

Appendix B – Calculation of a weighted average adjustment factor for the purpose of Schedule 9B

Table 1 – Concentrated issuer exposure with multiple debt issues with different DRO issue ratings¹

Concentration risk-weighting and maximum concentration charge – Issuer “ABC”	
Pre-concentration RAC	\$3,000,000
Concentration threshold as a percentage of pre-concentration RAC	66.67%
Concentration threshold	\$2,000,000

Possible concentrated position(s) exposure details	1. Exposure amount	2. Normal margin requirement	3. Amount loaned	4. Risk-weighting adjustment factor	5. Percentage of exposure amount subject to concentration test	6. Risk-weighted amount loaned	7. Normal margin	8. Concentration margin	9. Total margin on exposure	10. Total margin as a percentage of market value
Schedule 9B debt exposure:										
Exposure amount in low/unrated debt securities										
Maturity within 1 year	\$200,000	3%	\$194,000	80%	77.60%	\$155,200	\$6,000			
Maturity over 1 year to 3 years	\$200,000	6%	\$188,000	80%	75.20%	\$150,400	\$12,000			
Maturity over 3 years to 7 years	\$200,000	7%	\$186,000	80%	74.40%	\$148,800	\$14,000			
Maturity over 7 years to 11 years	\$200,000	10%	\$180,000	80%	72.00%	\$144,000	\$20,000			
Maturity over 11 years	\$200,000	10%	\$180,000	80%	72.00%	\$144,000	\$20,000			
Exposure amount in BBB rated debt securities										
Maturity within 1 year	\$200,000	3%	\$194,000	60%	58.20%	\$116,400	\$6,000			
Maturity over 1 year to 3 years	\$200,000	6%	\$188,000	60%	56.40%	\$112,800	\$12,000			
Maturity over 3 years to 7 years	\$200,000	7%	\$186,000	60%	55.80%	\$111,600	\$14,000			
Maturity over 7 years to 11 years	\$200,000	10%	\$180,000	60%	54.00%	\$108,000	\$20,000			
Maturity over 11 years	\$200,000	10%	\$180,000	60%	54.00%	\$108,000	\$20,000			
Exposure amount in A to AA rated debt securities										
Maturity within 1 year	\$200,000	3%	\$194,000	50%	48.50%	\$97,000	\$6,000			
Maturity over 1 year to 3 years	\$200,000	6%	\$188,000	50%	47.00%	\$94,000	\$12,000			
Maturity over 3 years to 7 years	\$200,000	7%	\$186,000	50%	46.50%	\$93,000	\$14,000			
Maturity over 7 years to 11 years	\$200,000	10%	\$180,000	50%	45.00%	\$90,000	\$20,000			
Maturity over 11 years	\$200,000	10%	\$180,000	50%	45.00%	\$90,000	\$20,000			
Exposure amount in AAA rated debt securities										
Maturity within 1 year	\$200,000	3%	\$194,000	40%	38.80%	\$77,600	\$6,000			
Maturity over 1 year to 3 years	\$200,000	6%	\$188,000	40%	37.60%	\$75,200	\$12,000			
Maturity over 3 years to 7 years	\$200,000	7%	\$186,000	40%	37.20%	\$74,400	\$14,000			
Maturity over 7 years to 11 years	\$200,000	10%	\$180,000	40%	36.00%	\$72,000	\$20,000			
Maturity over 11 years	\$200,000	10%	\$180,000	40%	36.00%	\$72,000	\$20,000			
Weighted average risk-weighted loan value exposure amount	\$4,000,000		\$3,712,000			\$2,134,400	\$288,000	\$201,600	\$489,600	12.24%

¹ For information purposes only. Table does not conform to exact format of Schedule 9B. Simplifying assumptions: only long-term DRO ratings used (assumes 1 DRO); maturities within 1 year assume no fractional weightings; does not include any additional Schedule 9 adjustments (Note 7(iv)) to amount loaned; does not provide detail on client versus inventory exposures.

Possible concentrated position(s) exposure details	1. Exposure amount	2. Normal margin requirement	3. Amount loaned	4. Risk-weighting adjustment factor	5. Percentage of exposure amount subject to concentration test	6. Risk-weighted amount loaned	7. Normal margin	8. Concentration margin	9. Total margin on exposure	10. Total margin as a percentage of market value
Weighted average risk-weight	57.50%									

Table 2 – Simplified view of Table 1 using 2-step concentration test methodology

Step 1	
Instruction	Calculation
Measure an aggregated debt issuer, amount loaned exposure according to the highest determined risk-weighting for all debt issue exposures held for that issuer	= (3,712,000) x .80 = \$2,969,600
Concentration charge calculation (risk-weighted amount loaned – concentration threshold) x 150%	= (2,969,600– 2,000,000) x 150% = \$1,454,400 concentration charge
Or	
Step 2	
Instruction	Calculation
Measure aggregated debt issuer, amount loaned exposure according to the weighted average risk-weighting for all debt issue exposures held for that issuer	<u>Identify the weights of each exposure</u> Low/Unrated weight = .25 (928,000/3,712,000) BBB rated weight = .25 (928,000/3,712,000) A to AA rated weight = .25 (928,000/3,712,000) AAA rated weight = .25 (928,000/3,712,000) <u>Calculate weighted average risk-weight</u> = (.25 x .80) + (.25 x .60) + (.25 x .50) + (.25 x .40) = .575 <u>Calculate debt issuer exposure according to the weighted average risk weighting</u> = (3,712,000) x .575 = \$2,134,400
Concentration charge calculation (risk-weighted amount loaned – concentration threshold) x 150%	= (2,134,400 – 2,000,000) x 150% = \$201,600 concentration charge