Chapter 5

Financial resources

5.12 Counterparty risk requirement (CRR)

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5.12.1 R

1	Receivables	In the case of receivables due to the *firm* in the form of fees, commission, interest, dividends and margin in exchange-traded futures or options contracts, which are directly related to items included in the trading book, the CRR is calculated as follows: CRR = A x RF, where A = the amount of the sum due; and RF = the appropriate risk factor derived from IPRU-INV 5.14.1R. Note 1 This requirement attaches only to balances arising from proprietary activity falling within the definition of the **trading book**. Note 2 This requirement does not attach to items deducted in full as illiquid assets.
2	Delivery of cash against documents	Where a *firm* enters into a **trading book** transaction and the transaction is to be settled by delivery of cash against documents, the *firm*'s CRR in respect of that transaction is calculated as follows: CRR = (SP - MV) x RF, where SP = agreed settlement price; MV = current market value; RF = the appropriate risk factor derived from IPRU-INV 5.13.1R. The CRR should only be calculated where the difference between SP and MV would involve a loss if borne by the *firm*.
3	Free deliveries	Where a *firm* enters into a **trading book** transaction and the *firm* pays for the securities before it receives

		documents of title or delivers documents of title before receiving payment, the CRR in respect of that transaction is calculated as follows: CRR = V x RF, where V (i) the full amount due to the *firm* (i.e. the contract value) where the *firm* has delivered securities to a **counterparty** and has not received payment; or (ii) the market value of the securities, where the *firm* has made payment to a **counterparty** for securities and has not received documents of title; and RF = the appropriate risk factor derived from IPRU-INV 5.14.1R.
4	Settlement outstanding 30 days or more	In the case of **trading book** transactions entered into by a *firm* where the *firm* pays for the securities before it receives documents of title or delivers documents of title before receiving payment and settlement has not been effected within 30 days of falling due, CRR = V.
5	Repos/Stock Lending and Reverse Repos/Stock Borrowing	Where a *firm* enters into a transaction based on securities included in the **trading book** under the terms of a repurchase agreement or a securities lending agreement the *firm*'s CRR in respect of that transaction is calculated as follows: CRR = V x RF, where RF = the appropriate risk factor derived from IPRU-INV 5.14.1R; and for repos/stock lending: V = the excess of the market value of the securities over the value of the collateral provided under the agreement, if the net figure is positive; or for reverse repos/stock borrowing: V = the excess of the amount paid or the collateral given for the securities received under the agreement, if the net figure is positive.
6	otc derivatives	In the case of a transaction entered into by a *firm* as principal in an **otc derivative** the CRR is calculated as follows:

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CRR = A x RF, where

A = the appropriate credit equivalent amount derived from IPRU-INV 5.15.1R; and

RF = the appropriate risk factor derived from IPRU-INV 5.14.1R.

This calculation shall not apply to contracts for interest rate and foreign exchange which are traded on a recognised investment exchange or designated investment exchange where they are subject to a daily margin requirement and foreign exchange contracts with an original maturity of 14 calendar days or less.

A *firm* may net off contracts with the same **counterparty** in the same **otc derivative** contract for settlement on the same date in the same currency provided that the *firm* is legally entitled under the terms of the contracts with such a **counterparty** to net such contracts by novation.