

**TRANSITIONAL PROVISIONS***(for information purposes only)***Minimum threshold of capital requirements calculated using the Internal Ratings Based and Advanced Measurement Approaches**

1. Credit institutions calculating risk weighted exposure amounts utilising the Internal Ratings Based Approach shall during the first, second and third twelve-month periods after 31 December 2006 provide own funds which are at all times more than or equal to the amounts indicated in paragraphs 3, 4 and 5.
2. Credit institutions using the Advanced Measurement Approach for the calculation of their operational risk capital requirement shall, during the second and third twelve-month periods after 31 December 2006 provide own funds which are at all times more than or equal to the amounts indicated in paragraphs 4 and 5.
3. For the first twelve-month period referred to in paragraph 1, the amount of own funds shall be 95% of the total minimum amount of own funds that would be required to be held during that period by the credit institution under the Banking Directives BD/04 and BD/08, as they stood prior to 1 January 2007.
4. For the second twelve-month period referred to in paragraph 1, the amount of own funds shall be 90% of the total minimum amount of own funds that would be required to be held during that period by the credit institution under the Banking Directives BD/04 and BD/08, as they stood prior to 1 January 2007.
5. For the third twelve-month period referred to in paragraph 1, the amount of own funds shall be 80% of the total minimum amount of own funds that would be required to be held during that period by the credit institution under the Banking Directives BD/04 and BD/08, as they stood prior to 1 January 2007.
- 5a. Credit institutions calculating risk-weighted exposure amounts utilising the Internal Ratings Based Approach shall until 31 December 2012 provide own funds which are at all times more than or equal to the amount indicated in paragraph 5c or paragraph 5d if applicable.
- 5b. Credit institutions using the Advanced Measurement Approach for the calculation of their operational risk capital requirement shall until 31 December 2012 provide own funds which are at all times more than or equal to the amount indicated in paragraphs 5c or 5d if applicable.
- 5c. The amount referred to in paragraphs 5a and 5b shall be 80% of the total minimum amount of own funds that the credit institutions would be required to hold under the Banking Directives BD/04 and BD/08, as they stood prior to 1 January 2007.
- 5d. Subject to the authority's approval, for credit institutions referred to in paragraph 5e, the amount referred to in paragraphs 5a and 5b may amount to up to 80% of the total minimum amount of own funds that those credit institutions would be required to hold under the Standardised Approach for the calculation of their credit risk capital

requirement, the Basic Indicator Approach or the Standardised Approach, for the calculation of their operational risk capital requirements and BR/08 for the calculation of their market risk capital requirement as applicable prior to 1 January 2011.

- 5e. A credit institution may apply paragraph 5d only if it started to use the Internal Ratings Based Approach or the Advanced Measurement Approaches for the calculation of its capital requirements on or after 1 January 2010.
6. Compliance with the requirements of paragraphs 1 to 5 shall be on the basis of amounts of own funds fully adjusted to reflect the differences in the calculation of own funds under the Banking Directive BD/03, as it stood prior to 1 January 2007 and the calculation of own funds under this Rule. These differences would be derived from the separate treatments of expected loss and unexpected loss under the IRB approach.

### **Credit institutions using the Standardised Approach**

7. Until 1 January 2008, credit institutions may continue utilising the Solvency Ratio Directive BD/04 as it stood prior to 1 January 2007.
8. Where the discretion referred to in paragraph 7 is exercised, the following provisions would need to be adhered to until the credit institution's implementation of the Standardised Approach:
  - a) 'Credit derivatives' shall be included in the list of 'Full risk' items in Annex II of Banking Directive BD/04, as it stood prior to 1 January 2007.
  - b) Otherwise, credit derivatives, whether on- or off-balance sheet shall continue to be treated as under Annex III of the current BD/04;
  - c) The credit risk mitigation techniques defined under the new CRD could not be utilised;
  - d) As long as all the bank's exposures will be risk weighted according to Banking Directive BD/04 as it stood prior to 1 January 2007, no operational risk requirement would be imposed;
  - e) Large exposure requirements will continue to be calculated in accordance with Banking Directive BD/02, as it stood prior to 1 January 2007;
  - f) Until date of implementation of the Standardised Approach, Banking Rule BR/12 (Pillar II) and disclosure amendments to Banking Rule BD/07 (Pillar III) will not apply.

### **Credit institutions using the IRB Approach**

9. For credit institutions applying for the use of the IRB Approach before 2010, subject to approval from the Authority, the three-year's use requirement prescribed in paragraph 4.0 of Section II.1 of Appendix 2 to this Rule, may be reduced to a period

no shorter than one year until 31 December 2009.

10. For credit institutions applying for the use of own estimates of LGDs and/or conversion factors (i.e. Advanced IRB approach), the three year use requirement prescribed in paragraph 5.0 of Section II.1 of Appendix 2 to this Rule, may be reduced to two years until 31 December 2008.
11. Until 31 December 2012, the weighted average LGD for all retail exposures secured by residential properties and not benefiting from guarantees from central governments shall not be lower than 10%.