			
Sterling	UK	UKIN			
US Dollars	US	USA			
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
………………………………					
Other Material currencies ……	U9	UNAL			
Other Aggregate Net Long Positions		OTHL			
Other Aggregate Net Short Positions		OTHS			
TOTAL			ZERO		
Higher of aggregate net short/long open positions				NSOP	NSOP
GOLD	GO	GOLD			
…………………………………………………………………………					
SUM OF GROSS POSITION………………………………………			SUMG	SUMG	SUMG
CAPITAL REQUIREMENT…………………………………………..			CAPR	CAPR	CAPR

APPENDIX B-VI: CAPITAL REQUIREMENT INTEREST RATE GENERAL MARKET RISK - continued **(000s)**

			6 Zone Three Net Short Position	7 Maturity ~~based approach~~ method	8 Duration ~~based approach~~ method	9 Simplified Maturity Method	10 Total General Market Interest Rate Risk (7 + 8 + 9)
Australia	AU	AUSL					
Austria	AT	AUSR					
Belgium	BE	BELG					
Brazil	BR	BRAZ					
Canada	CA	CANA					
Denmark	DK	DENM					
EUROS	ER	EURO					
Finland	FI	FINL					
France	FR	FRAN					
Germany	DE	RGER					
Greece	GR	GREE					
Ireland	IE	EIRE					
Italy	IT	ITAL					
Japan	JP	JAPA					
Malaysia	MY	MALA					
Mexico	MX	MEXI					
Netherlands	NL	NETH					
Norway	NO	NORW					
Portugal	PT	PORT					
Singapore	SG	SING					
South Africa	RA	SAFR					
Spain	ES	SPAI					
Sweden	SE	SWED					
Switzerland	CH	SWIT					
Turkey	TR	TURK					
UK	UK	UKIN					
Sterling Index Linked Gilts							
USA	US	USA					
Other Material Countries							
....							
....							
....							
....							
....							
....							
....							
....							
....							
....							
....							
Other...........	U9	UNAL					
Non Material Countries	XF	NONM					
TOTAL	....						

APPENDIX B-VII: EQUITY POSITION RISK (000s)

			Gross Positions for Specific Risk			
			1	2	3	4
			Positions attracting 8% specific ~~/ Execution~~ risk	Positions attracting 4% specific ~~/ Execution~~ risk	Positions attracting 0% specific ~~/ Execution~~ risk	Total Gross Equity Positions for specific ~~/ Execution~~ risk (1 + 2 + 3)
Positions, including positions in indices, allocated by country						
Australia	AU	AUSL.....				
Belgium	BE	BELG.....				
Canada	CA	CANA.....				
France	FR	FRAN.....				
Germany	DE	RGER....				
Japan	JP	JAPA.....				
Netherlands	NL	NETH.....				
Spain	ES	SPAI......				
Sweden	SE	SWED....				
Switzerland	CH	SWIT......				
United Kingdom	UK	UKIN......				
United States	US	USA.......				
Denmark	DK	DENM....				
Finland	FI	FINL.......				
Greece	GR	GREE.....				
Ireland	IE	EIRE.......				
Italy	IT	ITAL........				
Luxembourg	LU	LUXE......				
Portugal	PT	PORT......				
....						
....						
....						
....						
....						
Other material ctry.	U9	UNAL				
Non material ctry...	XF	NONM				
TOTAL......................................						

Annex C

Further amendments to SUP 16 Ann 2G

In this Annex, underlining indicates new text and striking through indicates deleted text.

BSD3 REPORTING INSTRUCTIONS

SECTION A: BANKING BOOK

ASSETS

…

A462 Aggregate net short open foreign currency position

Reporting institutions which also complete Section B should not report a number in this item, as the capital requirement for foreign exchange position risk requirement should be calculated via item B180. All other reporting institutions should complete this item. The figure reported here should have a positive sign.

The aggregate net short position (net foreign exchange position) should be calculated in accordance with Chapter FX (Foreign exchange position risk requirement), ~~Section 3,~~ of ~~the FSA Policy Guide/~~IPRU (BANK) as relevant. The amount reported in item A462 should be equal to ~~Y+g in the notation of~~ the open currency position plus the net gold position as calculated in Chapter FX (Foreign exchange position risk requirement), ~~Section 4.4,~~ of ~~the FSA Policy Guide/~~IPRU (BANK). However, where fx options business is undertaken, the following adjustments should be made:

(1) ~~w~~Where the ~~simple carve-out~~ standard or hedging method is used, the options capital charges should be multiplied by 12.5 and added to the net short position~~, so that the amount~~. The calculated amount will be reported in item A462. ~~is equal to Y+g+12.5*(C+D) in the notation of Chapter FX (Foreign exchange risk), Section 4.4, of the FSA Policy Guide/IPRU (BANK).~~

~~(2) where one of the write-off methods is used, the options should not be included in the calculation of the net short position.~~

(2~~3~~) ~~w~~Where one of the other options methods are used, banks should consult their supervisor.

~~Institutions whose net open position calculated according to Chapter FX (Foreign exchange risk), Section 3, of the FSA Policy Guide/IPRU (BANK) is less than or equal to 2% of previous period's Large Exposures Capital Base may alternatively calculate their net open position as the difference between the value of foreign currency assets and the value of foreign currency liabilities (regardless of whether the result is long or short), on a consistent basis.~~

The basic method should be used to calculate foreign exchange risk unless the reporting institution is using a VaR model.

…

BSD3 - Section B: Trading book for solo bank and line by line consolidated entities

…

B150-B180 FOREIGN EXCHANGE POSITION RISK

For more detailed information on the specification of capital for foreign exchange risk, see Chapter FX (Foreign exchange position risk requirement) of ~~the FSA Policy Guide/~~IPRU (BANK).

…

B160 ~~For Backtesting Approach~~

~~The total capital required for foreign exchange risk treated under the backtesting approach should be reported here. Item B160 should equal the item for the capital requirement for the backtesting method from Appendix B-V (column 3).~~[deleted]

…

B170.1 ~~Using the Carve Out Approach~~

~~Banks should report here the capital requirement arising from options on foreign exchange instruments treated under the carve out approach to options.~~[deleted]

B170.2 Using CAD1 Models (Scenario Matrix/Buffer) Approach

Banks should report here the capital requirement arising from options on foreign exchange instruments treated under the scenario matrix or buffer approach to options.

B170.3 Using the Standard Method

Banks should report here the position risk requirement arising from options on foreign exchange instruments treated under the standard method for options.

B170.4 Using the Hedging Method

Banks should report here the position risk requirement arising from options on foreign exchange that are treated under the hedging method.

B180 Total foreign exchange risk requirement

…

B190-B220 INTEREST RATE POSITION RISK

For more detailed information on the specification of capital for interest rate risk, see Chapter TI (Interest rate position risk requirement) of ~~the FSA Policy Guide/~~IPRU (BANK).

B190 Specific Risk

Report here the sum of individual net position (as defined in Chapter TI (Interest rate position risk requirement) of ~~the FSA Policy Guide/~~IPRU (BANK) within each risk weighted amount. …

The specific risk weights are:

0.00% Certain Central Government debt instruments;

Debt instruments should be given a 0% specific risk weighting if they are:

a) ~~they are issued by~~ an issue of, or fully guaranteed by, or fully collateralised by ~~securities issued by~~ a Zone A[1] central government~~s and~~, central banks, ~~including~~ or the European Communities; or

b) ~~they are issued by~~ an issue of, or fully guaranteed by, Zone B central governments and central banks with a residual maturity of 1 year or less and are denominated in local currency ~~and funded by liabilities in the same currency~~.

0.25% Qualifying ~~Items~~ debt securities up to 6 months residual maturity

1.00% Qualifying ~~Items~~ debt securities over 6 and up to 24 months residual maturity

1.60% Qualifying ~~Items~~ debt securities over 24 months residual maturity

~~Debt instruments should be treated as qualifying if any of the following conditions apply:~~

~~a) they are issued by, or fully guaranteed by, Zone B central governments and central banks with a residual maturity of over 1 year and are denominated in local currency and funded by liabilities in the same currency.~~

~~b) They are securities issued by, or fully collateralised by claims on, a multilateral development bank as listed in the Solvency Ratio Directive. The European Commission may amend this list periodically (see SGN Appendix E for more detail).~~

~~c) They are issued, guaranteed, endorsed, or accepted, by a credit institution incorporated in a Zone A country (see SGN Appendix C for details of Zone A and B countries);~~

~~d) They are issued, or guaranteed, endorsed, or accepted, by a credit institution incorporated in a Zone B country and have a residual maturity of 1 year or less;~~

~~e) They are issued, or guaranteed, by an investment firm that is incorporated in a Zone A country and subject to the Capital Adequacy Directive, or to a regime that FSA deems to be CAD equivalent;~~

~~f) They are issued, or guaranteed, by an investment firm that is incorporated in a Zone B country and subject to the Capital Adequacy Directive, or to a regime that the FSA deems to be CAD equivalent; and they have a residual maturity of 1 year or less;~~

~~g) They are issued by, or guaranteed by, Zone A public sector entities (see SGN23);~~

~~h) They are issued by, or guaranteed by, a company whose equity is eligible for 2% equity specific risk weighting.~~

~~i) The issue, or an issue of equivalent ranking in a liquidation, or an issue of equivalent ranking in a liquidation of the guarantor, is rated investment grade (or its equivalent for money market obligations), or above and the~~

~~[1] See SGN Appendix C~~.

~~reporting bank is unaware of any sub-investment grade[2] rating issued by any of the relevant credit rating agencies (see SGN Appendix H for the list of agencies which are considered relevant).~~

A debt security is a qualifying debt security if:

(1) it attracts zero specific risk under table 44G of Chapter TI of IPRU(BANK); or

(2) it is issued by, or fully guaranteed by:

- (a) a Zone B central government or central bank and the security is denominated in the local currency of the issuer; or
- (b) a multilateral development bank as defined in the Handbook Glossary; or
- (c) a Zone A public sector entity; or
- (d) a company whose equity is a constituent of one of the indices making up the FTSE All-World Index; or
- (e) an issue of, or fully guaranteed by an investment firm or recognised third-country investment firm; or

(3) it is issued by, fully guaranteed by, endorsed or accepted by:

- (a) a credit institution incorporated in a Zone A country; or
- (b) a credit institution incorporated in a Zone B country and the debt security has a residual maturity of one year or less; or

(4) it is a mortgage backed security which meets the criteria in 7e of section 3.2.5 of Chapter BC of IPRU(BANK); or

(5) it is rated by at least one of the agencies shown in table 47G of Chapter TI of IPRU(BANK), and every such rating equals or exceeds the corresponding minimum shown in that table.

Convertible securities, such as bonds and preference shares, that are treated as debt instruments should be given a specific risk weighting identical to other debt items for the same issuer as described in the preceding paragraphs. Convertible securities (as defined in Chapter TE (Equity position risk), ~~Section 2, Paragraph 4,~~ of ~~the FSA Policy Guide/~~IPRU (BANK)) should be treated as equities when:

a) …

b) the convertible is trading at a ~~premium of less than 10%, where the premium is defined as the current mark to market value of the convertible less the mark to market value of the underlying equity, expressed as a percentage of the mark to market value of the underlying equity~~ market price of less than 110% of the underlying equity.

~~[2] Chapter BC (Credit risk in the banking book), Section 5, of the FSA Policy Guide/IPRU (BANK) includes a list of the relevant cut off points for investment grade for each relevant ratings agency.~~

Otherwise, a bank may treat equity convertibles as either:-

a) ~~an equity position based upon conversion of the bond and deducting from capital (by including in item B215) any losses, including accrued interest, that may arise from this "conversion" for the purposes of calculating the capital requirements, but limiting the size of any profits from the "conversion" to the sum of the specific and general risk requirements; or~~ an equity position (by including in item B215), where the bank's equity PRR should be adjusted by making an addition equal to the current value of any loss which the bank would make if it did convert to equity; or a deduction equal to the current value of any profit which the bank would make if it did convert to equity (subject to a maximum reduction equal to the PRR on the notional position underlying the convertible).

b) a debt item.

…

B210.1 ~~Using the Carve Out Approach~~

~~Banks should report here the capital requirement arising from options on interest rate instruments treated under the carve out approach to options (see in Chapter TI (Interest rate position risk), Section 7, of the FSA Policy Guide/IPRU (BANK)).~~[deleted]

B210.2 Using CAD1 Models Approach

Banks should report here the capital requirement arising from options on interest rate instruments treated under the scenario matrix or buffer approach to options.

B210.3 Using the Standard Method

Banks should report here the position risk requirement arising from options on interest rate instruments treated under the standard method for options (see Chapter TO of IPRU (BANK)).

B210.4 Using the Hedging Method

Banks should report here the position risk requirement arising from options or interest rate instruments treated under the hedging method (see Chapter TO of IPRU (BANK)).

B215 Interest Rate Risk on Equity Derivatives

Reporting institutions should include in this box any interest rate risk arising from equity derivatives (including options) which is not processed via either an approved model or the usual methods for interest rate general market risk (see in Chapter TE (Equity position risk requirement), ~~Section 5, Paragraph 5~~, of ~~the FSA Policy Guide/~~IPRU (BANK)).

…

B220 Total Interest Rate Position Risk Requirement

This item should be the sum of items B190, B200, B210 and B215.

B230-B270 EQUITY POSITION RISK REQUIREMENT

…

B250.1 ~~**Using the Carve Out Approach**~~

~~Banks should report here the capital requirement arising from options on equities treated under the carve out approach to options.~~[deleted]

B250.2 Using CAD1 Models Approach

Banks should report here the capital requirement arising from options on equities treated under the scenario matrix or buffer approach to options.

B250.3 Using the Standard Method

Banks should report here the position risk requirement arising from options on equities treated under the standard method (see Chapter TO of IPRU (BANK)).

B250.4 Using the Hedging Method

Banks should report here the position risk requirement arising from options on equities treated under the hedging method (see Chapter TO of IPRU (BANK)).

B270 Total Equity Position Risk Requirement

This item should be the sum of the capital requirements for specific and general market risk on equities plus any additional capital requirements reported for options.

B280 Commodity position risk requirement

…

B282 Additional Capital Charge for Options

…This item should equal the sum of items ~~B282.1 and~~ B282.2, B282.3 and B282.4.

~~**B282.1 Using the Carve Out Approach**~~

~~Banks should report here the capital requirement arising from options on commodity instruments treated under the carve out approach to options.~~[deleted]

B282.2 Using CAD1 Models (Scenario Matrix/Buffer) Approach

Banks should report here the capital requirement arising from options on commodity instruments treated under the scenario matrix or buffer approach to options.

B282.3 Using the Standard Method

Banks should report here the position risk requirement arising from options on commodity instruments treated under the standard method (see Chapter TO of IPRU (BANK)).

B282.4 Using the Hedging Method

Banks should report here the position risk requirement arising from options on commodity instruments treated under the hedging method (see Chapter TO of IPRU (BANK)).

B284 Total commodity position risk requirement

…

APPENDIX B-V: CAPITAL REQUIREMENT FOR FOREIGN EXCHANGE RISK

...

The net open position in each currency (including gold but excluding the base currency) should be calculated according to Chapter FX (Foreign exchange position risk requirement), ~~Section 3,~~ of ~~the FSA Policy Guide/~~IPRU(BANK). ~~Positions in composite currencies may either be broken down into positions in the component currencies according to the quotas in force, or treated as positions in a separate currency. However, one or other method should be used consistently~~. Positions in American depository receipts should be treated as positions in the currency of the underlying instrument.

...

~~Positions in Column 1, other than the balancing item in the base currency, should be allocated to either Column 2 or 3 in line with the agreed policy set out in the Trading Book Policy Statement. (In certain circumstances, it may be appropriate to split the position in one pre-determined currency, with only a proportion included in the backtesting method. Such a treatment should also be agreed in advance with the supervisor).~~

…

~~The capital requirement for currency and gold positions included in the backtesting method should be reported at the bottom of column 3 and in item B160. The minimum requirement is 2% of the sum of the higher of net short/long open currency positions and the absolute value of the position in gold in Column 3: the entry at the bottom of Column 3 and in item B160 must be at least as large as this in order for the return to be processed~~.

From 1 September 1999, only the basic method ~~should be~~ has been used to calculate foreign exchange risk unless the reporting institution ~~is using~~ has used a VaR model. Accordingly, columns 2 and 3 are no longer applicable, as column 1 is the same as column 2.

APPENDIX B-VI - CAPITAL REQUIREMENT FOR INTEREST RATE GENERAL MARKET RISK

Chapter TI (Interest rate position risk requirement) of ~~the FSA Policy Guide/~~IPRU(BANK) contains three alternative methods that may be used for the calculation of interest rate general market risk. …

Simplified Method: Interest Rate

Reporting institutions which have chosen to apply the simplified method (Chapter TI (Interest rate position risk requirement), ~~Section 4,~~ of ~~the FSA Policy Guide/~~IPRU(BANK)) for interest rate risk should report the resultant capital requirement for each currency in the simplified method column. …

Embedded Interest Rate Risk On Equity Derivatives (Including Options)

~~For general interest rate position risk on equity derivatives, an amount equal to the notional underlying equities may be included in Appendix B-VI as government securities with a coupon below 3% in the currency concerned. Banks should only report in this way if the FSA is satisfied, and has given express written agreement, that sufficient controls are in place to monitor this interest rate exposure and to take account of dividend exposures and liquidity risk~~. If a bank has an approved interest rate sensitivity model, the interest exposure may be incorporated into that model. Otherwise the embedded interest rate exposures in equity derivatives should be calculated as in Chapter TI (Interest rate position risk requirement) or as in Chapter TE (Equity position risk requirement) of IPRU(BANK) and reported in item B215.

~~Unless otherwise agreed with the FSA, embedded interest rate exposures in equity derivatives should be calculated as in Chapter TE (Equity position risk), Section 5, Paragraphs 5-7, of the FSA Policy Guide/IPRU(BANK) and reported in item B215.~~

APPENDIX B-VII: EQUITY POSITION RISK

…

Standard Method

Gross equity positions (including positions in indices) should be reported in Columns 1, 2 or 3 according to the tests and definitions set out in Chapter TE (Equity position risk requirement), ~~Section 4,~~ of ~~the FSA Policy Guide/~~IPRU(BANK). Under the standard method positions in qualifying equities ~~"highly liquid" stocks which form a "diversified portfolio"~~ for the country concerned should be reported in Column 2. Positions in ~~highly liquid~~ qualifying equity indices which attract a ~~charge for execution~~ zero specific risk charge should be reported in column 3. All other positions should be reported in Column 1. Banks should include any notional equity instruments underlying positions in derivatives, but should exclude positions in ~~"highly liquid"~~ qualifying equity indices, unless they have been broken down into their components for the purpose of offsetting other positions. The capital requirement for specific~~/execution~~ risk calculated from these positions is the total of Column 1 multiplied by 8% plus the total of Column 2 multiplied by 4% plus the total of Column 3 multiplied by 0%. This capital requirement should not be reported in Appendix B-VII, but in item B230. Column 4 is the sum of Columns 1, 2 and 3.

The absolute value (ie disregarding sign) of net equity positions should be reported in column~~s 5 and~~ 6. Banks should include any notional equity instruments, underlying positions in derivatives and also any positions in indices.~~For "concentrated" positions, ie those which form more than 20% of the total gross equity position for the country concerned, the value of the position in excess of 20% should be reported in Column 5 (disregarding sign), the remainder of the position being included in Column 6. If more than one concentrated position exists within a country portfolio, the reported excess positions should be aggregated without offsetting (ie disregarding sign) or use zone A/B distinction.~~ The concentration test is no longer in use. Therefore column 5 is no longer applicable so column 6 will equal column 7.

~~Column 7 is the sum of Columns 5 and 6.~~ The capital requirement for general risk calculated from these positions is the ~~total of~~ amount in Column~~s 5 and~~ 6 multiplied by 8%. This capital requirement should not be reported in Appendix B-VII, but in item B240.

Equity positions arising from underwriting should be included within the gross and net equity positions reported for the relevant country. When discount factors are applied to underwriting positions prior to Working Day Zero and for the subsequent five days, the discounted position should be aggregated with other net equity positions for that country without offsetting (ie disregarding sign). [See Chapter TU (~~Underwriting in the capital adequacy framework~~ Securities Underwriting) of ~~the FSA Policy Guide/~~IPRU(BANK) for more details on the treatment of underwriting.]

Equity Simplified Method

~~Banks which have chosen to apply the simplified method for equity position risk should report gross equity positions either entirely in Column 1 (attracting an 8% charge). Equity index positions should be included in the gross position for the relevant country. The capital requirement for specific risk, which should be reported in item B230, is the total of Column 1 multiplied by 8%.~~

~~Under the simplified method the general risk requirement is calculated in the same way as under the standard method: the capital requirement for general market risk, which should be reported in item B240, is the total of Columns 5 and 6 multiplied by 8%.~~

Banks which have chosen to apply the simplified method for equity position risk should report gross equity positions in either Column 1 (attracting an 8% specific risk charge) or in Column 3 (attracting a 0% specific risk charge). Positions in qualifying equity indices attract a 0% specific risk charge and should be reported in column 3. All other positions attract an 8% specific risk charge and should be reported in column 1. Equity index positions should be included in the gross position for the relevant country. The capital requirement for specific risk calculated from these positions is the total of Column 1 multiplied by 8%, which should be reported in item B230.

Under the simplified method the gross equity positions should be summed, and reported under the relevant country in column 6. Netting of general market risk is not allowed under the simplified equity method. The general market risk requirement which should be reported in item B240 is Column 6 multiplied by 8%.

APPENDIX B-VIII - COMMODITY POSITION RISK

This section outlines the calculation of capital charges for commodity position risk. For the purposes of this section, a commodity includes any physical or energy product (except gold) ~~product~~ which is or can be traded on a secondary market ~~and positions in respect of contracts whether tangibles or intangibles not covered elsewhere in these reporting instructions~~. Commodities therefore include agricultural products, base metals, other minerals and various precious metals; however, gold is excluded and is treated as a foreign currency according to the methodology set out under Appendix B-V. …

Definition of a single commodity

Capital charges should be calculated for each commodity separately; long and short positions in the same commodity only should be matched (see below) prior to determining the net open position. For the purpose of these calculations, a bank should treat positions in different grades or brands of the same *commodity*-class as different *commodities* unless they: ~~specific items may be considered as being elements of the same commodity if:~~

(a) ~~positions in different sub-categories are deliverable against each other~~ can be delivered against each other; or

(b) ~~positions in commodities which are close substitutes for each other such that~~ price movements ~~over a minimum period of one year can be shown to have a stable and~~

~~reliable correlation of at least 0.9~~. have price movements which have exhibited a stable correlation coefficient of at least 0.9 over the last 12 months. The bank should then monitor the correlation on a continuing basis.

Banks may undertake the matching of positions under option (b) above. However they should ~~obtain the prior approval of~~ notify their line supervisor before doing so as set out in Chapter CM, 23G of IPRU(BANK). A bank wishing to treat positions in respect of non-identical items as the same commodity should be able to demonstrate that the correlation is valid and to monitor its continuing validity.

Derivative positions

…

- options and warrants on commodities may be treated under ~~one of two~~ the hedging or standard methods. ~~A simple method, called the carve-out, may be used for portfolios which contain (at most) only a small number of written options or warrants, and providing also they contain only plain vanilla and shorter-dated instruments. Banks with larger and/or more complex options portfolios should seek recognition for one of the option risk management models described in Chapter TS (CAD1 models) in the FSA Policy Guide/IPRU(BANK).~~

Maturity ladder approach

…

Table 1 - Time bands and spread rates

Time bands and spread rates

Time band	Spread rate
0-1 month	~~1.5%~~3%
1-3 months	~~1.5%~~3%
3-6 months	~~1.5%~~3%
6-12 months	~~1.5%~~3%
1-2 years	~~1.5%~~3%
2-3 years	~~1.5%~~3%
over 3 years	~~1.5%~~3%

Matched long and short positions in each time band should incur a capital charge. When calculating this charge, ~~the sum of~~ matched positions ~~(i.e. both long and short positions)~~ should be multiplied first by the spread rate for that commodity and second by the spread rate for that band (~~1.5%~~3%). …

…