

**GENERAL PRUDENTIAL SOURCEBOOK (VALUATION FOR
COUNTERPARTY CREDIT RISK) INSTRUMENT 2007**

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 14 December 2007.

Amendments to the Handbook

- D. The General Prudential sourcebook (GENPRU) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the General Prudential Sourcebook (Valuation for Counterparty Credit Risk) Instrument 2007.

By order of the Board
6 December 2007

Annex

Amendments to the General Prudential sourcebook (GENPRU)

In this Annex, underlining indicates new text.

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1.3 Valuation

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General requirements: Marking to market

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- 1.3.16 R (1) When marking to market, a *firm* must use the more prudent side of bid/offer unless the *firm* is a significant market maker in a particular position type and it can close out at the mid-market price.
- (2) When calculating the current *exposure* value of a credit risk *exposure* for counterparty credit risk purposes:
- (a) a *firm* must use the more prudent side of bid/offer or the mid-market price and the *firm* must be consistent in the basis it chooses; and
- (b) where the difference between the more prudent side of bid/offer and the mid-market price is material, the *firm* must consider making adjustments or establishing reserves.

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