ANNEX I

CALCULATING CAPITAL REQUIREMENTS FOR POSITION RISK

EQUITIES

33. The institution shall sum all its net long positions and all its net short positions in accordance with point 1. The sum of the two figures shall be its overall gross position. The difference between them shall be its overall net position.

Specific risk

34. The institution shall sum all its net long positions and all its net short positions in accordance with point 1. It shall multiply its overall gross position by 4 % in order to calculate its capital requirement against specific risk.

35. By derogation from point 34, the competent authorities may allow the capital requirement against specific risk to be 2 % rather than 4 % for those portfolios of equities that an institution holds which meet the following conditions:

(a) the equities shall not be those of issuers which have issued only traded debt instruments that currently attract an 8 % or 12 % requirement in Table 1 to point 14 or that attract a lower requirement only because they are guaranteed or secured;

(b) the equities must be adjudged highly liquid by the competent authorities according to objective criteria; and

(c) no individual position shall comprise more than 5 % of the value of the institution's whole equity portfolio.

For the purpose of point (c), the competent authorities may authorise individual positions of up to 10 % provided that the total of such positions does not exceed 50 % of the portfolio.

General risk

36. Its capital requirement against general risk shall be its overall net position multiplied by 8 %.

Stock-index futures

37. Stock-index futures, the delta-weighted equivalents of options in stock-index futures and stock indices collectively referred to hereafter as ‘stock-index futures’, may be broken down into positions in each of their constituent equities. These positions may be treated as underlying positions in the equities in question, and may, subject to the approval of the competent authorities, be netted against opposite positions in the underlying equities themselves.

38. The competent authorities shall ensure that any institution which has netted off its positions in one or more of the equities constituting a stock-index future against one or more positions in the stock#index future itself has adequate capital to cover the risk of loss caused by the future's values not moving fully in line with that of its constituent equities; they shall also do this when an institution holds opposite positions in stock#index futures which are not identical in respect of either their maturity or their composition or both.

39. By derogation from points 37 and 38, stock-index futures which are exchange traded and — in the opinion of the competent authorities — represent broadly diversified indices shall attract a capital requirement against general risk of 8 %, but no capital requirement against specific risk. Such stock#index futures shall be included in the

calculation of the overall net position in point 33, but disregarded in the calculation of the overall gross position in the same point.

40. If a stock-index future is not broken down into its underlying positions, it shall be treated as if it were an individual equity. However, the specific risk on this individual equity can be ignored if the stock-index future in question is exchange traded and, in the opinion of the competent authorities, represents a broadly diversified index.