Guernsey Financial Services Commission

MODULE 7

Guidance to completing the Individual Capital Guidance module of BSL/2

Glossary

The following abbreviations are used within the document:

AIRB	-	**A**dvanced **I**nternal **R**ating **B**ased approach to credit risk
AMA	-	**A**dvanced **M**easurement **A**pproach to operational risk
ASA	-	**A**lternative **S**tandardised **A**pproach to operational risk
BIA	-	**B**asic **I**ndicator **A**pproach to operational risk
FIRB	-	**F**oundation **I**nternal **R**ating **B**ased approach to credit risk
ICAAP	-	**I**ndividual **C**apital **A**dequacy **A**ssessment **P**rocess
ICG	-	**I**ndividual **C**apital **G**uidance
RAR	-	**R**isk **A**sset **R**atio
RWA	-	**R**isk-**W**eighted **A**sset/**A**mount
SAC	-	**S**tandardised **A**pproach to **C**redit risk
SAM	-	**S**tandardised **A**pproach to **M**arket risk
SSA	-	**S**implified **S**tandardised **A**pproach to credit risk
TSA	-	**T**he **S**tandardised **A**pproach to operational risk

RISK ASSET RATIO CALCULATION

1.1 Module 7, Individual Capital Guidance ("ICG") is intended to show the Commission that a bank has adequate financial resources to meet the risks that it is exposed to and meets the ICG issued to the bank by the Commission following the implementation of its ICAAP.

1.2 This sheet derives the total Pillar 1 risk weighted asset requirement from the output of the appropriate modules for credit, operational, settlement and market risk and calculates the Pillar 1 Regulatory capital requirement. It then adds the Pillar 2 capital add-on as agreed with the bank as part of the ICAAP process and compares the Pillar 1 and 2 regulatory capital requirements to the actual Core Equity Tier 1, Tier 1 and Tier 2 capital ratios.

Detailed guidance

Item	Description	Guidance
A	**Credit Risk**	
A.1	Credit Risk - RWA Equivalent: SSA	If a bank adopts the SSA for credit risk the figure is automatically completed from the total RWA figure input in Module 2.
A.2	Credit Risk - RWA Equivalent: SAC	If a bank adopts the SAC for credit risk the figure is automatically completed from the total RWA figure input in Module 1.
A.3	Credit Risk - RWA Equivalent: FIRB	If the bank adopts the FIRB approach for credit risk then record the total RWA calculated for the bank using that approach.
A.4	Credit Risk - RWA Equivalent: AIRB	If the bank adopts the AIRB approach for credit risk then record the total RWA calculated for the bank using that approach.
	TOTAL CREDIT RISK RWA	**Calculated by the sheet, being the sum of A.1 to A.4.**
B	**Operational Risk**	
B.1	Operational Risk - RWA Equivalent: BIA	If a bank adopts the BIA for operational risk the figure is automatically completed from the total "RWA Equivalent" figure input in the BIA sheet of Module 3.
B.2	Operational Risk - RWA Equivalent: TSA	If a bank adopts TSA for operational risk the figure is automatically completed from the total "RWA Equivalent" figure input in the TSA sheet of Module 3.

Item	Description	Guidance
B.3	Operational Risk - RWA Equivalent: ASA	If a bank adopts the ASA approach for operational risk the figure is automatically completed from the total "RWA Equivalent" figure input in the ASA sheet of Module 3.
B.4	Operational Risk - RWA Equivalent: AMA	If the bank adopts the AMA approach for operational risk then record the total RWA equivalent calculated for the bank using that approach.
	TOTAL OPERATIONAL RISK RWA	**Calculated by the sheet, being the sum of B.1 to B.4.**
C	**Market Risk in the Banking Book**	
C.1	Market Risk - RWA Equivalent - SAM: FX & Gold	This figure is automatically completed from the total "Risk Weighted Asset Equivalent" figure input in the "foreign currency exposure" sheet of Module 4.
C.2	Market Risk - RWA Equivalent - SAM: Commodities	This figure is automatically completed from the total "Risk Weighted Asset Equivalent" figure input in the "commodities" sheet of Module 4.
	TOTAL BANKING BOOK MARKET RISK RWA	**Calculated by the sheet, being the sum of C.1 and C.2.**
D	**TOTAL SETTLEMENT RISK RWA**	This figure is automatically completed from the total "Risk Weighted Asset Equivalent" figure input in the Module 5.
E	**Total Pillar 1 RWA**	Automatically completed, this figure is the total Pillar 1 RWA for Credit, Operational, Market and Settlement Risk.
F	**Risk Weighted Assets**	
F.1	Total risk weighted assets	Automatically completed, this is Total Pillar 1 RWA per item E.
F.2	of which: 250% risk weighted items	Automatically completed, this is the amount of RWA relating to 250% risk weighted items.
F.3	of which: 1,250% risk weighted items	Automatically completed, this is the amount of RWA relating to 1,250% risk weighted items.

G	**Actual Capital Ratios and Minimum Required Capital Ratios**

G.1	Actual Common Equity Tier 1 (as a percentage of risk weighted assets)	Calculated automatically, this calculates the Core Equity Tier 1 Ratio
G.2	Actual Tier 1 (as a percentage of risk weighted assets)	Calculated automatically, this calculates the Tier 1 Ratio.
G.3	Actual Total capital (as a percentage of risk weighted assets)	Calculated automatically, this calculates the Total Regulatory Capital Ratio.
G.4	Common Equity Tier 1 minimum ratio required (adjusted)	Calculated automatically .The institution specific CET1 requirement (jurisdictional minimum including capital conservation buffer plus Pillar 2 add-on) should be entered here in terms of percentage of RWA. (The minimum requirement may be adjusted where RWA has fallen below the level as at the date of the last setting of regulatory capital guidance i.e. where the Pillar 2 add-on has fallen below the absolute minimum requirement as indicated by the Commission – see H.4)
G.5	Tier 1 minimum ratio required (adjusted)	Calculated automatically. The institution specific Tier 1 requirement (jurisdictional minimum including capital conservation buffer plus Pillar 2 add-on) should be entered here in terms of percentage of RWA. (The minimum requirement may be adjusted where RWA has fallen below the level as at the date of the last setting of regulatory capital guidance i.e. where the Pillar 2 add-on has fallen below the absolute minimum requirement as indicated by the Commission – see H.5)
G.6	Total capital minimum ratio required (adjusted)	Calculated automatically. The institution specific Total Regulatory Capital requirement (jurisdictional minimum including capital conservation buffer plus Pillar 2 add-on) should be entered here in terms of percentage of RWA. The minimum requirement may be adjusted where RWA has fallen below the level as at the date of the last setting of regulatory capital guidance i.e. where the Pillar 2 add-on has fallen below the absolute minimum requirement as indicated by the Commission – see H.6)

H	**Jurisdictional minima**	
H.1	Jurisdictional Common Equity Tier 1 minimum ratio	This item shows the Pillar 1 minimum CET1 requirement including capital conservation buffer.
H.2	Jurisdictional Tier 1 minimum ratio	This item shows the Pillar 1 minimum Tier 1 requirement including capital conservation buffer.
H.3	Jurisdictional total capital minimum ratio	This item shows the Pillar 1 minimum Total Regulatory Capital requirement including capital conservation buffer.
H.4	Institution specific Common Equity Tier 1 minimum ratio	Column E: Pre-populated by the Commission. Minimum CET1 ratio as set by the Commission. Column F and G: Calculated automatically. Adjustment to minimum ratio requirement where Pillar 2 has fallen below minimum absolute floor set by the Commission.
H.5	Institution specific Tier 1 minimum ratio	Column E: Pre-populated by the Commission. Minimum Tier 1 ratio as set by the Commission. Column F and G: Calculated automatically. Adjustment to minimum ratio requirement where Pillar 2 has fallen below minimum absolute floor set by the Commission.
H.6	Institution specific total capital minimum ratio	Column E: Pre-populated by the Commission. Minimum Total Regulatory Capital ratio as set by the Commission. Column F and G: Calculated automatically. Adjustment to minimum ratio requirement where Pillar 2 has fallen below minimum absolute floor set by the Commission.
H.7	Pillar 2 CET1 Absolute minimum	Pre-populated by the Commission. Minimum absolute floor set by the Commission.
H.8	Pillar 2 Total Regulatory Capital Absolute minimum	Pre-populated by the Commission. Minimum absolute floor set by the Commission.