

Question ID	2014_1008
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	329, 352, 358
Paragraph	3, 6, 4
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 528/2014 - RTS on non-delta risk of options in the standardised market risk approach
Article/Paragraph	Article 5(3)
Date of submission	26/03/2014
Published as Final Q&A	12/09/2014
Disclose name of institution / entity	Yes
Name of institution / submitter	S J Metrics Limited
Country of incorporation / residence	United Kingdom
Type of submitter	Other
Subject matter	Risks other than Delta for non-linear products
Question	<p>The EBA RTS 2013/13 on non-delta risk of options in the standardised market risk approach under Articles 329(3), 352(6) and 358(4) of Regulation (EU) No 575/2013 (CRR) proposes a scenario approach for non-delta risks. Interest rate spread options do not readily fit into the proposed scenario approach as the underlying interest rate applies to two date and the relative performance of each. How should the distinct underlying be constructed for this type of product?</p>
Background on the question	<p>The scenario approach requires a matrix of parameter shifts to be constructed for each distinct underlying. Where the underlying is an interest rate the distinct underlying is based upon currency and maturity of the interest rate.</p>
Final answer	<p>The question relates to the treatment of an "interest rate spread" option in</p>

which the variable rate is referenced to a long-term (or difference between a long and a short term) interest rate. Article 5(3) of the RTS states that:

For the purposes of step (b) of paragraph 1, a distinct underlying type shall be:

(a) For interest rates in the same currency, each maturity time band as set out in Table 2 of Article 339 of Regulation (EU) No 575/2013;

Article 339 states that:

The institution shall assign its net positions to the appropriate maturity bands in column 2 or 3, as appropriate, in Table 2 in paragraph 4. It shall do so on the basis of residual maturity in the case of fixed-rate instruments and on the basis of the period until the interest rate is next set in the case of instruments on which the interest rate is variable before final maturity(26)

Accordingly, the underlying is determined considering the relevant maturity band in which the variable interest rate is next set.

Link

https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_1008

European Banking Authority, 04/06/2023
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