

Question ID	2023_6746
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	325ai
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
Date of submission	12/03/2023
Published as Final Q&A	16/06/2023
Disclose name of institution / entity	No
Type of submitter	Consultancy firm
Subject matter	Correlation parameter for Intra-bucket correlations for credit spread risk for non-securitisations
Question	<p>In the first subparagraph of Article 325m of Regulation (EU) No 575/2013 (CRR) it is stated that institutions apply a risk factor per issuer and per maturity, irrespective of whether these credit spread rates of the issuer derive from debt instruments or credit default swaps. However, the correlation factor linked to the basis risk is present in article 325ai of (CRR). Must this value always be equal to 1 since there is no longer a division between the two types of curve as regards risk factors or does this basis risk refer to another type of risk? In this second case to which?</p>
Background on the question	<p>Article 325m reports: - The delta credit spread risk factors to be applied by institutions to non-securitisation instruments that are sensitive to credit spread shall be the issuer credit spread rates of those instruments, inferred from the relevant debt instruments and credit default swaps, and mapped to each of the following maturities: 0,5 years, 1 year, 3 years, 5 years, 10 years. Institutions shall apply one risk factor per issuer and maturity, regardless of whether those issuer credit spread rates are inferred from debt instruments or credit default swaps. The buckets shall be sector buckets, as referred to in Section 6, and each bucket shall include all the risk factors</p>

	allocated to the relevant sector. Article 325a provides: - ρ_{kl} (basis) shall be equal to 1 where the two sensitivities are related to the same curves, otherwise it shall be equal to 99,90 %.
Final answer	<p>Bond and CDS curves are to be treated as two separate curves (i.e. two separate risk factors) in accordance with Article 325m(1) of Regulation (EU) No 575/2013 (CRR) for the purpose of computing delta risk. For example, a CDS curve on the single name X, and a Bond curve on the same single name, shall constitute two curves, and ρ_{kl}(basis) shall be set at 99.9% to reflect the CDS-bond basis.</p> <p>On the contrary, a single credit spread curve specific to the issuer shall be used for curvature risk in accordance with Article 325m(3) of Regulation (EU) No 575/2013.</p>
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2023_6746

European Banking Authority, 02/12/2023
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