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# FINAL draft Regulatory Technical Standards

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on gross JTD amounts under Article 325w(8) of Regulation (EU) No 575/2013

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# 1. Executive summary

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Regulation (EU) No 575/2013 (the Capital Requirements Regulation – CRR) as amended by Regulation (EU) 2019/876, implements in EU legislation, inter alia, the revised framework to compute own funds requirements for market risk. One component of these requirements is the Default Risk Charge (DRC), which is a capital requirement intended to capitalise default risks in the trading book. To determine the DRC under the alternative standardised approach for market risk under the CRR, the gross jump-to-default (JTD) amount of exposures are to be calculated.

The draft regulatory technical standards (RTS) set out in this document specify how gross JTD amounts are to be determined for institutions' exposures in the trading book under the alternative standardised approach for market risk in scope of the DRC for non-securitisations. In this regard, the draft RTS represent a contribution to the harmonised implementation in the EU of rules for the calculation of capital requirements for default risk of trading book positions under the alternative standardised approach for market risk, being gross JTD amounts a key element needed for those calculations.

The draft RTS are intended to address the three mandates set out in Article 325w(8) of the CRR, and specify respectively:

- (a) How the components  $P\&L_{long}$ ,  $P\&L_{short}$ ,  $Adjustment_{long}$  and  $Adjustment_{short}$  are to be determined for the purposes of calculating gross JTD amounts of exposures to debt and equity instruments with the formulae in Article 325w(1), (2) and (5) of the CRR.
- (b) Which alternative methodologies institutions are to use for estimating gross JTD amounts of exposures referred to in Article 325w(7) of the CRR.
- (c) How to determine the notional amount of instruments other than the ones referred to in Article 325w(4) of the CRR.

The draft RTS have been finalised taking into consideration the comments received in the public consultation. The comments were broadly supportive of the approach set out by the EBA, while some requests have been made with regard to the treatment in the DRC of instruments with multiple underlyings, indices and CIUs, which were considered in the finalisation process of the draft RTS.

The draft RTS represent a deliverable of the third phase of the EBA roadmap for the new market and counterparty credit risk approaches published on 27 June 2019<sup>1</sup>. They constitute a further contribution to a smooth and harmonised implementation of the Fundamental Review of the Trading Book (FRTB) international standards in the EU.

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<sup>1</sup> <https://eba.europa.eu/sites/default/documents/files/documents/10180/2844544/ab272ad0-f256-4d70-9563-376e1d772feb/EBA%20roadmap%20for%20the%20new%20market%20and%20counterparty%20credit%20risk%20approaches.pdf>

## 2. Background and rationale

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1. Regulation (EU) No 575/2013 (the Capital Requirements Regulation – CRR) as amended by Regulation (EU) 2019/876, implements in EU legislation, inter alia, the revised framework to compute own funds requirements for market risk. One component of these requirements is the DRC, which is a capital requirement intended to capitalise default risks in the trading book.
  2. To determine the DRC under the alternative standardised approach for market risk, the gross JTD amounts of exposures are to be calculated. In this regard, Article 325w of the CRR sets out requirements specifying how gross JTD amounts shall be determined for the purposes of the DRC for non-securitisations.
  3. In particular, Article 325w(1), (2) and (5) outline formulae for calculating gross JTD amounts of exposures to debt and equity instruments, together with requirements for the identification of the components of the formulae. In addition, Article 325w(7) specifies that institutions shall use alternative methodologies to estimate gross JTD amounts in the case of exposures to default risk arising from derivative instruments whose pay-offs in the event of default of the obligor are not related to the notional amount of a specific instrument issued by that obligor or to the LGD of the obligor or an instrument issued by that obligor.
  4. The EBA is then mandated, in Article 325w(8) of the CRR, to develop draft RTS to specify:
    - (a) how institutions are to determine the components  $P\&L_{long}$ ,  $P\&L_{short}$ ,  $Adjustment_{long}$  and  $Adjustment_{short}$  when calculating the JTD amounts for different types of instruments in accordance with this Article;
    - (b) which alternative methodologies institutions are to use for the purposes of the estimation of gross JTD amounts referred to in paragraph 7.
    - (c) the notional amounts of instruments other than the ones referred to in points (a) and (b) of paragraph 4.
- The EBA is requested to submit these draft RTS to the Commission by 28 June 2021.
5. It should be noted that this document, including the mandates in Article 325w(8) of the CRR on the basis of which the draft RTS have been developed, are based on Article 325w of the CRR as amended by the Corrigendum of Regulation (EU) 2019/876<sup>2</sup>. Consequently, readers of this document are invited to refer to Article 325w of the CRR as amended by the Corrigendum of Regulation (EU) 2019/876 when considering the draft RTS set out in this paper.
  6. The mandate gives to the EBA the task of specifying in the draft RTS how the components of the CRR formulae for the quantification of gross JTD amounts of exposures to debt and equity

instruments are to be determined and which alternative methodologies institutions are to use to estimate gross JTD amounts for those exposures mentioned in Article 325w(7) of the CRR. Accordingly, via these draft RTS, the EBA has the task of clarifying, in practice, how gross JTD amounts of exposures in scope of the mandate are to be calculated, so long this fits with the requirements – and also the formulae – outlined in Article 325w of the CRR.

7. In terms of scope, the draft RTS are intended to cover exposures included in the DRC for non-securitisations, as the mandate is specified in Subsection 1, Section 5, Chapter 1a, Title IV, Part Three of the CRR, which concerns own funds requirements for the default risk of non-securitisations. Instead, Subsection 2 and Subsection 3 of Section 5 specify, respectively, how to determine own funds requirements for the default risk of securitisations not included in the alternative correlation trading portfolio (ACTP) and own funds requirements for the default risk of securitisations included in the ACTP. Accordingly, these draft RTS cover trading book positions under the alternative standardised approach for market risk in scope of the DRC for non-securitisations.
8. It should also be noted that the DRC is intended to capture the default risk of trading book positions, but not the counterparty credit risk arising from the transactions mentioned in Article 92(3)(f) of the CRR, as this is capitalised separately in the distinct capital charge for counterparty credit risk in the trading book. Consequently, for derivative instruments, the draft RTS play a role for the purposes of capitalising the default risk of their underlying debt and equity instruments, or the default risk of an obligor, which affects the value of the derivative instrument, but not the default risk of the counterparty of the derivative instrument.

## 2.1 Mandate in point (a) of Article 325w(8) of the CRR

9. The mandate in point (a) of Article 325w(8) of the CRR requires the EBA to specify how to determine the components  $P\&L_{long}$ ,  $P\&L_{short}$ ,  $Adjustment_{long}$  and  $Adjustment_{short}$  of the CRR formulae for calculating gross JTD amounts of exposures to debt and equity instruments.
10. The EBA notes that the CRR formulae for the calculation of gross JTD amounts under the CRR are different from those employed under the FRTB international standards. Notably, the CRR formulae introduce the additional terms  $Adjustment_{long}$  and  $Adjustment_{short}$ , which are not present in the FRTB formulae for the calculation of gross JTD amounts as specified in MAR22.11<sup>3</sup>. This also implies that the P&L term under the CRR and FRTB formulae will be associated to different concepts, and thus will generally result in different values.
11. Nevertheless, regardless of the different formulae for gross JTD amounts under the CRR and the FRTB, their output for equivalent exposures should be equal to ensure alignment with international standards. In this regard, the draft RTS set out in this document include a specification for the determination of gross JTD amounts under the CRR that is intended to result in outcomes equivalent to those under the FRTB for equivalent positions.

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<sup>3</sup> [https://www.bis.org/basel\\_framework/chapter/MAR/22.htm?inforce=20230101&published=20200327](https://www.bis.org/basel_framework/chapter/MAR/22.htm?inforce=20230101&published=20200327)

12. Against this background, the draft RTS set out in this document propose to determine the components  $P\&L_{long}$ ,  $P\&L_{short}$ ,  $Adjustment_{long}$  and  $Adjustment_{short}$  for the purposes of the mandate in point (a) of Article 325w(8) of the CRR as follows:

$$P\&L_{long} = V_A - V_{notional}$$

$$P\&L_{short} = V_A - V_{notional}$$

$$Adjustment_{long} = -V_F$$

$$Adjustment_{short} = -V_F$$

Where:

- $V_A$  is the market value of the instrument from which the exposure arises for the institution at the time of the calculation.
- $V_F$  is the market value of the instrument from which the exposure arises for the institution calculated under the assumption that, at the time of the calculation, the equity instrument experienced a full loss in value, or the debt instrument defaulted and experienced a zero recovery rate (i.e. a full loss in value).
- $V_{notional}$  is equal to this same term in the CRR formula.

13. In accordance with the above specification, together with the specification for the notional amount of instruments that is discussed below for the purposes of the mandate in point (c) of Article 325w(8) of the CRR, it can be derived that the CRR formulae for the calculation of gross JTD amounts can be written in accordance with this representation:

$$JTD_{long} = \max\{V_A - V_D, 0\}$$

$$JTD_{short} = \min\{V_A - V_D, 0\}$$

Under this representation, the gross JTD amount of an exposure to a debt or equity instrument is the difference between the market value of the instrument from which the exposure arises for the institution at the time of the calculation, and the market value of the instrument from which the exposure arises calculated under the assumption that, at the time of the calculation, the equity instrument experienced a full loss in value, or the debt instrument defaulted and experienced a prefixed (regulatory) recovery rate calculated with respect to the face value of the debt instrument.

14. To calculate gross JTD amounts in accordance with the draft RTS, the terms  $V_A$ ,  $V_D$  and  $V_F$  need to be determined. In this regard  $V_A$  should be readily available to institutions as it represents

the market value of the instrument constituting the exposure at the time of the calculation.<sup>4</sup> In contrast,  $V_D$  and  $V_F$  represent hypothetical market values that the instrument would have at the time of the calculation under their respective default events for the debt or the equity instrument, and therefore require a specific calculation for their determination.

15. For the purposes of this section and the mandate in point (a) of Article 325w(8), the ‘instrument from which the exposure arises’ is meant to be the instrument from which the exposure arises as a consequence of the default risk of a debt or equity instrument. This means that the ‘instrument from which the exposure arises’ could be a debt or equity instrument, but also a derivative instrument whose value is affected by the value of a debt or equity instrument (e.g. bond and equity options, etc.), as such a derivative instrument would effectively constitute, and would consequently be considered as, an exposure to a debt or equity instrument.

16. The representation proposed above is consistent with what the concept of gross JTD amount should quantify in accordance with the specifications under the CRR and FRTB. In this regard, it is also noted that Article 325v(1)(c) defines ‘gross jump-to-default (gross JTD) amount’ as ‘the estimated size of the loss or gain that the default of the obligor would produce for a specific exposure’, while MAR10.19<sup>5</sup> of the Basel framework defines JTD as ‘the risk of a sudden default. JTD exposure refers to the loss that could be incurred from a JTD event’.

17. In accordance with the proposal, the quantification of the components  $P\&L_{long}$  and  $P\&L_{short}$  depends also on the specification of  $V_{notional}$ , which is based on the concept of notional amount set out below in this document for the purposes of the mandate in point (c) of Article 325w(8) of the CRR. At the same time, the specification of  $V_{notional}$  should also take into account the specifications of the other components of the CRR formulae. In this regard, all the components of the gross JTD amount formulae, and thus the mandates in points (a) and (c) of Article 325w(8) of the CRR, are closely interconnected.

## 2.2 Mandate in point (b) of Article 325w(8) of the CRR

18. The mandate in point (b) of Article 325w(8) of the CRR requires the EBA to specify which alternative methodologies institutions are to use for the purposes of estimating the gross JTD amounts of the exposures mentioned in Article 325w(7) of the CRR, i.e. exposures to default risk arising from derivative instruments whose pay-offs in the event of default of the obligor are not related to the notional amount of a specific instrument issued by that obligor or to the LGD of the obligor or an instrument issued by that obligor.

19. To ensure that those alternative methodologies are based on the same approach for calculating gross JTD amounts as for other exposures, the draft RTS set out in this document specify that the alternative methodologies should consist in estimating the gross JTD amount of an exposure as the difference between the market value of the instrument from which the exposure arises

<sup>4</sup> It should be noted that the market value of the instrument is expected to be always available to institutions. In this regard, if marking to market is not possible, marking to model should be performed to determine the market value of the instrument.

<sup>5</sup> [https://www.bis.org/basel\\_framework/chapter/MAR/10.htm?inforce=20230101&published=20200327](https://www.bis.org/basel_framework/chapter/MAR/10.htm?inforce=20230101&published=20200327)

for the institution at the time of the calculation, and the market value of the instrument from which the exposure arises calculated under the assumption that the obligor defaulted at that time.

20.If the obligor was already defaulted at the time of the calculation, and the market value of the instrument from which the exposure arises for the institution at that time already reflects the gain or loss resulting from the default of the obligor, an institution should set a value of zero to the gross JTD amount of the exposure, as the instrument would no longer be considered to constitute an exposure.

## 2.3 Mandate in point (c) of Article 325w(8) of the CRR

21.The mandate in point (c) of Article 325w(8) of the CRR requires the EBA to specify the notional amount of instruments other than the ones referred to in points (a) and (b) of Article 325w(4) of the CRR.

22.The specifications relative to the notional amount under Article 325w(4) of the CRR transpose some of the FRTB specifications under MAR22.14. They specify that:

- In the case of a bond, the notional amount is the face value of the bond.
- In the case of a sold put option on a bond, the notional amount is the notional amount of the option.
- In the case of a bought call option on a bond, the notional amount is 0.

For other types of instruments, the mandate in point (c) of Article 325w(8) of the CRR requires the EBA to specify in the draft RTS how the notional amount has to be determined.

23.Article 325w(5) of the CRR, which refers to exposures to equity instruments, specifies that:

- The notional amount is the fair value of the equity for cash equity instruments.

The cash equity instruments mentioned by this requirement are understood to be non-derivative instruments and this requirement is understood to specify that the notional amount of a direct holding of an equity instrument, or of a short sale of an equity instrument, is the fair value of the equity instrument. However, for derivative instruments on equity instruments, Article 325w(5) of the CRR would not clarify how the notional amount should be determined. As a consequence, the mandate in point (c) of Article 325w(8) of the CRR is understood to also require the specification of the notional amount of instruments other than cash equity instruments for the purposes of Article 325w(5) of the CRR.

24.In addition, it is considered that the mandate in point (c) of Article 325w(8) of the CRR only concerns the specification of the notional amount of instruments to be treated under Article 325w(1), (2) and (5) of the CRR. In contrast, for the exposures to be treated under Article

325w(7) of the CRR, the alternative methodologies mentioned therein would be employed, and these should not require the determination of the notional amount.

25. It should be noted that the concept of notional amount is different from the concept associated to the component  $V_{\text{notional}}$  of the formulae in Article 325w(1), (2) and (5) of the CRR. The concept of notional amount is associated to an instrument, whereas the concept of  $V_{\text{notional}}$  is associated to an exposure. In this regard, the same instrument could generate either a long or short exposure – depending on whether it is bought or sold<sup>6</sup> – and each of these exposures is associated to a  $V_{\text{notional}}$ . The definitions of long exposure and short exposure are specified in Article 325v(1) of the CRR.

26. In accordance with the requirements in Article 325w of the CRR, the notional amount of an instrument should enter into the component  $V_{\text{notional}}$  of the CRR formulae with a negative sign in the case of short exposures. This understanding reflects the requirement in MAR22.13 of the FRTB standards, according to which, when calculating the JTD as set out in MAR22.11, the notional amount of an instrument that gives rise to a long (short) exposure is recorded as a positive (negative) value.

27. The identification of the component  $V_{\text{notional}}$  is needed to determine the components  $P\&L_{\text{long}}$  and  $P\&L_{\text{short}}$  in accordance with the specifications proposed in the draft RTS for the purposes of the mandate in point (a) of Article 325w(8) of the CRR. At the same time, the draft RTS set out in this document aim at aligning with the FRTB international standards for the determination of gross JTD amounts.

28. The FRTB formulae for the determination of gross JTD amounts can be expressed in accordance with the following representation:

$$JTD_{\text{long}} = \max\{(LGD - 1) \cdot N + BEMV, 0\}$$

$$JTD_{\text{short}} = \min\{(LGD - 1) \cdot N + BEMV, 0\}$$

The term  $N$  is the ‘notional amount’ concept, and the term  $BEMV$  is the ‘bond-equivalent market value’ concept, mentioned in the FRTB standards. In this regard,  $BEMV$  is understood to be quantified as  $BEMV = V_A - V_F$ , where  $V_A$  and  $V_F$  are specified as above in this document, that is:

- $V_A$  is the market value of the instrument from which the exposure arises for the institution at the time of the calculation.
- $V_F$  is the market value of the instrument from which the exposure arises for the institution calculated under the assumption that, at the time of the calculation, the equity instrument experienced a full loss in value, or the debt instrument defaulted and experienced a zero recovery rate (i.e. a full loss in value).

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<sup>6</sup> Or vice versa, depending on the features of the instrument.

29. At the same time, it is considered that, in accordance with international standards, the gross JTD amount of an exposure to a debt or equity instrument may be expressed in accordance with the following representation:

$$\text{JTD}_{\text{long}} = \max\{V_A - V_D, 0\}$$

$$\text{JTD}_{\text{short}} = \min\{V_A - V_D, 0\}$$

Where:

- $V_A$  is specified as above in this document.
- $V_D$  is the market value of the instrument from which the exposure arises for the institution, calculated under the assumption that, at the time of the calculation, the equity instrument experienced a full loss in value, or the debt instrument defaulted and experienced a prefixed (regulatory) recovery rate, calculated with respect to the face value of the debt instrument, set:
  - for non-senior debt instruments, to zero;
  - for senior debt instruments, to 25%;
  - for covered bonds, to 75%.

It should be noted that in accordance with this specification, for exposures to non-senior debt instruments and for exposures to equity instruments,  $V_D$  corresponds to  $V_F$ .

30. Given this understanding for the determination of the term BEMV and of gross JTD amounts of exposures to debt and equity instruments under international standards, to ensure that gross JTD amounts calculated under the CRR are aligned with those calculated under international standards, the term  $V_{\text{notional}}$  under the CRR formula should be specified as follows:

$$V_{\text{notional}} = \frac{V_D - V_F}{1 - \text{LGD}}$$

31. At the same time, as noted above,  $V_{\text{notional}}$  of an exposure arising from an instrument should be the notional amount of the instrument for a long exposure, or the notional amount taken with a negative sign for a short exposure. Consequently, the notional amount of the instrument from which the exposure arises should be specified as follows, and this specification is set out in the draft RTS included in this document:

$$\text{Notional amount of the instrument (long exposure)} = \frac{V_D - V_F}{1 - \text{LGD}}$$

$$\text{Notional amount of the instrument (short exposure)} = \frac{V_F - V_D}{1 - \text{LGD}}$$

32. It should be noted that in accordance with the formulae specified in the previous paragraph the notional amount of an instrument is the same (and has the same sign) irrespective of whether the institution has a long or short exposure arising from that instrument. However, the notional amount of the instrument should enter the component  $V_{\text{notional}}$  with a negative sign for a short exposure arising from the instrument in accordance with Article 325w of the CRR.  $V_{\text{notional}}$  of a short exposure arising from an instrument should be equal to  $V_{\text{notional}}$  of a long exposure arising from the same instrument taken with the opposite sign.
33. In addition, the term  $N$  under the FRTB and CRR formulae should be relevant exclusively for exposures to covered bonds and senior debt instruments, since LGD is set to be 100% for exposures to non-senior debt instruments and exposures to equity instruments. Consistent with this, the draft RTS set out in this document specify that the notional amount of instruments that constitute exposures to non-senior debt instruments and exposures to equity instruments shall be zero, which will imply that the term  $V_{\text{notional}}$  of exposures to non-senior debt instruments and equity instruments will be zero<sup>7</sup>.

## 2.4 Treatment of exposures arising from instruments with multiple underlyings, indices and collective investment undertakings

34. As evidenced in section 4.2 of this document, responses received to the public consultation on the draft RTS have been either silent or supportive of the specifications made above in this document, and in the draft RTS, for addressing the mandates in points (a) to (c) of Article 325w(8) of the CRR. However, some stakeholders requested clarifications with regard to the treatment of index instruments and other multi-underlying instruments, and collective investment undertakings (CIUs) for the purposes of the DRC. The main concern was with regard to index instruments, where stakeholders requested that alternatives to the look-through approach in the DRC be introduced for equity and credit indices.
35. The EBA already provided its considerations with regard to the treatment of exposures arising from instruments with multiple underlyings, indices and CIUs in section 3.4 of the consultation paper on the draft RTS on gross JTD amounts. The EBA noted that the draft RTS do not include specific requirements for the determination of gross JTD amounts of exposures arising from those instruments because the requirements in Article 325ab(2) and Article 325j of the CRR already specify how those exposures should be considered for the purposes of the DRC and how, accordingly, the draft RTS should be employed to determine gross JTD amounts of those exposures. In particular, the draft RTS are to be developed and applied taking into account the requirements of the CRR.
36. Article 325ab(2) of the CRR specifies that 'for traded non-securitisation credit and equity derivatives, JTD amounts by individual constituents shall be determined by applying a look-through approach.' Although Article 325ab(2) has been included in Subsection 3 of Section 5 referring to own funds requirements for the default risk for securitisations included in the ACTP,

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<sup>7</sup> With the exception of cash equity instruments, for which Article 325w(5) of the CRR specifies that their notional amount is the fair value of the equity.

the EBA considers that this requirement is applicable for the purposes of Subsection 1 of Section 5, i.e. for the DRC for non-securitisations positions.

37. The usage of the look-through approach requires the identification of the underlying debt and equity instruments of the multi-underlying instrument that expose the institution to default risks, and the calculation of a gross JTD amount for each of those underlyings in accordance with the specifications set out in the draft RTS.

38. It is relevant to make a distinction among the treatments for:

- i) multi-underlying instruments that reference a bespoke set of equities or debt instruments;
- ii) instruments that reference CIUs; and
- iii) instruments that reference equity and credit indices.

#### Multi-underlying instruments that reference a bespoke set of equities or debt instruments

39. With regard to multi-underlying instruments that reference a bespoke set of equities or debt instruments (e.g. basket options), the look-through approach should apply for these instruments for the purposes of the DRC (and thus also for calculating gross JTD amounts) in accordance with Article 325ab(2) of the CRR. In particular, it is noted that the look-through approach should apply for these instruments also under the sensitivities-based method (SbM) in accordance with Article 325i(1)(a) of the CRR (as introduced by Commission Delegated Regulation (EU) 2021/424), thus ensuring a consistent treatment between the DRC and the SbM.

#### Instruments that reference CIUs

40. With regard to the treatment of instruments that reference CIUs, Article 325j of the CRR (as introduced by Commission Delegated Regulation (EU) 2021/424) includes requirements that are considered to apply also for the purposes of the DRC. In particular, Article 325j(1)(a) specifies that an institution shall calculate the own funds requirements for market risk of a position in a CIU with one of the approaches specified therein. In this regard, since own funds requirements for market risk also include the DRC, those requirements should also apply for calculating capital requirements in accordance with the draft RTS. This interpretation is further substantiated by the fact that Article 325j(4)(b) explicitly includes rules for the purposes of the DRC under the alternative standardised approach.

41. In accordance with Article 325j of the CRR, the following approaches are available for a position in a CIU.

- In accordance with Article 325j(1)(a), where an institution is able to obtain sufficient information about the individual underlying exposures of the CIU, the institution shall calculate the own funds requirements for market risk of that CIU position by looking through to the underlying positions of the CIU as if those positions were directly held by the institution.

- For CIUs where the institutions is not able to look through, Article 325j(1)(b) specifies that the institution may either:
  - Consider the position in the CIU as a single equity position. In this case a unique gross JTD amount would be calculated for the position.
  - Upon permission from its competent authority, an institution may calculate the own funds requirements for market risk of the CIU in accordance with the limits set in the CIU's mandate and relevant law (i.e. apply the so-called 'hypothetical portfolio approach'). In this case, for the purposes of the DRC the exposures of the CIU should be identified in accordance with Article 325j(4)(b) of the CRR. Once the exposures of the CIU have been determined in accordance with that requirement, a gross JTD amount would be calculated for each of them in accordance with the specifications set out in the draft RTS.
- Alternatively, if in accordance with Article 325j(2) the institution has a position in a CIU that tracks an index benchmark so that the annualised return difference between the CIU and the tracked index benchmark over the last 12 months is below 1% in absolute terms, ignoring fees and commissions, the institution may treat the position in the CIU as a position in the tracked index benchmark. In such a case this would mean that the treatment for exposures arising from instruments referencing indices should be used, which is described in the next subsection.

#### Instruments that reference equity and credit indices

42. With regard to the treatment of positions in credit and equity indices, in section 3.4 of the consultation paper on the draft RTS on gross JTD amounts the EBA noted that Article 325ab(2) of the CRR transposes the equivalent MAR22.5 requirement of the Basel standards, and that FAQ1 of MAR22.5 clarifies that the JTD equivalent, when decomposing multiple underlying positions of a single security or product (e.g. index options), is defined as the difference between the value of the security or product assuming that each single name referenced by the security or product defaulted, separately from the others, and the value of the security or product assuming that none of the names referenced by the security or product defaulted.
43. Accordingly, also for exposures to credit and equity indices (e.g. index options), a look through approach should be employed to identify the underlying debt and equity instruments of the indices that expose the institution to default risks, and a gross JTD amount should be calculated for each underlying in accordance with the specifications set out in the draft RTS. This is particularly consistent with the fact that, in accordance with Article 325w(1), (2) and (5) of the CRR, a gross JTD amount is calculated for each exposure to a debt instrument or to an equity instrument.
44. The look-through requirement for indices under the DRC is what mostly raised concerns to the industry, as evidenced in the responses to the consultation paper on the draft RTS on gross JTD amounts. In this regard, it was commented that, in the SbM, a method of how to treat equity and credit indices without looking through to the constituents has been introduced, whereas

this has not been done for the DRC, resulting in an inconsistency. This was commented to be problematic because constituent data is often costly and performing the look-through can be burdensome, or even unmanageable.

45. Respondents therefore asked to introduce alternatives to the look through approach in the DRC for equity and credit indices, e.g. the possibility of treating positions in an index as a position in a single debt or equity instrument. To this end, respondents put forward some proposals for the risk weight that should be assigned to an index treated as a single instrument and for the offsetting effects, and it was also requested that provisions in Article 325i of the CRR could be applied also for the purposes of the DRC. Respondents, however, did not provide any proposals regarding how gross JTD amounts should be determined for indices treated as single instruments.
46. The EBA acknowledges the concern of the industry related to the look-through approach for indices in the DRC under the alternative standardised approach and recognises that, contrary to the SbM where rules for the treatment of index instruments without looking through were introduced (e.g. including the introduction of index buckets), this was not done in the DRC. In this regard there is a lack of explicit provisions both in Basel and in the CRR related to the possibility of treating indices as single instruments, and if this were possible, how such treatment should be (e.g. how gross JTD amounts of index instruments without looking through should be calculated, which offsetting effects could be applied and which risk weight should be assigned to an index treated as a single instrument).
47. The EBA notes that the introduction of such treatment goes beyond the mandate given to the EBA in the draft RTS, which is limited to the determination of gross JTD amounts. For example, the EBA would not be in a position of defining the relevant risk-weight to be assigned to the JTD amount corresponding to an index treated as a single instrument, nor able to fill in the gap by means of other tools (e.g. the Q&A tool). On the basis of these considerations, the EBA therefore considers that there is currently no sufficient room for manoeuvre to address this industry issue via level 2 legislation.

### 3. Draft regulatory technical standards on gross JTD amounts under Article 325w(8) of Regulation (EU) No 575/2013

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Brussels, **XXX**  
[...](2021) **XXX** draft

**COMMISSION DELEGATED REGULATION (EU) .../...**

**of XXX**

**supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards on gross JTD amounts under Article 325w(8) of Regulation (EU) No 575/2013**

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,  
 Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26/06/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and in particular the third subparagraph of Article 325w(8) thereof,

Whereas:

- (1) Alignment with international standards in the determination of gross JTD amounts is necessary to ensure that own funds requirements for default risk under the alternative standardised approach for market risk are calculated in a way consistent with that for which they are designed. Therefore, the components  $P\&L_{long}$ ,  $P\&L_{short}$ ,  $Adjustment_{long}$ ,  $Adjustment_{short}$  of the formulae in Article 325w of Regulation (EU) No 575/2013, the notional amount of instruments for the determination of the component  $V_{notional}$  of those formulae and the alternative methodologies for the estimation of gross JTD amounts of exposures referred to in Article 325w(7) of that Regulation, should be determined in a way such that the gross JTD amounts calculated with those formulae, and methodologies, are consistent with the gross JTD amounts calculated in accordance with international standards.
- (2) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (3) The European Banking Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

HAS ADOPTED THIS REGULATION:

## Article 1

### **Determination of the components $P\&L_{long}$ , $P\&L_{short}$ , $Adjustment_{long}$ and $Adjustment_{short}$ for the calculation of gross JTD amounts for exposures to debt or equity instruments**

1. Where calculating the gross JTD amounts for exposures to debt instruments in accordance with Article 325w(1) and (2) of Regulation (EU) No 575/2013, or where calculating the gross JTD amounts for exposures to equity instruments in accordance with Article 325w(5) of that Regulation, the components  $P\&L_{long}$  and  $P\&L_{short}$  shall be determined as follows:

$$P\&L_{long} = V_A - V_{notional}$$

$$P\&L_{short} = V_A - V_{notional}$$

where:

$V_A$  is the market value of the instrument from which the exposure arises for the institution at the time of the calculation.

2. For exposures to debt instruments, the components  $Adjustment_{long}$  and  $Adjustment_{short}$  referred to in Article 325w(1) and (2) of Regulation (EU) No 575/2013 shall be determined as follows:

$$Adjustment_{long} = -V_F$$

$$Adjustment_{short} = -V_F$$

where:

$V_F$  is the market value of the instrument from which the exposure arises for the institution calculated under the assumption that at the time of the calculation the debt instrument defaulted and experienced a zero recovery rate.

3. For exposures to equity instruments, the components  $\text{Adjustment}_{\text{long}}$  and  $\text{Adjustment}_{\text{short}}$  referred to in Article 325w(5) of Regulation (EU) No 575/2013 shall be determined as follows:

$$\text{Adjustment}_{\text{long}} = -V_F$$

$$\text{Adjustment}_{\text{short}} = -V_F$$

where:

$V_F$  is the market value of the instrument from which the exposure arises for the institution calculated under the assumption that at the time of the calculation the equity instrument experienced a full loss in value.

## Article 2

### **Estimation of gross JTD amounts for exposures referred to in Article 325w(7) of Regulation (EU) No 575/2013**

1. The alternative methodology to estimate the gross JTD amount of an exposure referred to in Article 325w(7) of Regulation (EU) No 575/2013 shall consist in calculating the difference between the market value of the instrument from which the exposure arises for the institution at the time of the calculation and the market value of the instrument from which the exposure arises calculated under the assumption that the obligor defaulted at that time.

2. If the obligor was already defaulted at the time of the calculation and the market value of the instrument from which the exposure arises for the institution at that time already reflects the gain or loss resulting from the default of the obligor, the alternative methodology referred to in Article 325w(7) of Regulation (EU) No 575/2013 shall consist in regarding the gross JTD amount of the exposure to be zero.

## Article 3

### **Notional amounts of instruments**

1. For the purposes of Article 325w(1) and (2) of Regulation (EU) No 575/2013, the notional amounts of instruments other than those referred to in points (a) and (b) of Article 325w(4) of that Regulation shall be determined as follows:

(a) for exposures to debt instruments classified as senior debt instruments or covered bonds, the notional amount of the instrument from which the exposure arises shall be:

In case of a long exposure:

$$\text{Notional amount} = \frac{V_D - V_F}{1 - \text{LGD}}$$

In case of a short exposure:

$$\text{Notional amount} = \frac{V_F - V_D}{1 - \text{LGD}}$$

where:

$V_D$  is the market value of the instrument from which the exposure arises for the institution calculated under the assumption that at the time of the calculation the debt instrument defaulted and experienced a recovery rate, calculated with respect to the face value of the debt instrument, equal to  $(1-LGD)$  where  $LGD$  is the  $LGD$  assigned to the debt instrument in accordance with Article 325w(3) of Regulation (EU) No 575/2013.

$V_F$  is  $V_F$  as specified in accordance with Article 1(2) of this Regulation.

$LGD$  is the  $LGD$  assigned to the debt instrument in accordance with Article 325w(3) of Regulation (EU) No 575/2013.

(b) for exposures to debt instruments classified as non-senior debt instruments, the notional amount of the instrument from which the exposure arises shall be zero.

2. For the purposes of Article 325w(5) of Regulation (EU) No 575/2013, the notional amount of the instrument from which the exposure arises, and that is not a cash equity instrument, shall be zero.

#### Article 4

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the Commission*  
*The President*

*[For the Commission*  
*On behalf of the President*

*[Position]*

## 4. Accompanying documents

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### 4.1 Draft cost-benefit analysis / impact assessment

48. Article 325w(8) of the CRR mandates the EBA to develop draft RTS to specify (a) how institutions are to calculate the components  $P\&L_{long}$ ,  $P\&L_{short}$ ,  $Adjustment_{long}$  and  $Adjustment_{short}$  when calculating the gross JTD amounts for different types of instruments; (b) which alternative methodologies institutions are to use for the purposes of the estimation of gross JTD amounts of exposures referred to in Article 325w(7) of the CRR; and (c) the notional amounts of instruments other than the ones referred to in Article 325w(4) of the CRR.

49. Article 10(1) of Regulation (EU) No 1093/2010 (EBA Regulation) provides that any RTS developed by the EBA should be accompanied by an analysis of ‘the potential related costs and benefits’. This analysis should provide an overview of the findings regarding the problem to be dealt with, the options proposed and the potential impact of these options.

50. This section presents the cost-benefit analysis of the main policy options included in the draft RTS set out in this document. The analysis is high level and of qualitative nature.

#### A. Problem identification

51. The capital requirements for market risk under the alternative standardised approach are calculated as the sum of three components: (a) the capital requirements under the sensitivities-based method (SbM); (b) the capital requirements for default risk (the default risk charge - DRC), and (c) the capital requirements for residual risks (the residual risk add-on - RRAO).

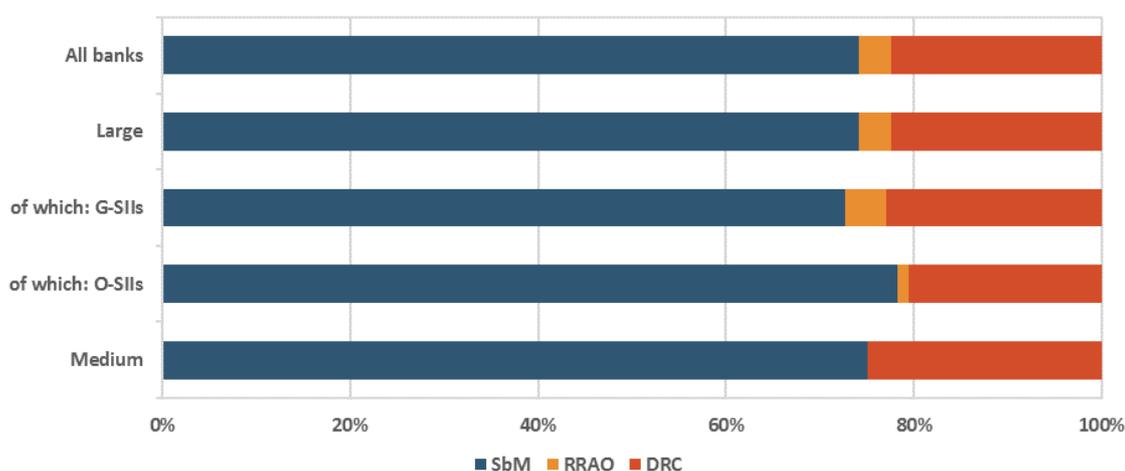
52. According to Article 325v(2) of the CRR, institutions shall calculate default risk requirements separately for each of the following types of instruments: non-securitisations, securitisations that are not included in the ACTP and securitisations that are included in the ACTP.

53. The calculation of default risk requirements for non-securitisations consists of the following steps. First, institutions shall calculate the gross JTD amounts for each long and short exposure in scope of the DRC for non-securitisations. Second, they shall calculate net JTD amounts by offsetting the gross JTD amounts of short exposures and long exposures to a same obligor. Third, they shall multiply the net JTD amounts by regulatory risk weights. Fourth, they shall aggregate the risk-weighted long net JTD amounts with risk-weighted short net JTD amounts within buckets. When performing the aggregation within buckets, a so-called ‘hedge benefit ratio’ (i.e. the term  $WtS$  in Article 325y(4) of the CRR) recognises some hedging effects within a bucket. The fifth and last step consists in the simple sum of the capital requirements calculated for each bucket.

54. The EBA is mandated to develop draft RTS specifying how institutions shall calculate gross JTD amounts for non-securitisations. The lack of common specification could result in an inconsistent application of the standardised DRC across institutions, undermining the implementation of the alternative standardised approach in the EU.

55. Based on the EBA QIS 2018 Q4 data, a sizeable share of the market risk capital requirements under the alternative standardised approach is attributed to the DRC.<sup>8</sup> On average, the overall contribution of the DRC to total market risk capital requirements under the alternative standardised approach stands at around 22.4% (see Figure 1).

**Figure 1.** Composition of FRTB-SA RWA, by bank size



Sources: EBA 2018-Q4 QIS data and EBA calculations.

Notes: Based on a sample of 44 banks: large (39), of which G-SIIs (7) and of which O-SIIs (27); medium (4); small\* (1). SbM, sensitivities-based method; RRAO, residual risk add-on; DRC, default risk capital requirement.

\*Not shown in the chart because there are fewer than three entities in the cluster.

## B. Policy objectives

56. The specific objective of these draft RTS is to establish a common specification for calculating gross JTD amounts for non-securitisations. In this way, these draft RTS contribute to ensure a consistent implementation of the DRC framework under the alternative standardised approach across EU institutions.

57. Generally, these draft RTS aim to create a level playing field, promote the convergence of institutions' practices and enhance comparability of own funds requirements across the EU. Overall, these draft RTS are expected to promote the effective and efficient functioning of the EU banking sector.

<sup>8</sup> These figures do not take into account the provisions put forward in this document.

### C. Options considered, cost-benefit analysis, preferred options

#### Determination of the components $P\&L_{long}$ , $P\&L_{short}$ , $Adjustment_{long}$ , $Adjustment_{short}$ , and of notional amount of instruments

58. For the purposes of addressing the mandates in points (a) and (c) of Article 325w(8) of the CRR, the following options are available.

**Option 1a:** specify in the draft RTS requirements intended to ensure that gross JTD amounts calculated with the formulae in Article 325w of the CRR are equivalent to those calculated with the formulae in the Basel standards.

**Option 1b:** specify in the draft RTS requirements according to which the gross JTD amounts calculated with the formulae in Article 325w of the CRR would be different than those calculated with the formulae in the Basel standards.

59. Under Option 1b the capital requirements for default risk of trading book positions under the alternative standardised approach would be associated to a different calibration than the one for which they have been designed for prudential purposes, and there would not be alignment with international standards. This would not occur under Option 1a.

60. It should be noted that the formulae in Article 325w of the CRR are different from the formulae of the Basel standards for calculating gross JTD amounts. Article 325w sets out specific requirements for the identification of the components  $P\&L_{long}$ ,  $P\&L_{short}$ ,  $Adjustment_{long}$ , and  $Adjustment_{short}$  which are only relevant for the formulae in the CRR. To achieve the objective under Option 1a, the requirements in the Basel standards for calculating gross JTD amounts have been reformulated to fit with the CRR formulae and requirements.

61. Option 1a is preferred.

#### Estimation of gross JTD amounts for exposures under Article 325w(7) of the CRR

62. For the purposes of addressing the mandate in point (b) of Article 325w(8) of the CRR, the following options were considered.

**Option 2a:** the alternative methodologies for estimating gross JTD amounts of exposures under Article 325w(7) of the CRR should be based on the same approach for calculating gross JTD amounts as for other exposures.

**Option 2b:** the alternative methodologies for estimating gross JTD amounts of exposures under Article 325w(7) of the CRR should be based on a different approach for calculating gross JTD amounts than for other exposures.

63. Option 2a ensures consistency in the approach used for determining gross JTD amounts of exposures under Article 325w of the CRR, which consists in quantifying the gross JTD amount as



the profit and loss (P&L) resulting from a change in the market value of the instrument from which the exposure arises following an instantaneous default event of the debt or equity instrument, or of the obligor.

64.Option 2a is preferred.

## 4.2 Feedback on the public consultation

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for three months and ended on 12 June 2021.<sup>9</sup> Three responses were received, of which two were published on the EBA website. The EBA also held a public hearing on the consultation paper on the draft RTS on gross JTD amounts on 29 April 2021.

This section presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

After having analysed the comments received from the public consultation, no changes have been incorporated in the draft RTS.

### Summary of key issues and the EBA's response

Responses received to the public consultation on the draft RTS have been either silent or supportive of the specifications in the draft RTS for addressing the mandates in points (a) to (c) of Article 325w(8) of the CRR.

However, some stakeholders requested clarifications with regard to the treatment of index instruments and other multi-underlying instruments, and collective investment undertakings (CIUs), for the purposes of the DRC. The main concern was with regard to index instruments, where stakeholders requested that alternatives to the look-through approach be introduced for equity and credit indices.

The EBA considerations and response with regard to the treatment of exposures arising from instruments with multiple underlyings, indices and CIUs are set out in section 2.4 of this document, and in the feedback table below. With regard to the concern of the industry related to the look-through approach for indices, there is a lack of explicit provisions both in Basel and in the CRR related to the possibility of treating indices as single instruments, and if this were possible, how such treatment should be (e.g. how gross JTD amounts of index instruments without looking through should be calculated, which offsetting effects could be applied and which risk weight should be assigned to an index treated as a single instrument).

The EBA notes that the introduction of such treatment goes beyond the mandate given to the EBA in the draft RTS, which is limited to the determination of gross JTD amounts. For example, the EBA would not be in a position of defining the relevant risk-weight to be assigned to the JTD amount corresponding to an index treated as a single instrument, nor able to fill in the gap by means of other tools (e.g. the Q&A tool). On the basis of these considerations, the EBA therefore considers

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<sup>9</sup> <https://www.eba.europa.eu/regulation-and-policy/market-risk/regulatory-technical-standards-gross-jump-default-amounts>



that there is currently no sufficient room for manoeuvre to address this industry issue via level 2 legislation.



## Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Responses to questions in Consultation Paper EBA/CP/2021/09</b>			
<p><b>Question 1.</b> Do you agree with the proposed specification for the determination of the components <math>P\&amp;L_{long}</math>, <math>P\&amp;L_{short}</math>, <math>Adjustment_{long}</math> and <math>Adjustment_{short}</math> of the CRR formulae for the calculation of gross JTD amounts? If not, please explain why and how you would determine those components for the exposures in scope of the mandate in point (a) of Article 325w(8) of the CRR, including the rationale for your proposal.</p>	<p>One respondent commented that the industry welcomes the proposed definitions as these ensure identical outcomes across the BCBS standard and the CRR. This respondent also recommended that to avoid undue burden, institutions should not be asked to report the quantities separately as this might lead to unnecessary implementation efforts.</p>	<p>The EBA welcomes the industry's support for the proposed specifications for the determination of the components <math>P\&amp;L_{long}</math>, <math>P\&amp;L_{short}</math>, <math>Adjustment_{long}</math> and <math>Adjustment_{short}</math> of the CRR formulae for the calculation of gross JTD amounts.</p> <p>With regard to the comment on reporting, this aspect is not covered by the draft RTS set out in this document, while it is relevant in the context of the draft ITS on reporting requirements for market risk.</p>	No amendments.
<p><b>Question 2.</b> Do you agree with the proposed specification for the estimation of gross JTD amounts of exposures in scope of Article 325w(7) of the CRR? If not, please explain why and how you would determine gross JTD amounts for those exposures, including the rationale for your proposal.</p>	<p>One respondent commented that the industry welcomes the proposed definitions as these ensure identical outcomes across the BCBS rules and its EU implementation.</p>	<p>The EBA welcomes the industry's support for the proposed specifications for the estimation of gross JTD amounts of exposures in scope of Article 325w(7) of the CRR.</p>	No amendments.
<p><b>Question 3.</b> Do you agree with the proposed specification of the notional amount of instruments for the purposes of the mandate in point (c) of</p>	<p>One respondent commented that the industry welcomes the proposed definitions as these ensure identical outcomes between the BCBS rules and its EU implementation. In order to avoid undue operational</p>	<p>The EBA welcomes the industry's support for the proposed specification of the notional amount of</p>	No amendments.



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<p>Article 325w(8) of the CRR? If not, please explain why and how you would determine the notional amount of instruments falling in scope of the mandate, including the rationale for your proposal.</p>	<p>burden, institutions should not be asked to report the quantities separately as this might lead to unnecessary implementation efforts. If it is required, a cost-benefit analysis should be carried out.</p>	<p>instruments for the purposes of the mandate in point (c) of Article 325w(8) of the CRR.</p> <p>With regard to the comment on reporting, this aspect is not covered by the draft RTS set out in this document, while it is relevant in the context of the draft ITS on reporting requirements for market risk.</p>	
<p><b>Question 4.</b> Do you have any other comments that you wish to highlight on these draft RTS?</p>	<p>Respondents to this question commented on the following two points:</p> <p>1. Three respondents expressed concerns with regard to the treatment of equity and credit indices in the DRC. In particular, respondents raised concerns with regard to the requirement to look-through the indices for the purposes of calculating the DRC.</p> <p>It was commented that in the sensitivities-based method (SbM) a method of how to treat equity and credit indices without looking through to the constituents has been introduced, whereas this has not been done for the DRC, resulting in an inconsistency. This was commented to be problematic because constituent data is often costly and performing the look-through can be burdensome, or even unmanageable. It was therefore requested to introduce alternatives to the look-through approach in the DRC for credit and equity indices.</p> <p>In this regard one respondent commented not to see an economic reason for not being able to capture all features of default risk by directly referring to the underlying index, adding that in indices, single</p>	<p>The EBA acknowledges the concern of the industry related to the look-through approach for indices in the DRC under the alternative standardised approach and recognises that, contrary to the SbM where rules for the treatment of index instruments without looking through were introduced (e.g. including the introduction of index buckets), this was not done in the DRC. In this regard there is a lack of explicit provisions both in Basel and in the CRR related to the possibility of treating indices as single instruments, and if this were possible, how such treatment should be (e.g. how gross JTD amounts of index instruments without looking through should be calculated, which offsetting effects could be applied and which risk weight should be assigned to an index treated as a single instrument).</p> <p>The EBA notes that the introduction of such treatment goes beyond the mandate given to the EBA in the draft RTS, which is limited to the determination of gross JTD amounts. For example, the EBA would not be in a position of defining the relevant risk-weight to be assigned to the JTD amount corresponding to an index treated as a single instrument, nor able to fill in the gap by means of</p>	<p>No amendments.</p>



## Comments

## Summary of responses received

## EBA analysis

## Amendments to the proposals

constituents are replaced in cases of distress such that defaults of single constituents only result in a short-term volatility that is not larger than usual volatility clusters caused by other reasons.

Another respondent commented that while it is well known that the rationale behind the DRC and the look-through approach is to have a proper view on the real exposure the institution is facing, a simplified approach, even if more conservative in terms of own funds requirements, should be considered for exposures arising from instruments with multiple underlyings, and Article 325i could be consistently applied on both the SbM and the DRC.

With regard to the risk weight to be assigned to indices when the look-through approach is not applied, one respondent proposed to apply the risk weight of the BBB bucket for main equity indices of advanced economies. For credit indices, it was suggested that where there is a condition to be met by an index in terms of a minimum credit rating (for example, investment grade) that has to be met by all its constituents, then that rating may be used as a floor and extended to the whole position.

The same respondent suggested that in all these cases a restriction from any offsetting effect with other positions on other underlyings will be kept but there would be a diversification between all corporate exposure positions including non-looked-through indices.

other tools (e.g. the Q&A tool). On the basis of these considerations, the EBA therefore considers that there is currently no sufficient room for manoeuvre to address this industry issue via level 2 legislation.

With regard to the request for specifications in the draft RTS of how index instruments, multiple-underlying instruments and CIUs should be treated for the calculation of the DRC, the requirements in Article 325ab(2) and Article 325j the CRR already specify how those exposures should be considered for the purposes of the DRC and how, accordingly, the draft RTS should be employed to determine gross JTD amounts of those exposures. In particular, the draft RTS are to be developed and applied taking into account the requirements of the CRR.

With regard to the comment requesting the introduction of a 40% LGD associated to senior secured debt instruments, the EBA notes that the calculation of gross JTD amounts in accordance with the draft RTS are to be performed taking into account the specifications in Article 325w of the CRR. In this regard, the LGD values to be applied are specified in Article 325w(3) and (6) of the CRR and these do not include a 40% LGD associated to senior secured debt instruments. It is therefore considered that this comment cannot be addressed, as it is outside the scope of the mandate given to the EBA in Article 325w(8) of the CRR.

**Comments****Summary of responses received****EBA analysis****Amendments to the proposals**

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One respondent commented that it would appreciate a specification of how index instruments, multiple-underlying instruments and CIUs should be treated for the calculation of the DRC, stating that the draft regulatory text in section 4 of the consultation paper does not explicitly cover the treatment of multi-underlying instruments, indices and CIUs.

2. One respondent requested the introduction of a 40% LGD associated to senior secured debt instruments in the DRC. It was commented that the FRTB-SA DRC separates LGD into non-senior (100%), senior (75%) and covered bonds (25%), however, the framework is missing an appropriate LGD for senior secured debt, which was proposed to be set at 40%. This respondent also noted that the same comment had been made in response to the recent European Commission consultation paper on the CRR3 implementation.

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### 4.3 Annex: examples

The following examples outline how the specifications in the draft RTS are intended to be applied for the calculation of gross JTD amounts of selected exposures to debt and equity instruments.

For the purpose of this table, the market value of an instrument should be intended as the market value of the instrument for the counterparty that bought the instrument in accordance with the first columns of the table.

	Exposure type	$V_A$	$V_D$	$V_F$	$V_{\text{notional}}$
Long equity	Long exposure	Market value of equity	0	0	Fair value of equity <sup>10</sup>
Short equity	Short exposure	– Market value of equity	0	0	– Fair value of equity <sup>10</sup>
Long bond	Long exposure	Market value of bond	$(1-LGD) \cdot \text{Face value of bond}$	0	Face value of bond
Short bond	Short exposure	– Market value of bond	$-(1-LGD) \cdot \text{Face value of bond}$	0	– Face value of bond
Bought call option on equity	Long exposure	Market value of the call option	0	0	0
Sold call option on equity	Short exposure	– Market value of the call option	0	0	0

<sup>10</sup> Article 325w(5) of the CRR specifies that for cash equity instruments the notional amount is the fair value of the equity. For all other instruments that constitute exposures to equity instruments – including those in this table – Article 3(2) of the draft RTS specifies that the notional amount of the instrument should be zero, which will imply a  $V_{\text{notional}}$  equal to zero.

Bought put option on equity	Short exposure	Market value of the put option	Strike price	Strike price	0
Sold put option on equity	Long exposure	– Market value of the put option	– Strike price	– Strike price	0
Bought call option on bond	Long exposure	Market value of the call option	0	0	0
Sold call option on bond	Short exposure	– Market value of the call option	0	0	0
Bought put option on bond	Short exposure	Market value of the put option	Strike price – (1–LGD) · Notional of the option	Strike price	– Notional of the option <sup>11</sup>
Sold put option on bond	Long exposure	– Market value of the put option	– Strike price + (1–LGD) · Notional of the option	– Strike price	Notional of the option <sup>11</sup>
Sold CDS	Long exposure	– Market value of the CDS	–LGD · Notional of CDS	– Notional of CDS	Notional of CDS
Bought CDS	Short exposure	Market value of the CDS	LGD · Notional of CDS	Notional of CDS	– Notional of CDS

<sup>11</sup> The notional of the option of a put option on a bond is the face value of the bond underlying the option.