

Effective equity requirement for credit exposure

The regulation on the Effective Equity Requirement for Credit Exposure establishes the methodology to be applied and the requisites that companies must meet to calculate the effective equity requirement for credit exposure under standard models, or using methods based on internal models.

To apply a more risk-sensitive methodology, the Banking, Insurance and Private Pension Fund Managers Authority (SBS) has amended article 22 and the 2-A1 “Credit Risk-weighted assets and Contingent Assets – Standard Method” report.

As well as shareholding exposures, the amendment to the article covers exposures in mutual fund unit-share certificates, establishing the risk-weighting factor of the exposure in the unit-share certificate resulting from the weighted average of the risk-weighting factors of instruments permitted under the mutual fund prospectus and the risk-weighting factor of derivatives, where applicable.

It also sets out the procedure that companies should follow when calculating the weighted average of permitted instruments’ risk weighting factors.

The modification to the 2-A1 Accounting Manual report for companies in the financial system incorporates lines for reporting exposures in mutual fund unit-share certificates.