Agreed proposal of the United States Federal Banking Supervisory Authorities and the Bank of England on primary capital and capital adequacy assessment

Consultative paper issued by the Bank of England and the Board of Governors of the Federal Reserve System on 8 January 1987

This paper constitutes a system for the measurement of capital adequacy agreed by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and the Bank of England. The principal objective of the paper is to promote the convergence of supervisory policies on capital adequacy assessments among countries with major banking centres. The proposal outlined below is intended to serve as a basis for consultation with the banking industry and others in the United States and the United Kingdom. The authorities concerned hope that the approach adopted by the United States and the United Kingdom will provide a basis which other countries can follow.

This paper explains the agreed proposal concerning:

(I) the components of the primary capital base of banking organisations;

(II) the deductions to be made from primary capital in computing the capital base for the calculation of a risk asset ratio;

(III) the weighting structure of risk assets and off-balance-sheet activities;

(IV) the use for supervisory purposes of a ratio of primary capital to weighted risk assets.

The paper should be read in conjunction with the attached tables which are appropriately cross-referenced.

I Primary capital

Primary capital represents the highest quality form of capital for banks and banking organisations (hereinafter a reference to banks should generally be taken to include banks, bank holding companies in the United States and banking groups in the United Kingdom). Within this category of capital, quality cannot be regarded as uniform and some components are undoubtedly of a higher quality than others. There are a number of elements that strengthen the balance sheets of banks to some extent, although clearly falling short of primary capital. Into this latter category may fall subordinated debt with a fixed maturity and the excess of market value over book value of some bank assets, notably bank premises and long-term investments. It is not the intention of the supervisors to ignore these items but rather to take some account of them after the basic primary capital to weighted risk asset ratio has been calculated. The supervisory authorities in both countries will therefore also take account of the ratio of total capital to weighted risk assets, as well as other qualitative factors, in their overall prudential assessment.

The components of the primary capital base represent resources which can be used to meet current losses while leaving banks able to continue operating on a going concern basis. The supervisors agree that this criterion is the most important determinant of the status of primary capital.

Common stock/equity (IA1), although repayable in strictly defined and limited circumstances, clearly meets the criterion as does any premium or surplus arising from the issue of common stock/equity. These, together with reserves in the form of *retained earnings* (IA2), represent the highest quality form of capital. *The minority interest in subsidiaries that are consolidated for supervisory purposes* (IA3) is also available to absorb losses.

There are no limits on the amounts of such capital that can be included in a bank's capital base for purposes of measuring capital adequacy. While it could be argued on grounds of uncertainty that it would be desirable to defer inclusion of *current year earnings* (IA2) until the end of the year in question, the United States and United Kingdom supervisory authorities have decided to include them. A realised profit arising out of the disposal of real property, for example, clearly fully meets the criterion for inclusion in primary capital. It is, however, possible that lending or trading profits for interim periods during the year may be eroded by later or unidentified losses.

General reserves/general provisions (IA4) for losses resulting from charges to earnings will be included for the present in primary capital. The United States and United Kingdom supervisory authorities are agreed that provisions made against identified losses cannot and should not be regarded as capital. General reserves/general provisions are made against unidentified or potential losses and can therefore be regarded as meeting the criterion. The United States and United Kingdom supervisory authorities have reservations about those general provisions that in reality are earmarked against specific assets or categories of assets and that do not

therefore satisfy the criterion of general availability. However, it is not always possible to distinguish such provisions. Therefore, while for the present all general reserves/general provisions are included as primary capital, the supervisory authorities would like to seek comment from banks, the accounting profession and other interested parties on whether such reserves should be phased out of the primary capital base.

Hidden reserves (IA5), in the form of undisclosed retained earnings, do not exist in the United States and presently are permitted only to a limited number of banks in the United Kingdom. The issue has been addressed in the European Community's Bank Accounts Directive and, within its terms, member states have the option to allow banks in their country to maintain limited hidden reserves. This option will be reviewed five years after the Directive has been implemented. The position of hidden reserves in the United Kingdom will therefore next be considered when the Bank Accounts Directive is implemented. If it is then decided that United Kingdom banks should not be permitted to maintain hidden reserves, they will be available for transfer to disclosed reserves. Until this occurs, the Bank of England will continue to include them as primary capital.

In addition to the elements to be allowed without limit, the supervisory authorities propose to include in primary capital, but subject to a limit, certain items that give much greater strength to a bank than subordinated debt of a fixed maturity but that have certain drawbacks as compared with common stock and other unlimited components of the primary capital base.

Perpetual preferred shares (IB1a) and *instruments perpetual in nature and capable of meeting current losses* (IB2), together with *long-term dated (limited-life) preferred shares* (IB1b), will be included in the primary capital base subject to a limit of 50 per cent of the unlimited elements after the deduction of intangible assets. (For example, if the unlimited items total US$100 million and there are intangibles of US$10 million, then there will be a limit of US$45 million applying to qualifying preferred shares and perpetual debt and their equivalents.) Perpetual preferred shares and perpetual subordinated debt cannot be redeemed at the option of the holder and any repayment may occur only with the prior consent of the supervisory authorities. Included here are perpetual subordinated debt and certain instruments that can only be converted into primary capital instruments. The proceeds of such instruments effectively remain available to meet current losses and leave the bank able to continue operating. Long-term dated preferred shares (25 years or more initial maturity) also provide a cushion against current losses. Such shares must be amortised for the purpose of assessing capital adequacy over the last few years of their life.

Since changes are involved in the definition of the capital base, the respective supervisory authorities will continue to include (in the United States) existing mandatory convertible securities which do not meet the new criteria (in the attached tables at IB2 (a), (b), (c)) and (in the United Kingdom) existing revaluation reserves for bank premises.

II Deductions from primary capital

The United States and United Kingdom supervisors have also agreed to propose that certain deductions should be made from the total of primary capital elements in order to derive the adjusted capital base for purposes of calculating the risk weighted capital ratio. In the United States, all future *intangible assets* will be deducted; existing allowed intangible assets will be 'grandfathered'. The Bank of England reaffirms its present policy of deducting all existing intangible assets (IIA).

Investments in unconsolidated subsidiaries and associated companies including, but not limited to, unconsolidated joint ventures, will also be deducted (IIB). For the United States, this could include certain consolidated subsidiaries as determined by United States regulatory authorities. The assets of such companies will not be brought into the calculation of the risk asset ratio.

The Bank of England already deducts *bank holdings of other banks' capital instruments* (IIC), except for limited concessions to allow some banks to play an active role in market-making in the primary (new issues) and/or secondary markets. This policy will be maintained. The United States authorities accept the principle underlying this policy and will monitor bank holdings of capital instruments issued by other banks and may, as appropriate, deduct these items on a case-by-case basis.

III The risk asset ratio

(a) General

The risk asset ratio is calculated by applying to each broad category of assets or off-balance-sheet obligations a weight reflecting the relative riskiness inherent in each. The total of weighted risk assets is then measured in relation to the adjusted capital base to derive a ratio. The United States and United Kingdom authorities intend to concentrate on the primary capital to total weighted risk asset ratio.

This Section describes and explains the simple structure of weights and indicates areas where further work is required to augment the present agreed approach.

It is recognised that it would be possible to establish more weights but this would introduce greater complexity, and more onerous statistical reporting obligations, without any assurance of a significantly more efficient or effective system. The calculation of the ratio represents only one element in the assessment of capital adequacy, although it is a most important one.

The agreed framework consists of broad categories of obligor and, to some extent, of maturity. With certain important exceptions, it reflects credit risk, that is, the

risk of borrower or counterparty default. In addition the Bank of England includes the net open foreign exchange position in the risk asset ratio as defined in *Foreign Currency Exposure, April 1981.* The United States authorities are committed to introducing a capital requirement for exchange rate risk. All authorities are firmly committed to the development of an approach that will enable interest rate risk to be incorporated into the framework. Some other risks—for example of operational failures—are important but cannot readily be captured in a risk asset ratio. The agreed weighting structure takes no account of country transfer risk. Nor is commercial lending differentiated with respect to credit quality or collateral, except for the strictly limited exception for exposures secured by government securities or cash. These factors will be considered, as now, through the examination/supervisory process.

Five risk weight categories are proposed—0 per cent, 10 per cent, 25 per cent, 50 per cent and 100 per cent—and the weighting for particular items is discussed below. There are some special institutional features of the United States and United Kingdom markets which require differences in treatment between the two countries; these are indicated in the text which follows.

(b) On balance sheet

The weightings set out in what follows are based on relative degrees of risk starting from 100 per cent for a claim on a non-bank obligor, which can for these purposes be regarded as a standard risk.

(i) Cash and all claims on the domestic central bank

Cash and all claims on the domestic central bank (III 1, 2) are regarded as bearing no significant banking risks and therefore are assigned a weight of 0 per cent. The Bank of England will also continue to give a 0 per cent weight to government-guaranteed export and ship-building loans (III 3). As indicated below, the United States supervisory agencies place comparable United States Government-guaranteed claims in the 25 per cent risk category (III 12).

(ii) Short-term claims on domestic national government

Short-term claims (remaining maturity of one year or less) on the domestic national government and on domestic national government agencies (III 4) are assigned a weight of 10 per cent. (For the United States, national government agencies are defined as those agencies whose debt obligations are backed by the full faith and credit of the United States Government.) While short-term claims on the domestic national government bear no credit risk, such claims could involve a degree of interest rate exposure. Thus, as described below, until a more direct measure of interest rate risk is developed, such claims will be assigned to the 10 per cent category.

(iii) United Kingdom discount houses, gilt-edged market makers and Stock Exchange money brokers

The Bank of England proposes a weighting of 10 per cent for short-term (remaining maturity of one year or less) claims on discount houses, gilt-edged market makers and Stock Exchange money brokers. These specialist institutions have an operational relationship with the Bank, including secured borrowing facilities, and are subject to close supervision. They trade predominantly in high quality liquid assets on which their borrowing is customarily secured. For these reasons short-term claims on this group involve less risk than short-term claims on banks. This treatment effectively reflects the special institutional structure in the United Kingdom (III 5).

(iv) Short-term claims on domestic depository institutions and foreign banks (including foreign central banks)

The weighting for short-term claims (remaining maturity of one year or less) on domestic depository institutions and foreign banks and equivalent off-balance-sheet exposures (III 6, 7, 11) reflects the lower risk generally of such claims as compared with claims on commercial obligors and longer-term claims on banks. For this reason a weighting of 25 per cent for this category has been proposed. It is acknowledged that short-term claims on some commercial borrowers may involve less risk than similar claims on some banks. It is considered, however, that since depository institutions are supervised and a particularly high quality is inherent in short-term interbank claims, the treatment proposed is broadly reasonable. Longer-term claims on depository institutions are regarded as bearing a high risk that is generally closer in quality to claims on commercial obligors and these will be assigned a weight of 100 per cent. The breakpoint at one year is admittedly arbitrary but captures most genuine short-term, interbank money-market activity.

(v) Longer-term claims on own governments and analogous claims

For United States banks, the weighting of long-term claims on the United States Government (Treasury), and for United Kingdom banks, the weighting of long-term claims on HM Government, does not reflect any credit risk but is designed, as a temporary measure, to be a proxy for the significant element of interest rate risk inherent in holdings of longer-term government securities. It is the intention of the United States authorities and the Bank of England to develop a more direct measure of interest rate risk. Pending this further work, it has been agreed that government securities with a remaining maturity of

more than one year should be weighted at 25 per cent (III 9).[1]

To be consistent with this approach, claims having an analogous nature are also to be weighted at 25 per cent. Thus, for United States banks, all long-term claims on United States Government agencies (III 9), all claims collateralised by United States Government and United States Government agency debt or cash (III 10) and claims guaranteed by the United States Government or its agencies (III 12) will be assigned to the 25 per cent category. For United Kingdom banks, claims collateralised by domestic national government debt or cash (III 10), most domestic national government guaranteed claims (III 12) and claims on United Kingdom public corporations and the rest of the public sector (III 9) will be weighted at 25 per cent.

For United States banks, all claims on United States Government *sponsored* agencies (that is, agencies that are chartered or established by the Federal Government to carry out a public purpose as specified by theUnited States Congress and whose debt obligations are not guaranteed by the full faith and credit of the United States Government) and all claims collateralised by United States Government-sponsored agency debt are assigned to the 50 per cent category (III 14, 15).

Although the credit risk attaching to claims on United Kingdom local authorities is not the same as claims on HM Government, the Bank of England believes that they should be included in the 25 per cent category rather than in the 50 per cent category (III 8). The United States authorities propose placing general obligation claims on domestic state and local governments in the 50 per cent category (III 16).

(vi) Local currency claims on foreign central governments in foreign offices

The treatment of assets in overseas offices of banks raises difficult conceptual and practical questions. It has been agreed, however, that local currency claims on foreign *central* governments, to the extent funded by local currency liabilities in that country, do not involve any transfer risk. A 25 per cent weight will therefore be applied to both short and long-term claims (III 13).

(vii) Multinational development institutions

All direct claims of United States banks on multinational development institutions in which the United States Government has shareholder or contributing member status and, similarly, all direct claims of United Kingdom banks on such institutions in which HM Government has the same status will be given a weight of 50 per cent. This reflects the generally high quality of claims on such institutions (III 17).

(viii) Other assets

All assets not mentioned so far will carry a 100 per cent weight (III 18, 19, 20, 21, 22). As discussed earlier, the Bank of England also already applies a weight of 100 per cent to the net open foreign exchange position (III 23) and will maintain this. The United States authorities are committed to introducing a capital requirement for exchange rate risk.

(c) Off balance sheet

(i) General

The United States and United Kingdom banking supervisory authorities believe that all off-balance-sheet items giving rise to credit risk (and in addition, in time, foreign exchange and interest rate risks) should in principle be included in the risk asset ratio. The obligations should receive the risk asset weighting appropriate to the individual obligor. There is, however, an important and difficult question relating to the size of the exposure that should be weighted.

An approach to off-balance-sheet items has been devised that endeavours to convert the credit risk of each instrument into a credit equivalent that can be incorporated into the risk asset framework outlined in this paper. It is recognised that the methodology employed will appear simple and approximate but it provides a logical and consistent basis for the calculation of a ratio that encompasses both on and off-balance-sheet business.

Distinctions are made between contingencies, commitments and interest rate and foreign exchange rate contracts and these are discussed separately.

(ii) Contingencies/contingent items

Obligations in the form of financial guarantees and equivalents (for example, standby letters of credit having the character of guarantees and, in the United Kingdom, acceptances) effectively involve from the date of the assumption of the obligation the same degree of credit risk as outstanding loans (III 24). There is no action that the bank can take to avoid the full credit risk. The supervisory authorities, accordingly, believe that these obligations should be regarded as direct credit substitutes and be weighted for their full amount, that is, the credit conversion factor is 100 per cent of the principal amount. The risk asset weighting is then determined by the category of the counterparty and, where appropriate, the maturity.

(1) The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) disagreed with splitting such securities according to maturity, even as a temporary measure. Optimally, an adjusted capital standard should incorporate an assessment of a bank's exposure to interest rate risk. Specific assets, however, do not necessarily expose a bank to interest rate risk; rather, interest rate risk reflects the relationship within the portfolio between the interest rate structure of assets and liabilities. Isolating a single asset on a bank's balance sheet and making a maturity distinction in order to incorporate interest rate risk into the capital ratio is inappropriate because it fails to take account of the interest rate exposure arising from other loans and securities, off-balance-sheet activities, and a bank's liability structure. In the light of this concern, the OCC and FDIC recommended that banks' exposures to interest rate risk be evaluated case by case during examinations, for purposes of assessing capital adequacy, and that all United States Treasury securities and agencies securities bearing the full faith and credit of the United States government be placed in the 10 per cent risk category. The other supervisory authorities agree with the logic that interest rate risk should be addressed on a portfolio, rather than an individual asset, basis but believe that until such risk can be monitored and included in capital adequacy requirements in a more systematic fashion, the proposed maturity split represents a reasonable interim step.

Some contingencies (III 25), notably commercial letters of credit, performance bonds and performance-related standby letters of credit, involve a lesser credit risk. The key elements in this judgment are that the counterparty has a strong incentive to meet its obligations if it wishes to remain in business (thus giving these claims a somewhat higher ranking in the counterparty's list of priorities than some other claims); the obligations are often (but not invariably) short-term in maturity; and banks assert that the loss record is favourable. To make allowance for these favourable factors, it is proposed to scale down the nominal exposure by a credit conversion factor of 50 per cent, before the exposure is weighted according to the category of the obligor (and, where relevant, maturity)—for example, the deemed credit risk equivalent of a commercial letter of credit of US$10 million would be US$5 million which in turn would be weighted according to obligor and, in some cases, maturity.

Contingencies such as indemnities for lost share certificates and bill endorsements will be excluded from the framework as they do not involve a significant credit risk.

(iii) Commitments

Whereas contingencies (as described above) involve the immediate assumption of a credit risk, commitments generally represent an undertaking to assume a credit risk in the future. It is recognised that this distinction is somewhat difficult to make at the margin and that it is the nature of the obligation which matters rather than the name given to the facility.

Some transactions, for example sale and repurchase agreements and asset sales with recourse, may involve balance sheet entries and as such will attract a weighting for the full face value. Any other obligation or transaction effectively involving an immediate credit exposure will be treated as if it were on the balance sheet. Where an obligation or transaction clearly has the same effect as a financial guarantee (as, for example, certain asset sales with recourse) it will be treated as such (III 26).

For all other commitments (III 27), it is proposed to take account of maturity in determining the credit conversion factors. In so doing maturity to some extent serves as a proxy for instrument-type. The category of exposure here giving rise to the greatest concern is the long-term contract that is equivalent in effect to an insurance arrangement in its underlying nature, most notably revolving underwriting facilities. Even if material adverse change clauses are included—and the supervisory authorities do not wish to take any action which will discourage their use—the reality is that the bank is assuming a long-term obligation to provide credit if other lenders are unwilling to do so. At the other end of the maturity spectrum, it is accepted that commitments reviewable—and unconditionally cancellable—at least annually involve less risk and that the credit conversion factor should be much lower. While a bank is at risk from an increase in credit exposures as a result of a higher than average utilisation of undrawn lines, the low credit conversion factor reflects the historical stability of the undrawn amount of these lines.

The conversion factors to be applied to these commitments will, therefore, be set as follows in terms of their *original* maturity (for these purposes maturity is defined as the earliest possible time at which the bank may unconditionally cancel the commitment):

one year or less	— 10 per cent
over one year to five years	— 25 per cent
over five years	— 50 per cent

For contingencies and commitments, the principal amount is multiplied by the conversion factor and the resulting exposure will carry the appropriate weight for the category of the counterparty (and the maturity).

(iv) Interest rate and foreign exchange rate related transactions

It is the firm intention of the United States supervisory authorities and the Bank of England to include the credit equivalent exposure on interest rate and foreign exchange rate related transactions in the risk asset ratio as soon as possible (III 28 and 29). The timing of this step is dependent on reaching final agreement on a method of calculating the credit exposure. As with other off-balance-sheet transactions, this will involve estimating a deemed credit equivalent for these instruments that would be incorporated in the general framework on an obligor (and, where appropriate, maturity) basis.

IV Primary capital to weighted risk asset ratio

The United States and United Kingdom authorities intend to set and publish an agreed minimum level of this ratio to be applied to all banks supervised by them. In both countries most institutions will be expected to maintain their ratio at a higher level. The precise figure set for individual banks will remain confidential and will be determined in the light of each institution's particular circumstances, for example, the quality and diversification of assets, liquidity, management, internal control systems and other relevant factors. These higher levels will be determined as part of the ongoing supervisory process.

Tables

I Components of primary capital

A Funds included *without* limit

1 Common stock/equity and premium (United Kingdom), surplus (United States)

2 Retained earnings (including current year earnings)

3 Minority interest in consolidated subsidiaries

4 General reserves for losses resulting from charges to earnings

5 Hidden reserves (comprising undisclosed retained earnings)—not applicable in United States, to be phased out in United Kingdom

B Funds included *with* limits—items included in this category must not exceed 50 per cent of the total items included in A above less intangible assets.

1 Preferred shares that
(a) Do not mature; or
(b) Mature on a fixed date *and* have an original maturity of at least 25 years. (Amount included in primary capital would be discounted for prudential purposes as the instrument approaches maturity.)

2 Subordinated debt that
(a) Can only be converted into primary capital instruments;
(b) Is available at all times to absorb losses; and
(c) Provides that interest payments may be deferred if the issuer does not make a profit in the preceding period and/or pay dividends on common and perpetual preferred stock.

This is intended to include perpetual debt.

Note (a) Existing mandatory convertible securities which do not meet the criteria in IB2 (for United States banks) and existing property revaluation reserves (for United Kingdom banks) are to be 'grandfathered'.

(b) For bank holding companies in the United States, perpetual debt issued by the parent company need not be subordinated. It must, however, be unsecured.

II Adjustments to capital for prudential purposes

A Deduction of all intangible assets. (Existing intangibles currently allowed by United States regulatory authorities will be 'grandfathered'.)

B Deduction of investments in unconsolidated subsidiaries and associated companies including, but not limited to, unconsolidated joint ventures. For the United States, this could include certain consolidated subsidiaries as determined by United States regulatory authorities; for the United Kingdom this also includes related securities companies.

C Deduction of bank holdings of capital instruments of other banking organisations. (In the United States these would be monitored and deducted on a case-by-case basis.)

III Category of risk

Weight given

0 per cent

1 Vault cash—domestic and foreign

2 All balances with and claims on domestic central bank

3 Domestic national government guaranteed export and ship-building loans (United Kingdom only)

10 per cent

4 For the United States, short-term (remaining maturity of one year or less) claims on the United States Government (Treasury) and on United States Government agencies (for the United States, national government agencies are defined as those agencies whose debt obligations are backed by the full faith and credit of the United States Government). For the United Kingdom, short-term (one year or less) claims on the United Kingdom and Northern Ireland Governments.

5 Short-term (one year or less) claims on discount houses, gilt-edged market makers and Stock Exchange money brokers (United Kingdom only)

25 per cent

6 Cash items in process of collection—foreign and domestic

7 Short-term (one year or less) claims on domestic depository institutions and foreign banks

8 All claims on domestic local authorities (United Kingdom only)

9 Long-term (over one year) claims on domestic national government (including, for the United Kingdom, Northern Ireland) and all long-term claims on domestic national government agencies. For the United Kingdom, this includes all claims on United Kingdom public corporations and on the rest of the public sector.

10 All claims (including repurchase agreements) fully collateralised by domestic national government debt and (for the United States) debt of United States Government agencies. Also all claims collateralised by cash on deposit in the lending institution.

11 Federal Reserve bank stock (United States only)

12 Portions of loans guaranteed by domestic national government or (for the United States) domestic national government agencies

13 All local currency claims on foreign central governments to the extent funded by local currency liabilities in that foreign country

50 per cent

14 All claims on domestic national government-sponsored agencies (United States Government-sponsored agencies are defined as agencies whose debt obligations are not guaranteed by the full faith and credit of the United States Government)

15 All claims (including repurchase agreements) that are fully collateralised by domestic national government-sponsored agency debt (United States only).

16 All general obligation claims on domestic state and local governments (United States only)

17 Claims on multinational development institutions in which the domestic government is a shareholder or contributing member

100 per cent

18 Long-term (over one year) claims on domestic depository institutions and foreign banks

19 All claims on foreign governments other than local currency claims on foreign central governments funded by local currency liabilities in that foreign country

20 The customer liability on acceptances outstanding involving standard risk obligors (United States only)

21 Domestic state and local government revenue bonds and industrial development bonds (United States only)

22 All other assets

23 Net open position in foreign exchange (United Kingdom only)

Off-balance-sheet items

The face amount of these items would be multiplied by the credit conversion factors shown below, and the resulting amount would be slotted in the appropriate risk category depending upon the identity of the obligor and the maturity of the instrument where appropriate.

24 'Direct credit substitutes' (financial guarantees and standby letters of credit serving the same purpose and, in the United Kingdom, acceptances outstanding)—100 per cent credit conversion factor.

25 'Trading contingencies' (for example, commercial letters of credit, bid and performance bonds and performance standby letters of credit)—50 per cent credit conversion factor.

26 Sale and repurchase agreements and asset sales with recourse, if not already included on the balance sheet—100 per cent credit conversion factor.

27 Other commitments, for example overdrafts, revolving underwriting facilities (for example, RUFs/NIFs), underwriting commitments, commercial and consumer credit lines. The credit conversion factors are:

10 per cent — one year and less original maturity

25 per cent — over one to five years original maturity

50 per cent — over five years original maturity.

Credit conversion factor to be determined

28 Interest rate swaps and other interest rate contracts.

29 Foreign exchange rate contracts.

Note 1 Maturity is defined as the earliest possible time at which the bank may unconditionally cancel the commitment.

2 Certain off-balance-sheet obligations, for example indemnities for lost share certificates and bill endorsements, or 'holders in due course' obligations, would not be included in capital adequacy requirements.