INTERIM PRUDENTIAL SOURCEBOOK FOR BANKS (AMENDMENT NO 5) 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 September 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 5) Instrument 2003.

By order of the Board
17 July 2003

Annex

Amendments to IPRU(BANK)

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

Volume 2

Chapter CD

6 BANKING BOOK – PROTECTION SELLER

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6.3 Multiple names

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8 If the contract terminates and pays out on the first asset to default in the basket, the bank should hold capital against all the names in the basket. Where it pays out upon the second asset to default, the bank should hold capital against all the names in the basket except one. The bank can choose which one to exclude.

a) …

9 This means that risk weightings are applied to the maximum payout under the contract for ~~each~~ all (or all but one, in the case of second to default) of the names in the basket, capped at an equivalent of a deduction from capital. However, in the case of a first or second to default credit linked note which is rated such as to meet the conditions for recognition as a qualifying debt item, the bank may choose to hold capital against one name in the basket. However, the bank should choose the one with the highest risk weight.

a) Chapter TI defines qualifying debt item.

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7 TRADING BOOK TREATMENT

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7.3.4 Specific risk – multiple reference assets

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15 The credit risk buyer in a first to default product or note should record long positions in each of the assets in the basket, ~~with~~ whilst a second to default note should be treated as long positions in each of the assets in the basket except one. The bank can choose which one to exclude. ~~t~~The total capital charge for ~~the~~ either product can be capped at the equivalent of deduction from capital, ~~with the exception noted below~~.

a) The amount of ~~the~~ each position recorded will be the value of the note.

b) 17 below gives an exception to this ‘additive approach’. In addition, the FSA may consider ~~disapplying the additive treatment~~ that this is not needed where a bank can demonstrate, to the FSA’s satisfaction, ~~that there is~~ a very strong correlation between the ~~reference~~ assets in the basket.