

Chapter 5

Financial resources

5.15.1

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5.15 OTC derivatives: calculation of credit equivalent amount

- A By attaching current market values to contracts (marking to market), obtain the current replacement cost of all contracts with positive values.
- B To obtain a figure for potential future credit exposure, the notional principal amounts or values underlying the *firm's* aggregate positions are multiplied by the following percentages:

Residual Maturity	Interest-Rate Contracts	Foreign-Exchange Contracts
One year or less	Nil	1%
- C The credit equivalent amount is the sum of current replacement cost and potential future credit exposure.
- Note Except in the case of single-currency "floating/floating interest rate" swaps in which only the current replacement cost will be calculated, bought OTC equity options and covered warrants shall be subject to the treatment accorded to exchange rate contracts.