

MARKET RISK CAPITAL TREATMENT FOR DOLLAR-LINKED PESO NOTES
(Appendix to Section 125 on Market Risk Capital Requirement)

1. *Treatment of interest rate risk.* Dollar-linked Peso Notes (DLPNs) booked under Trading Account Securities (TAS) or Available for Sale Securities (ASS) result in interest rate risk. These exposures shall be included in the report forms in the following manner:

- *Under the standardized approach.* The market value of the DLPN shall be reported in Part I.1, Item I.1, and Part I.2, US dollar ladder, under the coupon and time band corresponding to the DLPN's residual maturity; and
- *Under the internal models approach.* DLPN exposures must be included in the computation of Value-at-Risk (VaR) measure for interest rate risk. This VaR measure shall be reported in Part V, Item 1 (for banks with expanded derivatives authority), or Part IV, Item 1 (for banks with expanded derivatives authority but without option transactions and for banks without expanded derivatives authority).

2. *Treatment of foreign exchange risk.* DLPNs booked under TAS, ASS or Investment in Bonds and other Debt Instruments (IBODI) result in foreign exchange risk. These exposures shall be included in the report forms in the following manner:

- *Under the standardized approach.* The market value of the DLPN shall be included in the computation of the net long/(short) position for US dollar to be reported in Part III; and
- *Under the internal models approach.* DLPN exposures must be included in the computation of VaR measure for foreign exchange risk. This VaR measure shall be reported in Part V, Item 2 (for banks with expanded derivatives authority), or Part IV, Item 2 (for banks with expanded derivatives authority but without option transactions, and for banks without expanded derivatives authority).