

Banking Newsletter

Number 2 Year 2000



**Financial Services
Commission**

Amendments to Administrative Notices issued under the Banking Ordinance 1992

Introduction

The Commissioner of Banking has made certain amendments to Administrative Notices issued by the FSC under the Banking Ordinance 1992. The Notices affected are:

- Administrative Notice Number 1 : Implementation in Gibraltar of the Solvency Ratio Directive
- Administrative Notice Number 3 : Implementation in Gibraltar of the Directive on the monitoring and control of large exposures of credit institutions
- Administrative Notice Number 7 : The Capital Adequacy Directive – Requirements for Gibraltar Incorporated Banks

In June 1998, three Directives (98/31/EC, 98/32/EC and 98/33/EC) were adopted by the European Parliament and Council amending the Solvency Ratio Directive (89/647/EEC) and the Capital Adequacy Directive (93/6/EEC). All Member States are obliged to bring into force the laws, regulations and administrative provisions necessary to comply with these Directives not later than 21 July 2000. In order to meet the requirements of these Directives, Administrative Notices Numbers 1 and 7 are now being amended to reflect the changes brought about by these Directives. Furthermore, the Commissioner of Banking is taking the opportunity to introduce some policy changes in these Notices and, also, to make some policy changes in Administrative Notice Number 3. These changes, which are summarised below, take effect from 21 July 2000.

Summary of Amendments

Administrative Notice Number 1

The amendments to this Notice result from changes contained in Directives 98/32/EC and 98/33/EC. Directive 98/32/EC introduces a 50% risk weighting for mortgage backed securities and Directive 98/33/EC changes the methodology for the measurement of credit risk in off-balance-sheet OTC ('over-the-counter') derivatives contracts. The Commissioner of Banking has also taken the opportunity to make some policy amendments to existing requirements. These include applying a reduced (20%) risk weighting to claims secured by deposits held with Zone A credit institutions (provided certain conditions are met) and applying an increased (generally 10% or 20%) risk weighting to securities issued by Zone A and Zone B central governments and central banks.

Administrative Notice Number 3

Certain amendments have been made to this Notice to reflect policy changes by the Commissioner of Banking. These changes include an extension of the definition of 'exempt' exposures, mainly to include certain exposures to investment firms, recognised exchanges and clearing houses. The most significant change is to the treatment of partially secured exposures. The treatment of such exposures is now being changed so as to take account of the



element of such exposures that are secured by cash or equivalent security. Paragraph 27 of Annex 1 of the Notice outlines the revised policy on such exposures. This treatment is concessionary and requires the written consent of the Banking Supervisor.

Administrative Notice Number 7

This Notice, which implements the Capital Adequacy Directive (93/6/EEC) in Gibraltar, is being amended to take account of changes contained in Directives 98/31/EC and 98/33/EC. Directive 98/31/EC introduces capital requirements for commodities and commodity derivatives. The treatment of these risks was not addressed in Directive 93/6/EEC. The treatment in the revised Notice (outlined in a new Chapter 7) applies to both the banking book and the trading book. Directive 98/31/EC also specifies the conditions under which competent authorities may allow banks to use internal models to measure their market risk. While Directive 93/6/EEC permitted such models to be used, the conditions applying were less specific. This has necessitated a minor amendment to the previous chapter in the Notice on Eligible Models and this is reflected in the new Chapter 9. Directive 98/33/EC revises the treatment of off-balance-sheet OTC ('over-the-counter') derivatives under Directive 93/6/EEC so as to be consistent with their treatment under Directive 89/647/EEC, the Solvency Ratio Directive, which itself was amended in Directive 98/33/EC.

Quarterly Banking Supervisory Return

The amendments to the above Notices will result in some minor changes to the Quarterly Returns. The relevant pages of the Return will be amended and will be issued to all banks prior to the September quarter-end date, the first reporting date affected by the changes.

Conclusion

The amendments in the Notices referred to above should not have a significant effect on any of the Gibraltar banks. Banks who wish to discuss any of these changes should contact the Banking Supervisor or the Assistant Banking Supervisor.

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