Guernsey Financial Services Commission

Reporting Market, Interest Rate and Settlement Risks under Basel II

November 2007

Background

In 1988 the Basel Committee on Banking Supervision ("Basel Committee") issued a report entitled "International Convergence of Capital Measurement and Capital Standards". The report was updated in 1997. Its purpose was to secure international convergence of supervisory regulations governing the capital adequacy of international banks. The report has become known in recent years as "Basel I".

Latterly, the Basel Committee has worked to revise Basel I. The new revised framework was last updated in November 2005 and was re-issued as a "Comprehensive Version" in June 2006. The revised framework is referred to hereafter as "Basel II". Basel II is arranged into three "Pillars" which can be described as follows:-

Pillar 1 is the principal subsection of Basel II that gives the minimum capital requirements that every bank should meet. This Pillar covers capital requirements to be held by a bank as a mitigant against potential losses arising from credit risk, market risk and operational risk and will include a buffer for uncertainties surrounding the Pillar 1 regime that affect the banking population as a whole. Market risk under Pillar 1 includes trading book risks plus banking book risks such as foreign exchange, gold and commodities risks and settlement risk. This paper focuses on market risks that apply to Guernsey banks and their treatment under Pillar 1.

Pillar 2 is a subsection of Basel II that establishes the requirement for a "supervisory review" process. Banks must assess their capital adequacy relative to their overall risks and identify bank-specific uncertainties not already captured under Pillar 1. This paper focuses on one particular Pillar 2 risk: interest rate risk on the banking book.

Pillar 3 is a subsection of Basel II that gives the requirements for "market discipline".

Introduction

This paper outlines the Commission's reporting requirements for calculating how much capital should be held by banks against potential losses arising out of market risk.

Market risk is defined as the risk of losses in on and off balance sheet positions arising from movements in market prices. These risks include:-

- The risks pertaining to interest rate related instruments and equities in the trading book;
- Foreign exchange risk and commodities risk throughout the bank.

In addition, this paper addresses interest rate risk on the banking book and settlement risk.

Trading book risk

The Commission has determined, through its annual Trading Book Survey[1] that Guernsey banks do not run material trading books. Should a Guernsey bank inform the Commission that it has plans to develop a material trading book then any capital charge determined to address risks arising from that trading book will be decided upon under the Supervisory Review and Evaluation Process of Pillar 2. Interest rate related transactions on the trading book are also to be addressed under Pillar 2.

Annex A and Annex B

The forms and guidance included in the annexes to this paper will be adopted by the Commission in calculating a minimum capital charge to cover:

- the risk of holding or taking positions in foreign currencies, including gold;
- the risk of holding or taking positions in commodities, including precious metals (for gold see foreign exchange risk); and
- settlement risk.

The annexes also contain a suggested form (and guidance to the form) for a methodology that could be adopted by banks in calculating interest rate risk in the banking book.

The forms and guidance in the annexes will be included in the new prudential reporting form to be introduced with the implementation of Basel II.

Foreign exchange risk

The Commission is adopting the “shorthand” method of calculating this risk as described under Basel II. This follows closely the methodology currently used to report this risk to the Commission in form BSL/1. The overall net open position is measured by aggregating the sum of net short positions (converting foreign currency positions at spot rates into the reporting currency) along with the net position in gold.

[1] And the undertaking signed by bank management when completing the survey that they will inform the Commission if their bank intends to establish a material trading book

Commodity risk

A commodity is a physical product that can be traded on a secondary market and includes agricultural products, minerals (excluding oil) and precious metals (excluding gold). All commodity derivatives and off-balance sheet positions which are affected by changes in the commodity price are included. The Commission has adopted the simplified approach to calculating a capital charge appropriate for commodity risk. Under this approach a bank will calculate a capital charge as being 15% of the bank's net position (long or short) in each currency plus 3% of a bank's gross positions, long plus short, in that particular commodity. The additional charge based on gross exposure is to protect the bank against basis risk[2], interest rate risk and forward gap risk[3].

Settlement Risk

Settlement risk is the risk that arises through failed trades and non delivery-verses-payment transactions. Under Basel II banks should develop, implement and improve systems for tracking and monitoring credit risk exposures arising from unsettled and failed transactions, as appropriate, with a view to producing management information that facilitates action on a timely basis. Basel II further requires that, where transactions are not processed through a delivery-verses-payment or payment-verses-payment mechanism, banks must calculate a capital charge as set forth in the annexes to this paper.

Interest rate risk in the banking book

The forms and guidance included in the annexes to this paper set out a method of calculating a minimum capital standard to cover interest rate risk in the banking book. This is a potentially significant risk which merits support from capital. The Basel Committee has noted that there is considerable heterogeneity across internationally active banks in terms of the nature of the underlying risk and the processes for monitoring and managing it. In light of this the Basel Committee has concluded that it was appropriate to treat interest rate risk in the banking book under Pillar 2 of the Basel II framework. The annexes include a methodology for calculating interest rate risk on the banking book. *This is not prescriptive* and banks are free to measure interest rate risk on the banking book using a different methodology. The Commission will monitor to see whether banks are holding capital commensurate with their level of interest rate risk. Where this is not seen to be the case the Commission will require banks to reduce their risk, hold a specific additional amount of capital or some combination of the two. The Commission will be particularly attentive to the sufficiency of capital of banks where economic value declines by more than 20% of the sum of tier 1 and tier 2 capital as a result of a standardised interest rate shock (200 basis

[2] Basis risk is the risk that there is an imperfect correlation between the two investments a hedging strategy.

[3] Forward gap risk is the risk that a forward price may change as a consequence of factors other than interest rates or price movements on the spot market.

points) or its equivalent (as described in the Basel Committee document *Principles for the Management and Supervision of Interest Rate Risk* published in July 2004).

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Annex A: Market, settlement and interest rate risk reporting forms

STANDARDISED APPROACH TO MARKET RISK - FX & GOLD

A	Currency/Gold	Net spot claims (liabilities)	Net forward purchases (sales)	Net overall long/short position
A.1	GBP			
A.2	USD			
A.3	EUR			
A.4	CHF			
A.5	CAD			
A.6	JPY			
A.7	AUD			
A.8	All other - Long			
A.9	All other - Short			
A.10	Balancing Item			
A.11	**Aggregate Net Long Open position**			
B	Gold			
C	**Capital Requirement**			
D	**Risk Weighted Asset Equivalent**			

STANDARDISED APPROACH TO MARKET RISK - Commodities

A	Commodity Types	Positions			Capital Charges
		Gross Long	Gross Short	Net Open Position	Simplified Approach
A.1	Precious metals (excluding gold)			**0**	0
A.2	Base metals			**0**	0
A.3	Energy contracts			**0**	0
A.4	Other Contracts			**0**	0
A.5	**Total**	**0**	**0**	**0**	**0**
B	**Risk Weighted Asset Equivalent**				**0**

Settlement Risk

Delivery Versus Payment

A	Number of trades	Nominal of trades	Days past due	Factor	Loss if trade fails	Capital charge
A.1	0	-	5 – 15	8%	0	0
A.2	0	-	16 – 30	50%	0	0
A.3	0	-	31 – 45	75%	0	0
A.4	0	-	46 or more	100%	0	0

B	Capital charge	Risk weighted assets equivalent
B.1	-	-

Free Delivery

C	Number of trades	Mark-to-market receivable	Counterpaty risk weight	Risk weighted assets
C.1	**4 Days or less since delivery**			
C.1.1			0%	0
C.1.2			20%	0
C.1.3			50%	0
C.1.4			100%	0
C.1.5			150%	0
C.2	**Over 4 Days since delivery**			
C.2.1			1250%	0

D	Risk weighted assets equivalent
	-

Total risk weighted assets equivalent for settlement risk

E	Risk weighted assets equivalent	-

Summary Page

Interest Rate Risk in the Banking Book

A	Item	Amount at Risk
A.1	Interest Rate Risk - Accounting Currency	0
A.2	Interest Rate Risk - Other Currency (1)	2
A.3	Interest Rate Risk - Other Currency (2)	2
A.4	Interest Rate Risk - Other Currency (3)	2
A.5	Interest Rate Risk - All Other Currencies	2
	Total Interest Rate Risk	**10**
	As a percentage of Tier 1 and Tier 2 capital	

Interest Rate Risk -XYZ Currency

Line		Up to 1 month	1 month to <3 months	3 months to <6 months	6 months to <12 months	1 year to <2 years	2 years to <4 years	4 years to <10 years	Over 10 years
A	Shock move 200bp								
A.1	Balance Sheet Assets								
A.1.1	Deposits with banks/building societies								
A.1.2	Debt Securities								
A.1.3	Loans and Overdrafts								
A.1.4	Mortgages								
A.1.5	All Other Balance Sheet Assets								
A.1	Balance Sheet Assets								
A.2	Off Balance Sheet Assets								
A.2.1	Interest Rate-related Contracts								
A.2.2	Forward Foreign Exchange Purchases								
A.2.3	Other								
A.2	Off Balance Sheet Assets								
A	Assets								
B	Shock move 200bp								
B.1	Balance Sheet Liabilities								
B.1.1	Call/Notice Accounts								
B.1.2	Fixed Term Accounts								
B.1.3	Other Accounts								
B.1.4	Bonds Issued								
B.1.5	All Other Balance Sheet Liabilities								
B.1	Balance Sheet Liabilities								
B.2	Off Balance Sheet Liabilities								
B.2.1	Interest Rate Contracts								
B.2.2	Forward Foreign Exchange Sales								
B.2.3	Other								
B.2	Off Balance Sheet Liabilities								
B	Liabilities								
C	Shock move 200bp								
C.1	Net Position								
C.2	Weighting	(0.08%)	(0.32%)	(0.72%)	(1.43%)	(2.77%)	(5.45%)	(11.57%)	(17.84%)
C.3	Weighted Position								
D	Amount at risk								

Annex B: Guidance on market, settlement and interest rate risk prudential reporting

SECTION 1 OVERVIEW

Introduction

1.1 This guidance relates to the completion of the following reporting forms:

- Foreign exchange & gold risk;
- Commodities risk;
- Settlement risk; and
- Interest rate risk in the banking book.

1.2 Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. Banks with a material trading book should contact the Commission to discuss how risks arising from the trading book should be addressed by the bank under its Internal Capital Adequacy Assessment Process (ICAAP) drawn up in accordance with Pillar 2. Other market risks (i.e. market risk on the banking book) should be reported using this form. The market risks subject to a capital requirement in Guernsey for all banks are:

- Foreign exchange & gold risk; and
- Commodities risk.

1.3 The forms and guidance also cover settlement risk, the risks that arise through failed trades and non-delivery versus payment ("DvP") transactions. This treatment is the same throughout the bank (i.e. in both the trading and banking books).

1.4 The Commission requires disclosure of interest rate risk, in accordance with the Basel Committee for Banking Supervision's recommendations contained within its paper "*Principles for the Management and Supervision of Interest Rate Risk*", published in July 2004.

1.5 Banks are reminded of the requirement that they adhere to their minimum risk asset ratio and minimum capital requirements at all times. Where material positions are permitted, these capital requirements for market risk must be calculated daily. The capital charge for settlement risk must be calculated daily for all banks that could have failed trades.

SECTION 2 MARKET RISK: FOREIGN EXCHANGE AND GOLD

Introduction

2.1 The risks arising from foreign currency and gold exposures are similar which is why they are included in the same reporting form. In both cases the bank is allowed to offset current and future exposures to arrive at a net position.

Foreign Exchange Positions

2.2 Do not report any position for the reporting currency of your bank; the return calculates a balancing item corresponding to the effective position in this currency. For most Guernsey incorporated banks this means that line A.1 should be blank.

2.3 The major currencies should each be reported on separate lines, namely pounds sterling ("GBP"), US dollars ("USD"), euros ("EUR"), Swiss francs ("CHF"), Canadian dollars ("CAD"), Japanese yen ("JPY") and Australian dollars ("AUD"). Other currencies should be split into the following two groups according to whether the bank is long or short:-

"All other – Long"; group together smaller currencies where the net overall position in each individual currency is positive.

"All other – Short"; group together smaller currencies where the net overall position in each individual currency is negative.

2.4 Note that the net overall position is the sum of all balance sheet assets less balance sheet liabilities plus/minus net forward purchases/sales.

2.5 All input figures should correspond to the absolute amount (i.e. not carry a plus or minus sign).

2.6 Line A: Foreign Currency Positions

LINE	Description	COMPLETION NOTES
A.1 to A.9	Net spot claims (liabilities)	Gross assets less gross liabilities.
	Net forward purchases (sales)	Gross forward purchases less gross forward sales
	Net overall long/short position	This line is system generated and is the sum of net spot positions and the net forward purchases. A negative value here indicates a short position; a positive value indicates a long position.

A.10	Balancing item	This line is system generated, being the position required to make the overall total of net long and short positions, in all currencies taken together equal to zero.
A.11	Aggregate net long open position	This line is system generated and is the sum of all long open positions including the entry for the sterling balancing item if it is positive. This aggregate of net long open positions, which will be positive or zero, is included in the risk asset ratio calculation.

Gold

2.7 Report any positions in gold. Note that the net overall position in gold is the sum of all balance sheet gold assets less balance sheet gold liabilities plus/minus net forward purchases/sales of gold.

2.8 All input figures should correspond to the absolute amount (i.e. not carry a plus or minus sign).

2.9 Line B: Gold:

LINE	Description	COMPLETION NOTES
B	Net spot claims (liabilities)	Gross gold assets less gross gold liabilities.
	Net forward purchases (sales)	Gross forward purchases of gold less gross forward sales of gold
	Net overall long/short position	This line is system generated and is the sum of the net spot position and the net forward purchases.

Capital Requirement and Risk Weighted Asset Equivalent

2.10 Line C calculates the capital charge, being 8% of the sum of the "Aggregate net long position" from Line A and 8% of the absolute value for the net open position in gold from Line B.

2.11 Line D calculates the equivalent Risk Weighted Asset figure, being 12.5 times the figure computed in Line C.

SECTION 3 MARKET RISK: COMMODITIES

Introduction

3.1 All commodity positions should be reported using this part of the form except gold, which is treated as a currency and is reported

within "Foreign exchange & gold" – see Section 2 above. The bank is allowed to offset current and future exposures to arrive at a net position, and the capital charge is made up of elements for the net and gross positions.

Reporting and calculation of capital charge

3.2 All input figures should correspond to the absolute amount (i.e. not carry a plus or minus sign).

3.3 Line A: Commodity Positions

Line	Description	COMPLETION NOTES
A.1 to A.4	Gross Long	Report all long positions for each class of commodity.
	Gross Short	Report all short positions for each class of commodity.
	Net Open Position	This line is system generated and is equal to Gross Long less Gross Short.
	Simplified Approach	This line is system generated and is equal to 15% of the Net Open figure plus 3% of the Gross Long figure plus 3% of Gross Short figure.
A.5	Gross Long	This line is system generated and is the sum of A.1 to A.4.
	Gross Short	This line is system generated and is the sum of A.1 to A.4.
	Net Open Position	This line is system generated and is the sum of A.1 to A.4.
	Simplified Approach	This line is system generated and is the sum of A.1 to A.4.

Risk Weighted Asset Equivalent

3.4 Line B calculates the total capital charge from Line A and the equivalent Risk Weighted Asset figure, being 12.5 times this charge.

SECTION 4 SETTLEMENT RISK

Introduction

4.1 Settlement risk arises through failed DvP trades and for all non DvP trades (free deliveries).

Failed DvP trades

4.2 Whether or not a transaction involving the delivery of an instrument against the receipt of cash attracts a capital charge for counterparty credit risk during its life, a capital charge should apply in cases of unsettled transactions where delivery of the instrument is due to take place against the receipt of cash, but which remains unsettled five business days after the due settlement date.

4.3 In principle, banks' systems should be set up in such a manner that, where a deal attracts a counterparty risk charge, this charge continues to apply when settlement is due but has not been completed. Banks are expected to adopt this for all such transactions.

4.4 No capital charge in respect of settlement risk on spot and forward foreign exchange transactions are considered necessary.

Treatment

4.5 Unsettled transactions should attract a capital cost based upon the difference between the amount due and the current market value of the instrument, if this has a potential loss. The capital requirement should be this potential loss multiplied by the Factor in the table below.

4.6 This applies only to trades where a loss may arise for the bank if the trade fails to settle. Failed trades must be reported once the date is more than four days after the agreed settlement date.

4.7 Note that the capital requirement for such transactions is not multiplied by a counterparty risk weight.

Number of working days after due settlement date.	Line	Factor
5 – 15	A.1	8%
16 – 30	A.2	50%
31 – 45	A.3	75%
46 or more	A.4	100%

4.8 The figures that must be reported are:

4.9 Line A: Delivery verses payment

Line	Description	COMPLETION NOTES
A.1 to A.4	Number of Trades	Report number of failed trades, by time band.
	Nominal of Trades	Report total amount receivable on the trades, by time band.
	Loss if trade fails	Calculate the mark to market loss of each trade and report the sum of these, ignoring gains.
	Capital Charge	This line is system generated and is the risk multiplier multiplied by the figure in the Loss if Trade Fails line.

Risk Weighted Asset Equivalent

4.10 Line B is system generated and calculates the total capital charge from Line A and the equivalent Risk Weighted Asset figure, being 12.5 times this charge.

Free Deliveries

4.11 A free delivery occurs when a bank has paid away (or received) its side of a transaction and has yet to receive (or pay away) the securities/cash concerned. This generates an immediate exposure. The bank that has made the delivery will be deemed to have a claim on the other party for the amount of the cash or equivalent to the current market value of the securities, whichever is still outstanding.

4.12 The capital requirement for free deliveries should be calculated as:-

Line C.1: Four working days or less since delivery.

The risk weighted amount should be the counterparty claim multiplied by the counterparty risk weight;

Line C.2: More than four working days since delivery.

The counterparty claim must be deducted from capital.

4.13 For clarity, this treatment should also be applied to exchange traded contracts involving physical delivery.

4.14 No capital charge in respect of delivery risk on spot and forward foreign exchange transactions is considered necessary.

4.15 Where the transaction is effected across a national border, the Commission considers that there is a window of one working day before the exposure should be included.

Line	Description	COMPLETION NOTES
C.1.1 to C.1.5: 4 days or less	Number of Trades	This is the number of trades which are four days or less past settlement, by counterparty weight.
	Mark-to-market receivable	Report receivable mark-to-market, by counterparty weight.
	Counterparty Weight	Weights are in accordance with the credit risk approach used by the entity.
	Risk Weighted Assets Equivalent	This line is system generated and is the mark-to-market receivable multiplied by the counterparty weight.
C.2.1 More than 4 days	Number of Trades	This is the number of trades which are more than four days past their settlement date.
	Mark-to-market receivable	Report receivable mark-to-market.
	Counterparty Weight	This weight is equivalent to deducting the amount from capital.
	Risk Weighted Assets Equivalent	This line is system generated and is the mark-to-market receivable multiplied by the counterparty weight (12.5).

Risk Weighted Asset Equivalent

4.16 Line D is system generated calculates the total Risk Weighted Asset Equivalent figures from Line C.

Summary of Settlement Risk

4.17 Line E is system generated calculates the total equivalent Risk Weighted Asset figures from Line A for DvP failed trades and Line D for all non DvP trades (free deliveries).

SECTION 5 INTEREST RATE RISK IN THE BANKING BOOK.

General

5.1 The purpose of this return is to propose a methodology which might be used by banks to determine the degree of interest rate risk in their banking book, and to calculate the amount of capital required to support the risk. The proposed methodology is not prescriptive and banks may opt to use a different methodology as part of their assessment of interest rate risk on the banking book.

5.2 Simple maturity/repricing schedules can be used to generate simple indicators of the interest rate risk sensitivity, of both earnings and economic value, to changing interest rates. When this approach is used to assess the interest rate risk of current earnings, it is typically referred to as "gap analysis". Gap analysis was one of the first methods developed to measure a bank's interest rate risk exposure, and continues to be widely used by banks.

5.3 To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate sensitive assets to produce a repricing "gap" for that time band. This gap can be multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement.

5.4 The size of the interest rate movement used in the analysis can be based on a variety of factors, including historical experience, simulation of potential future interest rate movements, and the judgement of bank management. In line with the movement proposed by the Basel Committee the Commission has proposed that a 200 basis point shock should be the interest rate movement used.

5.5 A negative, or liability-sensitive, gap occurs when liabilities exceed assets (including off-balance sheet positions) in a given time band. This means that an increase in market interest rates could cause a decline in net interest income. Conversely, a positive, or asset-sensitive, gap implies that the bank's net interest income could decline as a result of a decrease in the level of interest rates.

5.6 Under this methodology banks report interest rate mismatch positions, classified in specific maturity bands according to their residual maturity.

5.7 Maturity dates and interest rate repricing dates should be determined on a worst case basis, with assets being recorded at their latest maturity and deposit liabilities at their earliest. Due regard

should also taken of products that allow the customer to withdraw all, or a proportion of, their deposit prior to final maturity.

5.8 For the purpose of measuring interest rate risk, long positions in one currency cannot be offset against short positions in another currency. A separate return should be made for each currency that represents in excess of 25% of the bank's deposit liabilities. Other currencies should be calculated individually and aggregated; the total should be reported under an "other currencies" sheet. Currencies that constitute less than 5% of total deposit liabilities may be ignored. The Commission reserves the right to request reports for individual foreign currencies at its discretion.

5.9 Where derivatives are used to hedge interest rate risk, they should be regarded as synthetic assets or liabilities for reporting purposes. Thus, in a case where the bank has hedged a one-year fixed rate asset against one-month floating rate, it should report the hedging transaction as a liability in the "6 months to <12 months" band, and an asset in the "up to 1 month" band in the lines entitled "interest rate contracts".

5.10 For the purposes of this report references to "month or months" mean calendar month or months.

Completion Notes - Assets

5.11 Interest accrued on assets as at the reporting date should be reported in the "up to 1 month" band and should be reported in the appropriate asset category.

5.12 Similarly, in the absence of a separate column, non-interest bearing assets should be reported in the "up to 1 month" band in the appropriate asset category of the form.

5.13 Report deposits with credit institutions according to the next contractual repricing date or repayment date.

5.14 Report debt securities (e.g. CDs, FRNs, and bills of exchange purchased) according to the next interest re-determination date or contractual repayment date.

5.15 Overdrafts should be reported in the "up to 1 month" maturity band. Loans should be reported by the earliest date at which the bank has the ability to obtain repayment or vary the interest rate.

5.16 Variable mortgages should be reported in the "up to 1 month" maturity band. Floating rate mortgages should be reported according to the next interest rate re-determination date. Fixed rate mortgages should be reported according to the end of the fixed period.

5.17 Report all other assets according to contractual maturity or interest rate re-determination date. The treatment of undated assets of material value should be agreed with the Commission.

5.18 Report all notional amounts receivable under "interest rate-related contracts".

5.19 Report forward foreign exchange purchases according to settlement date.

5.20 Report other derivative contracts amounts receivable by payment date.

Completion Notes - Liabilities

5.21 Interest accrued on liabilities as at the reporting date should be reported in the "up to 1 month" maturity band. The interest accrued should be reported in the appropriate liability category of the form.

5.22 Similarly, non-interest bearing liabilities should be reported in the "up to 1 month" maturity band in the appropriate liability category of the form.

5.23 Report "Call and Notice Accounts" according to the maturity band in which the interest rate payable on the deposit can be changed or varied by the bank. For example: if the bank's procedure is to vary interest rates without giving notice to the customer, and the rate change takes immediate effect, the deposit should be reported in the "up to 1 month" maturity band. Where a product allows a proportion of the deposit to be withdrawn before then, this proportion should be reported in the "up to 1 month" maturity band. This may give rise to one deposit being split and reported over two or more maturity bands.

5.24 Report "Fixed Term Deposits" according to contractual maturity.

5.25 Report "Other Accounts" according to the next repricing date or repayment date.

5.26 Report "Bonds Issued" according to the next repricing or repayment date.

5.27 "All Other Balance Sheet Liabilities": For capital and reserves, report shareholder's equity in the "up to 1 month" maturity band. Report variable and floating rate debt by next interest rate re-determination date.

5.28 Report all other notional amounts payable under "interest rate contracts".

5.29 Report forward foreign exchange sales by settlement date..

5.30 Report other derivative contracts amounts receivable by payment date.

Calculations

5.31 For each band a weighted net position is calculated.

5.32 The "Amount at Risk" is the sum of the weighted positions and would be system generated for sterling and specified currencies. It is the aggregate for all other currencies that are reported.

5.33 The Summary Page brings forward the amount at risk from each specified currency report plus the accounting currency summary report and the aggregate report for all other currencies that constitute in excess of 5% of total deposit liabilities.

5.34 The "Total Interest Rate Risk" is the sum of all these individual risks.

5.35 For the purposes of monitoring the risks the total interest rate risk is expressed as a percentage of tier 1 and tier 2 capital. The Commission will be particularly attentive to the sufficiency of capital of banks where the loss is more than 20% of the sum of tier 1 and tier 2 capital as a result of a standardised interest rate shock (200 basis points) or its equivalent.