

<b>Question ID</b>	2021_6217
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Market risk
<b>Article</b>	329
<b>Paragraph</b>	1
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	Not applicable
<b>Date of submission</b>	21/09/2021
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Competent authority
<b>Subject matter</b>	Delta calculation internal models
<b>Question</b>	Is an institution required to obtain competent authority's permission for delta calculation internal model in the situation when the position in option is being closed back-to-back (additional adjustments of closing position due to daily change of the position being closed) on a weekly basis?
<b>Background on the question</b>	According to Article 329(1) CRR "For OTC-options, or where delta is not available from the exchange concerned, the institution may calculate delta itself using an appropriate model, subject to permission by the competent authorities." Additionally Q&A 3314 clarifies that for positions closed back-to-back there is no need for competent authority's approval for delta calculation internal model - the position is always 0. The question is related to the case when an institution has portfolio of structured deposits with embedded options. Position is closed back-to-back for given buckets, but this product is offered to many natural persons - the problem arises when even one structured deposit from the bucket is withdrawn. Then, in fact the position is open and in consequence generates risk - it's very small, but it exists. The institution closes position on a weekly basis and additionally at the end of the month as the cost of closing transactions with very low nominal is too high to do it on a daily basis. Can this situation be treated as

	fulfilling requirements for back-to-back closed option position and as a consequence there is no need to receive competent authority's permission to use internal model for delta calculation?
<b>Final answer</b>	<p><a href="#">Q&amp;A 3314</a> clarifies that for positions that are back-to-backed there is no need for competent authority's approval for delta calculation internal model.</p> <p>That is limited to cases where a position is perfectly back-to-back at all points in time. Where that is not the case, the institution is required to have the permission referred to in Article 329(1) CRR.</p>
<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6217">https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6217</a>

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