

as described above. Exposure is created to the extent that the cash collateral has been reinvested.

(13) Securities borrowing arrangements: An AIF engaging in the borrowing of securities will borrow a security from a security-lending counterparty for an agreed fee. The AIF will then sell the security in the market. The AIF is now short that security. To the extent that the cash proceeds from the sale are reinvested this will also increase the exposure of the AIF. Exposure is the market value of the shorted securities; additional exposure is created to the extent that the cash received is reinvested.

(14) Credit default swaps: A credit default swap (CDS) is a credit derivative agreement that gives the buyer protection, usually the full recovery, in case the reference entity defaults or suffers a credit event. In return, the seller of the CDS receives from the buyer a regular fee, called the spread. For the protection seller, the exposure is the higher of the market value of the underlying reference assets or the notional value of the credit default swap. For the protection buyer, the exposure is the market value of the underlying reference asset.

ANNEX II

Conversion methodologies for derivative instruments

(1) The following conversion methods shall be applied to the non-exhaustive list below of standard derivatives—

(a) Futures—

- (i) Bond future: Number of contracts * notional contract size * market price of the cheapest-to-deliver reference bond;
- (ii) Interest rate future: Number of contracts * notional contract size;
- (iii) Currency future: Number of contracts * notional contract size;
- (iv) Equity future: Number of contracts * notional contract size * market price of underlying equity share;
- (v) Index futures: Number of contracts * notional contract size * index level;

(b) Plain vanilla options (bought/sold puts and calls)—

- (i) Plain vanilla bond option: Notional contract value * market value of underlying reference bond * delta;
- (ii) Plain vanilla equity option: Number of contracts * notional contract size * market value of underlying equity share * delta;
- (iii) Plain vanilla interest rate option: Notional contract value * delta;
- (iv) Plain vanilla currency option: Notional contract value of currency leg(s) * delta;
- (v) Plain vanilla index options: Number of contracts * notional contract size * index level * delta;
- (vi) Plain vanilla options on futures: Number of contracts * notional contract size * market value of underlying asset * delta;
- (vii) Plain vanilla swaptions: Reference swap commitment conversion amount * delta;
- (viii) Warrants and rights: Number of shares/bonds * market value of underlying referenced instrument * delta;

(c) Swaps—

- (i) Plain vanilla fixed/floating rate interest rate and inflation swaps: notional contract value;
- (ii) Currency swaps: Notional value of currency leg(s);
- (iii) Cross currency interest rate swaps: Notional value of currency leg(s);
- (iv) Basic total return swap: Underlying market value of reference asset(s);
- (v) Non-basic total return swap: Cumulative underlying market value of both legs of the TRS;
- (vi) Single name credit default swap—

(A) Protection seller - The higher of the market value of the underlying reference asset or the notional value of the Credit Default Swap;

(B) Protection buyer - Market value of the underlying reference asset;

- (vii) Contract for differences: Number of shares/bonds * market value of underlying referenced instrument;

(d) Forwards—

- (i) FX forward: notional value of currency leg(s);
- (ii) Forward rate agreement: notional value;

(e) Leveraged exposure to indices with embedded leverage - A derivative providing leveraged exposure to an underlying index, or indices that embed leveraged exposure to their portfolio, must apply the standard applicable commitment approach to the assets in question.

(2) The following conversion methods shall be applied to the non-exhaustive list below of financial instruments which embed derivatives—

- (a) Convertible bonds: Number of referenced shares * market value of underlying referenced shares * delta;
- (b) Credit linked notes: Market value of underlying reference asset(s);
- (c) Partly paid securities: Number of shares/bonds * market value of underlying referenced instruments;
- (d) Warrants and rights: Number of shares/bonds * market value of underlying referenced instrument * delta.

(3) List of examples of non-standard derivatives with the related commitment methodology being used—

(a) Variance swaps: Variance swaps are contracts that allow investors to gain exposure to the variance (squared volatility) of an underlying asset and, in particular, to trade future realised (or historical) volatility against current implied volatility. According to market practice, the strike and the variance notional are expressed in terms of volatility. For the variance notional, this gives—

$$\text{variance notional} = \frac{\text{vega notional}}{2 \text{ strike}}$$

- (i) The vega notional provides a theoretical measure of the profit or loss resulting from a 1% change in volatility;
- (ii) As realised volatility cannot be less than zero, a long swap position has a known maximum loss. The maximum loss on a short swap is often limited by the inclusion of a cap on volatility. However without a cap, a short swap's potential losses are unlimited;

(b) The conversion methodology to be used for a given contract at time t is—

- (i) Variance notional * (current) variancet (without volatility cap);
- (ii) Variance notional * min [(current) variancet volatility cap²] (with volatility cap) whereby: (current) variancet is a function of the squared realised and implied volatility, more precisely—

$$(\text{current}) \text{ variance} = \frac{t * \text{realized volatility}(0,t)^2}{T} + \frac{T-t * \text{implied volatility}(t,T)^2}{T}$$

(c) Volatility swaps - by analogy with the variance swaps, the following conversion formulae should be applied to volatility swaps—

- (i) Vega notional * (current) volatilityt (without volatility cap);
- (ii) Vega notional * min [(current) volatilityt; volatility cap] (with volatility cap) whereby the (current) volatility t is a function of the realised and implied volatility.

(4) Barrier (knock-in knock-out) options - Number of contracts * notional contract size * market value of underlying equity share * delta.

ANNEX III

Duration netting rules

(1) An interest rate derivative shall be converted into its equivalent underlying asset position in accordance with the following methodology—

The equivalent underlying asset position of each interest rate derivative instrument shall be calculated as its duration divided by the target duration of the AIF and multiplied by the equivalent underlying asset position—

where—

- (a) duration FDI is the duration (sensitivity of the market value of the financial derivative instrument to interest rate movements) of the interest rate derivative instrument;
- (b) duration target is in line with the investment strategy, the directional positions and the

expected level of risk at any time and will be regularised otherwise. It is also in line with the portfolio duration under normal market conditions;

(c) CV derivative is the converted value of the derivative position as defined by the Annex II.

(2) The equivalent underlying asset positions calculated in accordance with paragraph (1) shall be netted as follows—

(a) Each interest rate derivative instrument shall be allocated to the appropriate maturity range of the following maturity-based ladder—

Maturities ranges—

1. 0 - 2 years
2. 2 - 7 years
3. 7 - 15 years
4. > 15 years

(b) The long and short equivalent underlying asset positions shall be netted within each maturity range. The amount of the former which is netted with the latter is the netted amount for that maturity range;

(c) Starting with the shortest maturity range, the netted amounts between two adjoining maturity ranges shall be calculated by netting the amount of the remaining unnetted long (or short) position in the maturity range (i) with the amount of the remaining unnetted short (long) position in the maturity range (i + 1);

(d) Starting with the shortest maturity range, the netted amounts between two remote maturity ranges separated by another one shall be calculated by netting the amount of the remaining unnetted long (or short) position in the maturity range (i) with the amount of the remaining unnetted short (long) position in the maturity range (i + 2);

(e) The netted amount shall be calculated between the remaining unnetted long and short positions of the two most remote maturity ranges.

(3) The AIF shall calculate its exposures as the sum of absolute values—

- (a) 0% of the netted amount for each maturity range;
- (b) 40% of the netted amounts between two adjoining maturity ranges (i) and (i + 1);
- (c) 75% of the netted amounts between two remote maturity ranges separated by another one, meaning maturity ranges (i) and (i + 2);
- (d) 100% of the netted amounts between the two most remote maturity ranges; and
- (e) 100% of the remaining unnetted positions.

Made this 27th day of June 2016

Chairman
The Bermuda Monetary Authority

BERMUDA FINANCIAL ASSISTANCE AMENDMENT REGULATIONS 2016 BR 54 / 2016

The Minister charged with responsibility for financial assistance, in exercise of the power conferred by section 21 of the Financial Assistance Act 2001, makes the following Regulations:

Citation

1 These Regulations may be cited as the Financial Assistance Amendment Regulations 2016.

Amends regulation 6A

2 Regulation 6A of the Financial Assistance Regulations 2004 is amended by adding the following at the end—

“(3) This regulation shall be deemed to have come into effect on 1 April 2016.”

Made this 29th day of June 2016

Minister of Social Development & Sports

BERMUDA CORPORATE SERVICE PROVIDER BUSINESS AMENDMENT ACT 2014 COMMENCEMENT DAY NOTICE 2016 BR 55 / 2016

The Minister responsible for finance, in exercise of the power conferred by section 7 of the Corporate Service Provider Business Amendment Act 2014, gives the following Notice:

Citation

1 This Notice may be cited as the Corporate Service Provider Business Amendment Act 2014 Commencement Day Notice 2016.

Commencement

2 The Corporate Service Provider Business Amendment Act 2014 shall come into operation on 30 June 2016, with respect to all the provisions still to come into operation.

Made this 29th day of June 2016

Minister of Finance