

CALCULATION OF CAPITAL REQUIREMENT

1. Calculate Trading book capital requirements

Trading book trigger = $x\%$ ¹ (initially set at 8% for all credit institutions)

	Haircut ²	Notional Risk Weighted Assets	Capital Required
FX Position Risk	A	12.5 x A	x% of (12.5 x A)
Equity Position Risk (including underwriting risk)	B	12.5 x B	x% of (12.5 x B)
Interest Rate Position Risk (ditto)	C	12.5 x C	x% of (12.5 x C)
Large Exposures	D	12.5 x D	x% of (12.5 x D)
Trading book Counterparty and Settlement Risk	E	12.5 x E	x% of (12.5 x E)
Commodities Risk	F	12.5 x F	x% of (12.5 x F)

(Note: 12.5 = reciprocal of 8%)

2. Calculate Banking book capital requirements

Banking book trigger = $y\%$ ³ (minimum set Capital Requirement at 8%)

	Risk Weighted Assets	Capital Required
Credit Risk	G ⁴	y% of G

3. Calculate Operational Risk Capital Requirement

	Capital Required	Notional Risk Weighted Assets
Operational Risk	H ⁴	12.5xH

4. Allocate capital to banking book

Maximise use of Additional Own Funds subject to limitations listed in the Own Funds Rule BR/03.

Determine quantity of Original Own Funds needed for banking book.

5. Allocate capital to the trading book

Maximise use of Additional Own Funds and Supplementary Own Funds subject to the limitations listed in the Own Funds Rule BR/03.

Allocate necessary Original Own Funds to the trading book.

6. Identify any unused but eligible capital

The credit institution may find that it has unused (but eligible) Original Own Funds or Additional Own Funds.

7. Calculate Supervisory Capital Requirement

$$\frac{[\text{Original Own Funds} + \text{Eligible Additional Own Funds} + \text{Eligible Supplementary Own Funds}] \text{ less deductions}^5}{[y\% \text{ of G}] + [x\% \text{ of } 12.5 \times (\text{A+B+C+D+E+F+H})]} \geq 1$$

8. Capital Requirement

$$\frac{[\text{Original Own Funds} + \text{Eligible Additional Own Funds} + \text{Eligible Supplementary Own Funds}] \text{ less deductions}^5}{\text{G} + [12.5 \times (\text{A+B+C+D+E+F+H})]} \times 100 = \%^6$$

9. Summary Schedule

Appendix G to the Rule sets out the Capital Requirement (CR) which credit institutions are required to complete under the Rule. The Capital Adequacy Rule Summary Schedule caters for the submission of the CR on a solo and consolidated basis.

Note: Credit institutions *must* allocate capital to the banking book before allocating it to the trading book.

¹ The authority can set different triggers for both the Trading book and the Banking book.

² Haircuts derived from the relative Annexes to the Rule.

³ The authority can set different triggers for both the Trading book and the Banking book.

⁴ As calculated under the requirements of the Capital Requirements Rule - BR/04.

⁵ Always subject to relative maximum limits as imposed in the Own Funds Rule.

⁶ This ratio may be used for publication purposes.