

**PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES
AND INVESTMENT FIRMS (CREDIT DERIVATIVES SPECIFIC RISK)
INSTRUMENT 2008**

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 150(2) (Actions for damages); and
 - (3) section 156 (General supplementary powers).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 January 2009.

Amendments to the Handbook

- D. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Prudential Sourcebook for Banks, Building Societies and Investment Firms (Credit Derivatives Specific Risk) Instrument 2008.

By order of the Board
29 October 2008

Annex

Amendments to the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

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

7.11 Credit derivatives in the trading book

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Ordinary credit default swap PRR method: The valuation change capital charge

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- 7.11.28 R The valuation change capital charge for a group of credit default swaps created under *BIPRU 7.11.24R* is equal to ~~six~~ three multiplied by the larger of the potential loss produced under *BIPRU 7.11.29R* and the potential loss produced under *BIPRU 7.11.30R*. The total valuation change capital charge for credit default swaps treated under the *ordinary credit default swap PRR method* is equal to the sum of such amounts for all such groups.

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Ordinary credit default swap PRR method: The default capital charge

- 7.11.36 R The default capital charge for each group of credit default swaps created under *BIPRU 7.11.24R* is equal to ~~four~~ two multiplied by the amount in *BIPRU 7.11.37R*. The total default capital charge for credit default swaps treated under the *ordinary credit default swap PRR method* is equal to the sum of such amounts for each such group.

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Securitisation credit default swap PRR method: Valuation change capital charge: General

- 7.11.40 R In order to calculate the valuation change capital charge a *firm* must group together each credit default swap that relates to the same *securitisation*. The valuation change capital charge for each such group is equal to ~~six~~ three multiplied by the potential loss amount in *BIPRU 7.11.41R*. The total valuation change capital charge for credit default swaps treated under the *securitisation credit default swap PRR method* is equal to the sum of such amounts for each such group.

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Securitisation credit default swap PRR method: Default charge

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- 7.11.51 R If a *position* is long, the default charge for that *position* must be calculated in accordance with the following formula:

$$V \times RW \times AP \times 2$$

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