

**INTERIM PRUDENTIAL SOURCEBOOK FOR BANKS (AMENDMENT NO 4)  
INSTRUMENT 2003**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the power in section 157(1) of the Financial Services and Markets Act 2000 (Guidance).

**Commencement**

- B. This instrument comes into force on 1 May 2003.

**Amendments to the Interim Prudential sourcebook for banks**

- C. The Interim Prudential sourcebook for banks is amended in accordance with the Annex to this instrument.

**Citation**

- D. This instrument may be cited as the Interim Prudential Sourcebook for Banks (Amendment No 4) Instrument 2003.

By order of the Board  
20 March 2003

## Annex

### Amendments to IPRU(BANK)

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

#### Chapter LE Section 5

##### 5 KEY DEFINITIONS: COUNTERPARTY

##### 5.1 Counterparty

...

3 The identity of a *counterparty* will generally be one of the following:

...

(b) ~~the person guaranteed (where the bank is providing such a guarantee)~~  
whose obligations the bank is guaranteeing (where the bank is providing such a guarantee);

...

#### Chapter LE Section 9

##### THE 25% LIMIT

##### 9.2 Exempt exposures

##### 9.2.6 Parental guarantees

14 A *subsidiary* bank may undertake exposures of any maturity in excess of 25% of LECB to unconnected counterparties provided:

...

(c) the exposures are entered into within the terms of a policy agreed by the parent bank.

...

d) For the purposes of (c) above, a suitable guarantee is either a *parental guarantee* or a *capital maintenance agreement*.

...

ii) *A capital maintenance agreement* is an undertaking by the parent bank to provide a sufficient amount of capital of the appropriate kind to restore the subsidiary bank's

risk asset ratio to above its supervisory target ratio if exposures covered by the agreement subsequently become non-performing capital to above its supervisory capital requirement (i.e. the amount of capital it should have in order to comply with Rule 3.3.13 in Chapter GN).

The subsidiary should pre-notify an exposure which is (even partially) covered by ~~an~~ a capital maintenance agreement, but the risk is not transferred only the portion of the exposure which is covered by the capital maintenance agreement may be treated as an exposure to the parent bank.

The parent bank should report the amount covered by the capital maintenance agreement as an exposure to the underlying counterparty.