

EESTI PANK
Governor's Decree No 18
26 November 2007

**Amendments to Eesti Pank Governor's Decree No 13 of 29 December 2006
“Procedure for application and calculation of prudential ratios of credit
institutions and consolidation groups of credit institutions”**

The Decree is established under subsections 71 (7), 79 (6)-79 (8), 85 (9) and 86¹ (3) of the Credit Institutions Act.

§ 1. Eesti Pank Governor's Decree No 13 of 29 December 2006 “Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions” (RTL 2007, 3, 52) shall be amended as follows:

1) the phrase “foreign exchange risk“ shall be substituted by the phrase “exchange risk“ throughout the text in the respective case;

2) *no changes in the English version;*

3) clause 6) shall be added to subsection 9 (2) in the following wording:

“6) additional capital requirement calculated on trading book exposures exceeding the limits of large exposures in accordance with the procedure laid down in subdivision 5 of division VI of this Chapter multiplied with the coefficient 1.25.”;

4) in subsection 10 (4) the phrase “under subsection 11 (4)” shall be substituted by the phrase “under subsection 11 (3)”;

5) clauses 13) and 14) shall be added to subsection 29 (2) in the following wording:

“13) International Finance Facility for Immunisation;
14) Islamic Development Bank.”;

6) a sentence shall be added to subsections 34 (2) and (4) in the following wording:

“Until 31 December 2008 exposures to natural or legal persons who are Estonian residents shall be assigned a risk weight of 60% instead of 35%.”;

7) clause 34 (12) 1) shall be worded as follows:

“1) losses stemming from claims in the value of up to 50% of the market value of the collateralised commercial real estate property or up to 60% of the mortgage lending value do not exceed 0.3% of the outstanding loans collateralised by commercial real estate property in any given year;

8) subsection 51 (1) shall be worded as follows:

“(1) For positions belonging in the class of exposures to central governments and central banks, credit institutions, investment firms and companies the risk weights calculated pursuant to the procedure established in section 50 may be adjusted by the following formula subject to the existence of credit protection meeting the criteria set out in subsection 121 (4) and section 126:

$$RW * (0.15 + 160PD_{PP}),$$

where PD_{PP} means probability of default of the credit risk protection provider.”;

9) in subsection 51 (2) the word “adjusted” shall be substituted by the phrase “adjusted by the formula”;

10) the phrase “central governments, central banks,” shall be deleted from subsection 71 (1);

11) *no changes in the English version;*

12) *no changes in the English version;*

13) in clause 118 1) the phrase “in clause 121 (2) 9)” shall be substituted by the phrase “in clauses 121 (2) 8) and 9)”;

14) in subsection 121 (5) the phrase “in subsection (3) of this section” shall be substituted by the phrase “in subsection (4) of this section”;

15) in subsection 125 (2) the phrase “in Sub-subdivision 2 of this Subdivision” shall be substituted by the text “in section 154”;

16) in clause 133 (1) 2) the phrase “to the senior management” shall be substituted by the phrase “to members of the supervisory board and management board and to other persons in the executive management (hereinafter *senior management*) of the credit institution”;

17) subsection 136 (5) shall be worded as follows:

“(5) In case of other transactions where the exposure and the collateral are denominated in the same currency and where the collateral is either cash or a cash-assimilated instrument, or in case of securities issued by central governments, central banks or public sector entities which are assigned a 0% risk weight under subsections 26 (3) and (4) and whose market value has been reduced by 20%, a risk weight of 0% shall be assigned.”;

18) the phrase “, but not more than is the value of the position” shall be added to subsection 137 (2);

19) in subsection 150 (1) the phrase “clause 114 (5) 4)” shall be substituted by the phrase “clause 114 (5) 3)”;

20) in subsections 154 (2) and (3) the word “Where” at the beginning of the subsections shall be substituted with the phrase “Where the credit derivative does not cover losses stemming from restructuring of the underlying debt instrument and ”;

21) in subsection 162 (1) the phrase “Foundation IRB Approach” shall be substituted by the phrase “Standardised Approach”;

22) *no changes in the English version;*

23) in section 181 the text “ in section 182” shall be substituted by the text “ in section 183”;

24) in the heading of section 198 the phrase “contingent claims” shall be substituted by the phrase “off-balance sheet items”;

25) *no changes in the English version;*

26) subsection 249 (1) shall be worded as follows:

“(1) According to the type of the underlying to which an option refers, the capital requirement rates are as follows:

1) in the case of options associated with foreign currencies, the capital requirement rate is 10% of the value of the underlying to which the option refers;

2) in the case of options associated with debt instruments, the capital requirement is the sum of the capital requirements against specific risk and general risk provided for the debt instrument as set out in section 282. The capital requirement rate for general risk is 8%;

3) in the case of options associated with interest rate and interest rate indices, the capital requirement rate is 8% of the value of the underlying to which the option refers;

4) in the case of options associated with equities, the capital requirement is the sum of the capital requirements against specific risk and general risk provided for the equity as set out in sections 293 and 294;

5) in the case of options associated with commodities, the capital requirement rate is 15% of the underlying to which the option refers.”;

27) clause 253 (4) 3) shall be worded as follows:

“(3) the absolute values of negative net gamma impacts of all options are totalled.”;

28) *no changes in the English version;*

29) in subsection 283 (2) the text “in section 280” shall be substituted by the text “in section 284”;

30) the heading of section 284 shall be worded as follows:

“§ 284. Capital requirement rates for specific interest rate risk”;

31) in subsections 284 (1)-(3) the phrase “up to 1 year” shall be substituted by the phrase “up to 2 years” and the phrase “more than 1 year” by the phrase “more than 2 years”;

32) in subsection 284 (5) the text “in section 281” shall be substituted by the text “in section 285”;

33) in subsection 293 (3) the phrase “on interest positions” shall be substituted by “on equity positions”;

34) in subsection 298 (1) the text “in sections 291 or 292” shall be substituted by the text “in sections 299 or 300”;

35) section 299 shall be worded as follows:

“§ 299. Calculating capital requirements for position risk of units/shares of CIUs

(1) Positions in the units/shares of CIUs shall be subject to a capital requirement for a position risk of 32% of the value of such positions.

(2) The capital requirement for a position risk arising from units/shares of CIUs, calculated in accordance with this Subdivision, the capital requirement for foreign-exchange risk calculated in accordance with Division 4 of this Chapter and the capital requirement for commodities risk calculated in accordance with Division 5 of this Chapter shall not exceed 40% of the values of the relevant positions.”;

36) in subsection 300 (1) the phrase “in Subdivision 6 of this Division” shall be substituted by the phrase “in Subdivision 4 of this Division”;

37) in subsection 303 (4) the text “in section 70” shall be substituted by the text “in section 74”;

38) in subsection 307 (1) the phrase “to members of the supervisory board and management board and to other persons in the executive management (hereinafter *senior management*)” shall be substituted by the phrase “senior management”;

39) in clause 318 (1) 2) the phrase “the requirements referred to” shall be substituted by the phrase “the requirements calculated on positions referred to”;

40) the text “12%“ shall be added to the “Asset Management“ line of the 3rd column “Percentage (β)” in the table under subsection 320 (4);

41) in subsection 323 (3) the phrase “commercial banking” shall be substituted by the phrase “business banking”;

42) in section 324 the phrase “the qualifying criteria set out in subsections 319 (1) and (2)” shall be substituted by the phrase “the requirements set out in section 322”;

43) *no changes in the English version;*

44) in subsection 331 (5) the phrase “under subsection 331 (2)” shall be substituted by the phrase “under subsection 4 of this section”;

45) in clause 331 (6) 2) the phrase “on-balance sheet” shall be substituted by the “off-balance sheet”;

46) in subsection 332 (11) the phrase “medium/low-risk” shall be substituted by the phrase “medium-risk”;

47) *no changes in the English version;*

48) *no changes in the English version.*

§ 2. Eesti Pank Governor’s decree No 11 of 24 April 1997 “Prudential ratios of credit institutions “ (RTL 1997, 69, 389; 1998, 251/253, 1040) shall be declared null and void.

§ 3. Eesti Pank Governor’s decree No 12 of 2 July 2002 “Prudential ratios of credit institutions“ (RTL 2002, 80, 1236; 2006, 14, 228) shall be declared null and void.

§ 4. This Decree shall enter into force on 1 January 2008.

Andres Lipstok
Governor