INTERIM PRUDENTIAL SOURCEBOOK FOR BUILDING SOCIETIES (AMENDMENT NO 9) INSTRUMENT 2004

Power exercised

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

Commencement

B. This instrument comes into force on 1 July 2005.

Amendments to the Interim Prudential sourcebook for Building Societies

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

Citation

D. This instrument may be cited as the Interim Prudential Sourcebook for Building Societies (Amendment No 9) Instrument 2004.

By order of the Board
20 October 2004

Annex

Amendments to the Interim Prudential sourcebook for Building Societies

In this Annex underlining indicates new text.

Amend IPRU(BSOC), Volume 1, Annex 4B, Chapter CD, s7 as follows:

See chs TS and TV	3	Banks may apply to the FSA to include credit derivatives in recognised models under CAD1 and also under ~~CAD2~~ <u>VaR</u> models. Banks may apply for recognition of ~~CAD2~~ <u>VaR</u> models which quantify partial offsets for specific risk positions where there is a maturity or asset mismatch.
	…	
	10	…
See ch TI ~~s5~~ <u>46G</u>		a) For the specific risk position to be treated as a qualifying debt item, the reference asset should meet the standard conditions for a qualifying debt item as defined in the chapter on interest rate position risk.
	…	
	17	…
See ch TI ~~s5~~ <u>46G</u>		a) Qualifying debt items are defined in the chapter on interest rate position risk.
	…	
	19	…
		(a) the underlying and reference assets are issued by the same obligor;
See ch TI ~~s3~~ <u>37G</u>		(b) the underlying and reference asset specific risk positions meet the matching criteria set out in the chapter on interest rate position risk; and
	…	
~~See ch TI s6~~	23	Credit default products do not normally create a general market risk position.
	…	
	29	…
See ch TI ~~s5~~ <u>46G</u>		a) Qualifying debt items are defined in the chapter on interest rate position risk.
<u>…</u>		

Amend IPRU(BSOC), Volume 1, Annex 4B, Chapter CD, s8.3 as follows:

5 The option ~~carve-out treatment~~ standard method should be used for credit spread options only after consultation with the FSA. Banks should normally apply for recognition of option models covering credit spread options.

…

Amend IPRU(BSOC), Volume 1, s10 Chapter SE, s3.2.2 as follows:

4 (b) As a repackager, it sells *investment grade* third party *financial instruments* via its balance sheet to an SPV that then rebundles them and resells them to investors.

a) In a *repackaging scheme*, the repackager is *not* the original lender and is therefore subject to fewer limitations than an originator.

b) Where the assets are influenced in credit quality by reference to the repackaging bank, the bank will be regarded as an originator.

See ch TI ~~s9~~ 47G

c) For a definition of *investment grade* see the interest rate position risk chapter. Where the securities to be repackaged are not rated, the bank should be able to demonstrate that the asset are of a comparable quality.

…

Amend IPRU(BSOC), Volume 1, s10 Chapter SE, s9.3 as follows:

See ch TI ~~s9~~ 47G

5 Securities issued that are deemed to be investment grade by relevant rating agencies, as defined, are deemed not to constitute credit enhancement if there is already sufficient credit enhancement within the terms of this section.

…

Amend IPRU(BSOC), Volume 1, s10 Chapter SE, s11.1 as follows:

3 …

a) …

See s6.2

b) …

See s9 and ch TI ~~s9~~ 47G

c) The ability to deal in securities is limited to securities deemed to be of investment grade by a relevant rating agency as defined. Securities below investment grade fall within the definition of credit enhancement as described below.