

Single Rulebook Q&A

Question ID	2018_4380
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	364, 350
Paragraph	2
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	not applicable
Date of submission	20/11/2018
Published as Final Q&A	21/01/2022
Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Treatment of CIUs in internal model for market risk - own funds requirement (add-on)
Question	Has the add-on for specific risk for CIUs according to Art. 364 (2) lit. a) in any case to be calculated for CIUs which are included in an internal model for market risk using a different approach than those described in Art. 350 (1) or 350 (2) (e.g. based on the liquid price of the CIU)?
Background on the question	There might be different approaches to include CIUs in an internal market risk model - one possibility to model CIUs is to take the liquid price of the CIU. This possibility is explicitly mentioned in the new FRTB (and the CRR2-draft respectively). Due to the fact that no look-through is conducted, but only the liquid prices would be used for modelling purposes, Art. 350 (1) and (2) CRR would not be met. Please mind that we assume that the condition in Art. 364 (2) lit. a) (in conjunction with Art. 350 (1) and (2) CRR) is about how the bank actually models the CIU positions, not about whether the CIU in question in general matches the description in Art. 350 (1) or (2), respectively. Following the paragraph above, institutions which do have the permission to model specific risk have to calculate an additional own funds requirement for specific risk according to Art. 364 (2) lit. a) CRR for CIUs which are modelled using liquid prices - where applicable - in accordance

	<p>with Chapter 2, Section 6. Additionally, in this case it should be noted that a similar treatment of a look-through approach according to Art. 350 (1) and (2) CRR and modelling CIUs using a liquid price would not be appropriate from a prudential point of view for the following: If the look-through approach according to Art 350 (1) or (2) CRR is applied, the underlyings of the CIU are the basis for calculating own funds requirements, which means that for a corporate bond CIU the underlyings have to be included into the calculation of the IRC. If the CIU is modelled using its liquid price, no own funds requirements for specific risk (VaR/SVaR) and IRC would be calculated (if it is verified that specific risk of the CIU does not exist). This different treatment would not be appropriate, because the institution performing the look-through approach would have more effort (daily look through) and presumably higher own funds requirements. Art. 364 (2) lit. a CRR is mentioning an add-on calculated following the standardized approach.</p>
<p>Final answer</p>	<p>An institution using an internal model to calculate the own funds requirement for specific risk of debt instruments is not required to fulfil an additional own funds requirement in accordance with Article 364(2)(a) of Regulation (EU) No 575/2013 for a position in a CIU if:</p> <ol style="list-style-type: none"> 1. the institution meets the condition necessary to apply to that position the ‘look through’ approach set out in Article 350(1) of that Regulation or the conditions necessary to apply the replicating portfolio approach set out in Article 350(2) of that Regulation; and 2. the institution effectively applies to that position at least one of the approaches referred to in point (i) for which it meets the conditions for application. <p>Disclaimer:</p> <p>The answers clarify provisions already contained in the applicable legislation. They do not extend in any way the rights and obligations deriving from such legislation nor do they introduce any additional requirements for the concerned operators and competent authorities. The answers are merely intended to assist natural or legal persons, including competent authorities and Union institutions and bodies in clarifying the application or implementation of the relevant legal provisions. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law. The views expressed in the internal Commission Decision cannot prejudice the position that the European Commission might take before the Union and national courts.</p>
<p>Link</p>	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2018_4380</p>

