

EBA/RTS/2025/19

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## Final Report

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### Draft Regulatory Technical Standards

on the method for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position as referred to in Articles 94(3), 273a(3) and 325a(2) under Article 94(10) of Regulation (EU) No 575/2013

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# 1. Executive Summary

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The Regulation (EU) No 575/2013 (the Capital Requirements Regulation – CRR) includes some derogation for the calculation of the capital requirements for market and counterparty credit risks. Such derogations are in relation to institutions with small trading book business (Art. 94 of the CRR), the use of simplified methods for calculating the expected value of derivative transactions (Art. 273a of the CRR), and the use of the simplified standardized approach for market risk (Art. 325a of the CRR). The conditions for accessing such derogations depend on the size of the trading book business, the derivative business and the business subject to market risk, respectively.

For calculating the size of the business, “the absolute value of long positions shall be summed with the absolute value of short positions”. However, no clarification is included around the notions of long and short positions or the aggregation mechanism in the calculation.

The amendments to the CRR introduced by Regulation (EU) 2024/1623 (CRR3) include additional specifications around the calculation of the size of the business:

- The absolute value of the aggregated long position shall be summed with the absolute value of the aggregated short position;
- A long position means that the market value of the position increases when the value of its main risk driver increases, and a short position means that the market value of the position decreases, when the value of its main risk driver increases;
- The value of the aggregated long (short) position shall be equal to the sum of the values of the individual long (short) positions included in the calculation.

To complement these additional specifications, the CRR3 mandates the EBA to develop draft RTS specifying the method for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position.

The proposed general methodology to identify the main risk driver hinges on FRTB-SA sensitivities (for non-derivative and derivative positions) or SA-CCR add-ons (for derivative positions). The proposed general methodology for the determination of the direction of the positions is also based on sensitivities, or on the hedging/trading purpose. Such methodology is aligned with the one set out in the RTS on SA-CCR.

Considering that the computation of FRTB-SA sensitivities or SA-CCR add-ons for a large number of positions may be burdensome if those numbers are not already available to institutions, and also that small banks are and have always been exempted from using the FRTB-SA or SA-CCR, a simplified methodology has been included. The simplified methodology covers simple instruments such as fixed-rate bonds, floating-rate notes, stocks, forwards, futures, simple swaps and plain

vanilla options, while more complex trades require a more advanced analysis to be performed under the general methodology.

Following consultation, the simplified methodology has been further streamlined by allowing to disregard, under such a methodology, the FX risk drivers for non-FX trades (i.e. trades not considered as pure FX trades but only affected by translation risk). In addition, the possibility to use the simplified methodology has been extended to all institutions, for the simple instruments included in its scope.

## Next steps

The draft regulatory technical standards will be submitted to the Commission for endorsement following which they will be subject to scrutiny by the European Parliament and the Council before being published in the Official Journal of the European Union.

## 2. Background and rationale

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1. The amendments to the CRR introduced by the CRR3 included some specifications around the calculation of the size of the on- and off-balance-sheet business for the purpose of assessing the conditions for using
  - a. the derogation for small trading book business (set out in Art. 94 of the CRR),
  - b. the simplified methods for calculating the expected value of derivative transactions (set out in Art. 273a of the CRR)<sup>1</sup>, and
  - c. the simplified standardized approach for market risk (set out in Art. 325a of the CRR).
2. The previous version of the Regulation (as set out in the CRR2<sup>2</sup>) stated that, for calculating the size of the on- and off-balance-sheet trading book business, “the absolute value of long positions shall be summed with the absolute value of short positions”. However, no clarification was included around the notions of long and short positions or the aggregation mechanism in the calculation.
3. The additional specifications introduced by the CRR3 are the following:
  - a. The absolute value of the aggregated long position shall be summed with the absolute value of the aggregated short position;
  - b. A long position means that the market value of the position increases when the value of its main risk driver increases, and a short position means that the market value of the position decreases, when the value of its main risk driver increases;
  - c. The value of the aggregated long (short) position shall be equal to the sum of the values of the individual long (short) positions included in the calculation.
4. To complement these additional specifications, the CRR3 mandates the EBA to develop draft RTS specifying the method for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position as referred to in Art. 94(3), 273a(3) and 325a(2). In developing those draft RTS, the EBA shall take into consideration the method developed for the RTS mandated in accordance with Art. 279a(3), point (b), of the CRR.

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<sup>1</sup> According to Art. 385 of the CRR, an institution that meets the conditions set out in Art. 273a to use the OEM, may also calculate the own funds requirements for CVA risk as the RWEA for counterparty credit risk for non-trading book and trading book positions, divided by 12,5.

<sup>2</sup> Regulation (EU) 2019/876

## 2.1 Scope of the RTS

5. For the purposes of assessing the conditions under Art. 94 of the CRR, institutions should consider all the positions assigned to the trading book in accordance with Art. 104, except for 1/ the positions concerning foreign exchange and commodities and 2/ the positions in credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures or counterparty risk exposures and the credit derivative transactions that perfectly offset the market risk of those internal hedges as referred to in Art. 106(3).
6. For the purposes of assessing the conditions under Art. 273a of the CRR, institutions should consider all derivative positions, except credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures.
7. For the purposes of assessing the conditions under Art. 325a of the CRR, institutions should consider all the positions assigned to the trading book, except credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures and the credit derivative transactions that perfectly offset the market risk of the internal hedges as referred to in Art. 106(3). In addition, also all non-trading book positions that are subject to FX risk or commodity risk shall be included, except those positions that are excluded from the calculation of own funds requirements for FX risk in accordance with Art. 104c or that are deducted from the institution's own funds. However, the non-trading book positions subject to FX risk shall be considered as an overall net FX position and valued in accordance with Art. 352, and the non-trading book positions subject to commodity risk shall be valued in accordance with Art. 357 and 358. Therefore, such non-trading book positions are relevant, for the scope of these RTS, only for their FX and/or commodity risk drivers.

## 2.2 General methodology

8. The scope of the RTS includes both non-derivative and derivative transactions. While on the one hand, the treatment should be similar, consistent and coherent between these two categories of instruments, on the other hand some distinctions should be made. Therefore, these draft RTS propose a general methodology, which is then further specified separately for these two categories.

### Identification of the main risk driver

9. The general methodology to identify the main risk driver of a non-derivative position hinges on sensitivities, in a similar fashion to the methodology to identify the material risk drivers of derivative transactions, which is set out in the RTS on SA-CCR<sup>3</sup>.
10. Firstly, institutions are required to identify all the risk drivers of the position, by looking at least at the risk factors in set out in the FRTB SA. Secondly, institutions are required to apply a quantitative methodology based on the computation of the FRTB SA delta sensitivities for each identified risk driver. Finally, sensitivities are compared with each other in a consistent fashion, i.e. considering aspects that could bias the assessment such as the volatility of the risk drivers, which

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<sup>3</sup> Commission Delegated Regulation (EU) 2021/931

can differ depending on the risk category and type. To account for this aspect, the sensitivities are risk-weighted before comparing using the corresponding FRTB SA risk weights.

11. For derivative positions, the approach is fully aligned with the RTS on SA-CCR. In fact, institutions may use either the FRTB SA risk-weighted sensitivities (as for non-derivative positions) or the SA-CCR risk category add-ons to determine the main risk driver.

### Determination of the direction of the position (long or short)

12. In accordance with the legal mandate, the methodology for the determination of the direction of non-derivative positions proposed in these draft RTS takes into account the elements (hedging purpose and sensitivities) used for the determination of the direction of the position under the SA-CCR framework (see Art. 6 of the RTS on SA-CCR). For derivative positions, the methodology is fully aligned with the one set out in the RTS on SA-CCR (based on cash flows, hedging purpose and sensitivities).

## 2.3 Simplified method

13. While FRTB SA sensitivities can provide an accurate identification of the main risk driver, their use may be too burdensome or difficult or even impossible for smaller banks, with relatively simple trading and/or derivative business. In particular, the banks which are and have always been exempted from using the FRTB SA (or the SA-CCR, for the case of derivative positions), may find themselves in the situation of being unable to comply with the requirements set out in the RTS.
14. In consideration of this, the draft RTS proposed for consultation included a simplified approach for identifying the main risk driver and determining the direction of the position, available for banks eligible for the treatment set out in Art. 94(1), Art. 273a(2) and/or 325a(1) of the CRR (i.e. those exempted from using the FRTB SA and/or the SA-CCR). After consultation, the EBA has decided to extend the use of the simplified method to all institutions, as this may provide operational relief in implementing the framework proposed in these RTS also to larger banks, and enhances the level playing field across institutions, regardless of their size.
15. The scope of the simplified method is smaller than the one of the general approach, as complex trades clearly require a more sophisticated (quantitative) assessment. However, the EBA is of the view that the fundamental goal is to cover relatively simple and common instruments which are normally traded by smaller banks. In addition, it has been considered that more complex instruments require more advanced tools and, as such, should be treated under the general method. The simplified method proposed for consultation covered, fixed-rate bonds, floating-rate notes, stocks, forward and futures positions, IR swaps, CDS and plain vanilla options. The respondents to the consultation provided a number of suggestions for instruments to be covered by the simplified method. The EBA has considered to include the following instruments to the scope of the simplified methods: FX spot (cash) positions, commodity spot positions, funds and ETF, repos, forward rate agreements (FRAs), caps and floors, swaptions, forward, futures and options on bonds, CDS indices, FX options, equity swaps and commodity swaps.

16. In addition, the respondents to the consultation remarked that the framework may be further simplified by disregarding the FX risk drivers for non-FX trades (i.e. trades that normally are not considered as pure FX trades, like for example a currency option, but that are only affected by translation risk, as it may be the case for stocks and bonds). In relation to this, the EBA is of the view that the FX risk drivers should be maintained as part of the assessment under the general method, but they can be disregarded under the simplified method for specific for non-FX trades.

### Fixed-rate bonds and floating-rate notes

17. Fixed-rate bonds represent simple positions for banks. However, their treatment for the determination of the threshold is not trivial.

18. Firstly, it should be considered that in their simplest form (zero or fixed coupon, in reporting currency) they depend on two different risk drivers, interest rate (IR) and credit spread (CS), and it may be very difficult to disentangle the main one. However, both those risk drivers have the same direction (bought bond is short in IR and CS, sold bond is long in IR and CS) and as such the outcome of the assessment does not change depending on which risk driver is selected as main one. More complicated are bonds in foreign currency, as in such a case the effect of the FX risk driver on the bond's value is the opposite of IR and CS (bought bond is long in FX, sold bond is short in FX). However, for simplicity, the FX risk driver may be disregarded.

19. In addition, bonds can also depend on inflation (Infl). This is true in particular for Inflation-indexed bonds, for which interest and principal payments are tied to an index of price changes. In such a case, the inflation rate becomes one of the risk drivers of the bond, and its effect has the opposite sign of IR and CS.

20. The effect of IR, CS and Infl depends on the duration of a bond, which changes across the life of the instrument. In addition, the residual maturity of the bond also affects the determination of the IR tenors which mostly affect its value. Those tenors are typically associated with different risk weights. The comparison between weighted sensitivities can therefore produce different results depending on the point in time in which the assessment is done and in particular on the remaining life of the bond at that moment.

21. Considering the issues mentioned above, below an analysis is presented on the determination of the main risk driver in various cases. The analysis takes into account the fact that:

- Institutions shall apply a risk weight of 1,6 % to all sensitivities of inflation risk factors (Art. 325ae)<sup>4</sup>.
- The sensitivity of a bond to the IR risk driver is assumed to be<sup>5</sup>

$$Sens_{IR} = -ModDuration \cdot Bond Value$$

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<sup>4</sup> For simplicity, cross currency basis risk factors have not been considered.

<sup>5</sup> ModDuration is defined as  $(-1/Bond Value) \cdot \partial Bond Value / \partial Yield$



- The sensitivity of a bond to the CS risk driver is assumed to be

$$Sens_{CS} = -ModDuration \cdot Bond Value$$

- The sensitivity of a bond to the Infl risk driver is assumed to be

$$Sens_{Infl} = +ModDuration \cdot Bond Value$$

- The simplifying assumption is used that ModDuration = Residual maturity.

Table 1: Main risk driver of a bond, no Inflation-linked

Credit quality	Bucket	Sector	Maturity Risk Weight	Domestic currency of the institution (no FX risk)										
				0,25 years	0,5 years	1 year	2 years	3 years	5 years	10 years	15 years	20 years	30 years	
				1.20%	1.20%	1.13%	0.92%	0.85%	0.78%	0.78%	0.78%	0.78%	0.78%	
Credit quality step 1 to 3	1	Central government, including central banks, of	0.50%	IR	IR	IR	IR	IR	IR	IR	IR	IR	IR	IR
	2	Central government, including central banks, of	0.50%	IR	IR	IR	IR	IR	IR	IR	IR	IR	IR	IR
	3	Regional or local authority and public sector entities	1.00%	IR	IR	IR	CS	CS	CS	CS	CS	CS	CS	CS
	4	Financial sector entities including credit institutions	5.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	5	Basic materials, energy, industrials, agriculture, consumer goods and services, transportation	3.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	6	Technology, telecommunications	3.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	7	Health care, utilities, professional and technical	2.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	8	Health care, utilities, professional and technical	1.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	9	Covered bonds issued by credit institutions	1.00%	IR	IR	IR	CS	CS	CS	CS	CS	CS	CS	CS
	10	Covered bonds issued by credit institutions in third	1.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
Credit quality step 4 to 6 and unrated		Covered bonds issued by credit institutions in third	2.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	11	Central government, including central banks, of	2.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	12	Regional or local authority and public sector entities	4.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	13	Financial sector entities including credit institutions	12.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	14	Basic materials, energy, industrials, agriculture, consumer goods and services, transportation	7.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	15	Technology, telecommunications	8.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	16	Health care, utilities, professional and technical	5.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	17	Health care, utilities, professional and technical	5.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	18	Other sector	12.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	19	Listed credit indices with a majority of its individual	1.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
20	Listed credit indices with a majority of its individual	5.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	

Table 2: Main risk driver of a bond Inflation-linked

Credit quality	Bucket	Sector	Maturity Risk Weight	Domestic currency of the institution (no FX risk)											
				0,25 years	0,5 years	1 year	2 years	3 years	5 years	10 years	15 years	20 years	30 years		
				1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	
Credit quality step 1 to 3	1	Central government, including central banks, of	0.50%	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl
	2	Central government, including central banks, of	0.50%	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl
	3	Regional or local authority and public sector entities	1.00%	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl
	4	Financial sector entities including credit institutions	5.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	5	Basic materials, energy, industrials, agriculture,	3.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	6	Consumer goods and services, transportation	3.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	7	Technology, telecommunications	2.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	8	Health care, utilities, professional and technical	1.50%	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl
Credit quality step 4 to 6 and unrated	9	Covered bonds issued by credit institutions	1.00%	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl
	10	Covered bonds issued by credit institutions in third	1.50%	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl
	10	Covered bonds issued by credit institutions in third	2.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
Credit quality step 4 to 6 and unrated	11	Central government, including central banks, of	2.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	12	Regional or local authority and public sector entities	4.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	13	Financial sector entities including credit institutions	12.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	14	Basic materials, energy, industrials, agriculture,	7.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	15	Consumer goods and services, transportation	8.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	16	Technology, telecommunications	5.50%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	17	Health care, utilities, professional and technical	5.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	18	Other sector	12.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS
	19	Listed credit indices with a majority of its individual	1.50%	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl	Infl
	20	Listed credit indices with a majority of its individual	5.00%	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS	CS

22. Tables 1 and 2 show which risk category/sub-category should be selected among IR, CS and Infl. For Infl, the main risk driver is the inflation rate of the currency of the bond. For IR, the main risk driver is the risk-free rate which corresponds to the currency in which the bond is denominated and one of the maturities set out in Art. 325l(1), selected to match as close as possible the maturity of the bond. For CS, the main risk driver is the issuer credit spread rate which corresponds to the issuer of the bond and one of the maturities set out in Art. 325m(1), selected to match as close as possible the maturity of the bond.

23. The institution shall determine whether the position represents a long or a short position on the basis of the following:

- a. where the main risk driver is the risk-free rate, the position is long if the bond is sold and short if the bond is bought;
- b. where the main risk driver is the issuer credit spread rate, the position is long if the bond is sold and short if the bond is bought;
- c. where the main risk driver is the inflation risk factor, the position is long if the bond is bought and short if the bond is sold.

24. For floating-rate notes, a similar approach may be used. In fact, it seems disproportionate to set up a whole separate set of tables for floating-rate notes, considering in particular that both the identification of the risk-free rate as main risk driver and the identification of the issuer credit spread rate lead to the same outcome in terms of determination of the direction of the position.

25. Therefore, for floating-rate notes, institutions must follow the same approach as for fixed-rate bonds, with the following adjustment: if the main risk driver determined under Tables 1 and 2 is the risk-free rate and the residual maturity of the floating-rate note is higher than one year, the main risk driver must be the issuer credit spread rate instead.

### Stocks

26. For direct positions on stocks or indices, the identification of the main risk driver should be straightforward. In case the stock is in the institution's reporting currency, there is only one risk driver, the equity stock price. If the stock is denominated in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded. The stock position is long in the main risk driver if the stock is bought, and short otherwise.

### FX and commodity spot positions

27. For cash positions in a currency different from the institution's reporting currency (in a commodity), the main risk driver shall be the spot exchange rate between the currency of the cash positions and the institution's reporting currency (the commodity spot price). The position is long in its main risk driver if the cash position is an asset item to the institution and short otherwise.

### Funds and ETF

28. For positions in funds and ETF, the main risk driver may be identified using the single equity risk factor approach set out in Art. 325j(1)(b)(i) of the CRR. Therefore, the main risk driver is assumed to be the risk factor corresponding to fund in the bucket 'other sector' in Table 8 of Art. 325ap(1) of the CRR. The position is long in its main risk driver if the shares or units of the fund are bought and short otherwise. If the shares or units of the fund are denominated in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded.

### Repos

29. For a repurchase transaction where the institution or its counterparty transfers securities stocks or bonds, the main risk driver shall be the corresponding general interest rate or equity repo rate. The position is long in its main risk driver if the repurchase transaction is governed by a repurchase agreement (i.e. the institution is selling the stocks or bonds, as set out in Art. 4(1)(82) of the CRR) and short if the repurchase transaction is governed by a reverse repurchase agreement (i.e. the institution is buying the stocks or bonds).

### Forward and futures on equity, commodity, bonds or FX

30. Similarly to the previous case, for forward positions on equity or commodity, there is only one main risk driver (disregarding interest rates for the purpose of discounting), in case the forward or future is in the institution's reporting currency. If the forward or future is in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded. The forward or future position is long in the main risk driver if the forward or future is bought, and short otherwise.

31. For forward positions on FX, the only main risk driver is the FX rate. The forward or future position is long in the main risk driver if the foreign currency is bought and short otherwise.

32. For forward positions on fixed-rate bonds or floating-rate notes without optionality features, the identification of the main risk driver of the position and the determination of whether the position is long or a short in its main risk driver should be made by applying the methodology set out for the underlying fixed-rate bonds or floating-rate notes, respectively, on the basis of whether the bond is bought or sold under the futures or forward contract. Also in this case, for simplicity, the FX risk driver may be disregarded, if present.

### Forward rate agreements

33. For forward rate agreements (FRAs) there is only one main risk driver, IR, in case the FRA is in the institution's reporting currency. If the FRA is in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded. If the bank receives fixed rate, then the position is short (as for the fixed-rate bond holder). If the bank pays fixed rate, then the position is long (as for the fixed-rate bond seller).

### IR swaps

34. Similarly to the previous cases, for simple IR swaps there is only one main risk driver, IR, in case the swap is in the institution's reporting currency. If the IR swap is in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded. If the bank receives fixed rate and pays floating rate, then the position is short (as for the fixed-rate bond holder). If the bank receives floating rate and pays fixed rate, then the position is long (as for the fixed-rate bond seller).

### Caps, floors and swap options

35. For caps and floors, the main risk driver is the risk-free rate which corresponds to the currency referenced in the caps or floor and one of the maturities set out in Art. 325l(1) of the CRR, selected to match as close as possible the maturity of the caps or floors. The position is long in its main risk driver if the cap is bought and short if the cap is sold. The position is long if the floor is sold and short if the floor is bought.

36. For plain-vanilla swap options (or *swaptions*), the main risk driver may be determined by applying the methodology set out for the underlying interest rate swap. If the swaption gives the right to enter into an interest rate swap in which the option holder receives floating-rate interest and pays fixed-rate interest, the position is long in its main risk driver if the institution has bought the swap option and short if the institution has sold the swap option. If the swap option gives the right to enter into an interest rate swap in which the option holder pays floating-rate interest and receives fixed-rate interest, the position is long in its main risk driver if the institution has sold the swap option and short otherwise.

37. Also in this case, if the caps, floors and swap options are in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded.

### Single-name CDS and CDS indices

38. Similarly to the previous cases, for simple credit default swaps (CDS) there is only one main risk driver, CS, in case the swap is in the institution's reporting currency. If the CDS is in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded. The position is long if the protection is bought by the bank and short if the protection is sold.

### Plain vanilla options on equity, commodity, bonds or FX

39. Plain vanilla call options on equity and commodity can be treated similarly to the previous cases. In fact, they are long in the main risk driver (i.e. the underlying) when they are bought and short when they are sold. Also for plain vanilla put options on equity and commodity, the identification of the main risk driver as the risk driver of the underlying should be relatively straightforward. In such a case, in fact, they are short in the main risk driver when they are bought and long when they are sold. If plain vanilla options are in foreign currency, there are two risk drivers. However, for simplicity, the FX risk driver may be disregarded.

40. For plain vanilla options on fixed-rate bonds without optionality features, the identification of the main risk driver of the position and the determination of whether the position is long or a short in its main risk driver should be made by applying the methodology set out for the underlying bond. Where the main risk driver is IR or CS, the position is short in its main risk driver if the call option is bought and long if the call option is sold, and the position is short if the put option is sold and long if the put option is bought. Where the main risk driver is Infl, the position is long in its main risk driver if the call option is bought and short if the call option is sold, and the position is long if the put option is sold and short if the put option is bought. Also in this case, for simplicity, the FX risk driver may be disregarded, if present.

41. For plain-vanilla currency options, the main risk driver is the spot exchange rate between the foreign currency and the institution's reporting currency. The position is long in its main risk driver if the institution buys the foreign currency as a consequence of entering the option contract and short if the institution sells the foreign currency.

### Equity and commodity swaps

42. For equity (commodity) swaps, where one counterparty receives the return on a stock or stock index (cash flows based on the price of an underlying commodity) and pays fixed-rate or floating-rate interest, the main risk driver is the equity spot price or the index spot price (commodity spot price). The position is long in its main risk driver if the institution receives the return on the stock or stock index (cash flows based on the price of an underlying commodity) and short otherwise.

### 3. Draft regulatory technical standards

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In between the text of the draft RTS/ITS/Guidelines/advice that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.

# 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 specifying the method for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position as referred to in Articles 94(3), 273a(3) and 325a(2), under Article 94(10)**

(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 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012<sup>6</sup>, and in particular the third subparagraph of Article 94(10) thereof,

Whereas:

- (1) The size of the business constitutes a proxy for the degree of sophistication an institution should have in its capital calculations. To that end, institutions are required to calculate the size of the on- and off-balance-sheet business, in accordance with Articles 94(1), 273a(1) and (2), and 325a(1) of Regulation (EU) No 575/2013, to determine whether they are allowed to use simplified methods for the calculation of own funds requirements for market and counterparty credit risks. The identification of the main risk driver of a position and, on the basis of that, the determination of whether a transaction represents a long or a short position, are fundamental for the correct calculation of the size of the business. In consideration of the importance of those calculations for small and non-complex institutions, the method for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position should be proportionate and adequate to institutions with different degrees of complexity.
- (2) The method for determining whether a transaction represents a long or a short position should be consistent with the method for determining whether a transaction is a long or short position for transactions referred to in Article 277(3) of Regulation (EU) No 575/2013, developed for the regulatory technical standards mandated in accordance with Article 279a(3), point (b), of that Regulation.
- (3) In order to produce precise results, the method for identifying the main risk driver of a non-derivative position should be based on the calculation of the risk-weighted delta sensitivities to risk factors, as set out in Sections 2, 3 and 6 of Part Three, Title IV, Chapter 1a of Regulation (EU) No 575/2013. In addition, the method for identifying the main risk driver of a position should be consistent with the method for identifying the primary risk driver and the most material risk driver in derivative transactions, developed for the regulatory technical standards mandated in accordance with Article 277(5), point (b) of that Regulation.
- (4) The method for determining whether a transaction represents a long or a short position should also be based on the calculation of the risk-weighted delta sensitivity to the main risk driver. Where the institution does not have the capacity to calculate the risk-weighted

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<sup>6</sup> OJ L 176, 27.6.2013, p. 1

delta sensitivity, the determination should be made by assessing the trading or hedging purpose of the transaction.

- (5) A simplified approach should be made available for identifying the main risk driver and for determining whether a transaction represents a long or a short position, to be used alongside the main method, as such an approach may be used by small and non-complex institution which may not have the capacity to calculate the risk-weighted delta sensitivities or to use the methods developed for the regulatory technical standards mandated under Article 277(5), point (b) of Regulation (EU) No 575/2013. The simplified approach should be suitable for being applied to the instruments that small and non-complex institutions normally trade. In addition, the simplified approach may also be used by larger institutions, where they trade simple instruments included in the scope of that approach.
- (6) The simplified approach should lead to results consistent with the risk-weighted delta sensitivities approach. Nevertheless, simplifying assumptions should be introduced to reduce the computational and operational burden for institutions, in particular with regard to instruments denominated in a currency different from the institution's reporting currency. For stocks, bonds and derivative transactions the underlying of which would normally be allocated to the interest rate, credit, equity or commodity risk categories, the spot exchange rate between the currency in which the instrument is denominated and the institution's reporting currency may be disregarded in the determination of the main risk driver.
- (7) In relation to cash positions in the reporting currency, such positions should not contribute to the determination of the size of the business, as a cash position in the reporting currency does not change its market value depending on changes of risk drivers.
- (8) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (9) 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<sup>7</sup>,

HAS ADOPTED THIS REGULATION:

### *Article 1*

#### **Method for identifying the main risk drivers of a non-derivative position**

1. For the purpose of identifying the main risk driver of a non-derivative position assigned to the trading book, institutions shall identify all the risk factors of that position which are the principal determinants of its change in value, by assessing at least the risk factors referred to in Articles 325l to 325q of Regulation (EU) No 575/2013. The risk factors identified by the institutions shall be the risk drivers of the position.
2. Where the institution has identified, in accordance with paragraph 1, only one risk driver of a non-derivative position assigned to the trading book, that risk driver shall be the main risk driver of that position.

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<sup>7</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12–47).



3. Where the institution has identified, in accordance with paragraph 1, more than one risk driver of a non-derivative position assigned to the trading book, the institution shall identify the main risk driver of that position by applying the following steps in sequence:

- (a) the institution shall calculate the delta risk sensitivities in accordance with Article 325r and 325t of Regulation (EU) No 575/2013 for each risk driver identified in accordance with Article 1;
- (b) the institution shall calculate the weighted sensitivities in accordance with the formula laid down in Article 325f(6) of that Regulation, using the sensitivities calculated in accordance with point (a);
- (c) the main risk driver shall be identified as the risk driver corresponding to the highest absolute value of the weighted sensitivities calculated in accordance with point (b).

## *Article 2*

### **Method for determining whether a non-derivative transaction represents a long or a short position in its main risk driver**

For the purpose of determining whether a non-derivative position represents a long or a short position in its main risk driver as referred to in Articles 94(3) and 325a(2) of Regulation (EU) No 575/2013, the institution shall apply either of the following methods:

- (a) the institution shall calculate the delta risk sensitivity of the main risk driver in accordance with Article 325r of Regulation (EU) No 575/2013 and identify the transaction as a long position in that risk driver where the corresponding delta risk sensitivity is positive or as a short position in that risk driver where the corresponding delta risk sensitivity is negative;
- (b) the institution shall assess the dependence of the value of the position on the main risk driver by considering the trading or hedging purpose of the transaction with respect to that risk driver and identify the transaction as either long or short position in its main risk driver on the basis of that assessment.

## *Article 3*

### **Simplified method for identifying the main risk driver of a non-derivative position and for determining whether the non-derivative transaction represents a long or a short position in its main risk driver**

1. By way of derogation from Articles 1 and 2, an institution may identify the main risk driver of the non-derivative positions referred to in paragraphs 2 to 8 and whether such positions represent long or a short positions in the main risk driver, by applying the approaches set out therein.

2. For bonds which consist in fixed-rate debt instruments without optionality features, the following approach shall be used:

(a) the institution shall identify the main risk driver depending on the credit quality step and sector of the bond referred to in Article 325ah of Regulation (EU) No 575/2013 and the residual maturity of the bond, on the basis of:

(i) Table 1 in the Annex to this Regulation, if the cash flows of the bond are not functionally dependent on inflation rates, or

(ii) Table 2 in the Annex to this Regulation, if the cash flows of the bond are functionally dependent on inflation rates;

(b) where the main risk driver identified under point (a) is the risk-free rate, it shall be in the currency in which the bond is denominated and with one of the maturities set out in Article 325l(1) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the bond.

(c) where the main risk driver identified under point (a) is the issuer credit spread rate, it shall be the credit spread of the issuer of the bond and with one of the maturities set out in Article 325m(1) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the bond.

(d) the institution shall determine whether the position represents a long or a short position in its main risk driver on the basis of the following:

(i) where the main risk driver identified under points (a) to (c) is the risk-free rate or the issuer credit spread rate, the position is long in its main risk driver if the bond is sold and short if the bond is bought;

(ii) where the main risk driver identified under points (a) to (c) is the inflation rate, the position is long in its main risk driver if the bond is bought and short if the bond is sold.

3. For bonds which consist in floating-rate debt instruments without optionality features, institutions shall use the approach set out in paragraph 2. Where the main risk driver identified under paragraph 2, point (a), is the risk-free rate and the residual maturity of the bond is higher than one year, the main risk driver shall be the issuer credit spread rate instead, determined in accordance with paragraph 2, point (c).

4. For a stock position, the main risk driver shall be the equity spot price. The position is long in its main risk driver if the stock is bought and short if the stock is sold.

5. For a cash position in a currency different from the institution's reporting currency, the main risk driver shall be the spot exchange rate between the currency of that cash position and the institution's reporting currency. The position is long in its main risk driver if the cash position is an asset item and short if it is a liability item.

6. For positions in a physical commodity, the main risk driver shall be the commodity spot price which corresponds to the commodity type of the position. The position is long in its main risk driver if the physical commodity is an asset item and short if it is a liability item.

7. For a position in a collective investment undertaking (CIU), the main risk driver shall be the risk factor corresponding to that CIU in the bucket 'other sector' in Table 8 of Article 325ap(1) of Regulation (EU) No 575/2013. The position is long in its main risk driver if the shares or units of the CIU are bought and short if the shares or units of the CIU are sold.

8. For a position in a repurchase transaction where the institution or its counterparty transfers securities referred to in paragraphs 2 to 4, the main risk driver shall be the corresponding general interest rate or equity repo rate. The position is long in its main risk driver if the repurchase transaction is governed by a repurchase agreement and short if it is governed by a reverse repurchase agreement.

#### *Article 4*

##### **Method for identifying the main risk drivers of a derivative position**

1. For the purpose of identifying the main risk driver of a derivative position, institutions shall first identify all the risk drivers of the transaction, in accordance with Article 1 of Commission Delegated Regulation (EU) 2021/931, whether the transaction has one or more than one material risk driver, in accordance with Articles 2 and 3 of that Regulation, the material risk drivers of the transaction and the most material of those risk drivers, in accordance with Article 4 of that Regulation.

2. Where the institution, using the methods referred to in paragraph 1, identifies a derivative transaction with only one material risk driver, the main risk driver shall be that risk driver.

3. Where the institution, using the methods referred to in paragraph 1, identifies a derivative transaction with more than one material risk driver, and the material risk drivers identified belong to only one risk category referred to in Article 277(1) of Regulation (EU) No 575/2013, the main risk driver shall be the most material risk driver in that risk category.

4. Where the institution, using the methods referred to in paragraph 1, identifies a derivative transaction with more than one material risk driver, and the material risk drivers identified belong to two or more risk categories referred to in Article 277(1) of Regulation (EU) No 575/2013, the main risk driver shall be identified using one of the following methods:

(a) where the material risk drivers have been identified by the institution in accordance with Article 4(2) or 4(4) of Delegated Regulation (EU) 2021/931, the main risk driver shall be the most material risk driver corresponding to the highest risk category add-on from those referred to in Articles 280a to 280f of Regulation (EU) No 575/2013;

(b) where the material risk drivers have been identified by the institution in accordance with Article 4(3) of Delegated Regulation (EU) 2021/931, the main risk driver shall be identified as the most material risk driver corresponding to the highest absolute value of the weighted sensitivities referred to in Article 4(3), point (b), of that Regulation.

5. Where an institution applies one of the methods set out in Article 4 of Delegated Regulation (EU) 2021/931 for the calculation of the exposure value of a given derivative transaction, the same method shall be used for the purpose to identify the main risk driver of that transaction.

#### *Article 5*

#### **Method for determining whether a derivative transaction represents a long or a short position in its main risk driver**

For the purpose of determining whether a derivative position represents a long or a short position in its main risk driver as referred to in Articles 94(3), 273a(3) and 325a(2) of Regulation (EU) No 575/2013, institutions shall apply either of the methods set out in Article 6 of Delegated Regulation (EU) 2021/931 to the main risk driver of the transaction.

#### *Article 6*

#### **Simplified method for identifying the main risk driver of a derivative position and for determining whether the derivative transaction represents a long or a short position in its main risk driver**

1. By way of derogation from Articles 4 and 5, an institution may identify the main risk driver of a derivative position referred to in paragraphs 2 to 17 and whether such position represents a long or a short position in its main risk driver, by applying the approaches set out therein.

2. For futures or forwards on stocks or on stock indices, the institution shall identify the main risk driver as the equity spot price or the index spot price, respectively.

The position is long in its main risk driver if the futures or forwards are bought and short if they are sold.

3. For forward-rate agreements (FRAs) where one counterparty receives floating-rate interest and pays fixed-rate interest, the institution shall identify the main risk driver as the risk-free rate which corresponds to the following:

(a) the currency referenced in the FRA;

(b) one of the maturities set out in Article 325l(1) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the FRA.

The position is long in its main risk driver if the institution pays fixed-rate interest and short if the institution receives fixed-rate interest.

4. For futures or forwards on bonds which consist in fixed-rate or floating-rate debt instruments without optionality features, the institution shall determine whether the bond is bought or sold under the futures or forward contract and, on the basis of this, shall identify the main risk driver and determine whether the position represents a long or a short position in its main risk driver by applying the methods respectively set out in Articles 3(2) or 3(3) to the underlying fixed-rate or floating-rate debt instrument.

5. For futures or forwards on exchanges between a foreign currency and the institution's reporting currency, the institution shall identify the main risk driver as the spot exchange rate between the foreign currency and the institution's reporting currency.

The position is long in its main risk driver if the foreign currency is bought and short if the foreign currency is sold.

6. For futures or forwards on commodities, the institution shall identify the main risk driver as the commodity spot price which corresponds to the following:

(a) the commodity type specified in the futures or forward contract;

(b) one of the maturities set out in Article 325p(2) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the futures or forwards.

The position is long in its main risk driver if the commodities are bought and short if they are sold.

7. For plain-vanilla call or put options with a single underlying stock or stock index, the institution shall identify the main risk driver as the equity spot price or the index spot price, respectively.

The position is long in its main risk driver if the call option is bought and short if the call option is sold. The position is long if the put option is sold and short if the put option is bought.

8. For plain-vanilla call or put options with a single underlying bond which consist in fixed-rate debt instrument, the institution shall identify the main risk driver by applying the method set out in Article 3(2) to the underlying bond.

Where the main risk driver determined under Article 3(2), points (a) to (c), is the risk-free rate or the issuer credit spread rate, the position is short in its main risk driver if the call option is bought and long if the call option is sold, and the position is short if the put option is sold and long if the put option is bought. Where the main risk driver determined under Article 3(2), points (a) to (c), is the inflation rate, the position is long in its main risk driver if the call option is bought and short if the call option is sold, and the position is long if the put option is sold and short if the put option is bought.

9. For plain-vanilla swap options, the institution shall identify the main risk driver by applying the method set out in paragraph 15 to the underlying interest rate swap.

Where the swap option gives the right to enter into an interest rate swap in which the option holder receives floating-rate interest and pays fixed-rate interest, the position is long in its main risk driver if the institution has bought the swap option and short if the institution has sold the swap option. Where the swap option gives the right to enter into an interest rate swap in which the option holder pays floating-rate interest and receives fixed-rate interest, the position is long in its main risk driver if the institution has sold the swap option and short if the institution has bought the swap option.

10. For caps and floors, the institution shall identify the main risk driver as the risk-free rate which corresponds to the following:

- (a) the currency referenced in the caps or floor;
- (b) one of the maturities set out in Article 325l(1) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the caps or floor.

The position is long in its main risk driver if the cap is bought and short if the cap is sold. The position is long in its main risk driver if the floor is sold and short if the floor is bought.

11. For plain-vanilla call or put options with a single underlying commodity, the institution shall identify the main risk driver as the commodity spot price which corresponds to the following:

- (a) the commodity type specified in the option contract;
- (b) one of the maturities set out in Article 325p(2) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the option.

The position is long in its main risk driver if the call option is bought and short if the call option is sold. The position is long in its main risk driver if the put option is sold and short if the put option is bought.

12. For plain-vanilla currency options, the institution shall identify the main risk driver as the spot exchange rate between the foreign currency and the institution's reporting currency.

The position is long in its main risk driver if the foreign currency is bought and short if the foreign currency is sold.

13. For single-name credit default swaps, the institution shall identify the main risk driver as the issuer credit spread rate which corresponds to the following:

- (a) the issuer referenced in the swap contract;
- (b) one of the maturities set out in Article 325m(1) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the swap.

The position is long in its main risk driver if the protection is bought and short if the protection is sold.

14. For index credit default swaps, the institution shall identify the main risk driver as the credit spread rate which corresponds to the following:

- (a) the credit index referenced in the swap contract;
- (b) one of the maturities set out in Article 325m(1) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the swap.

The position is long in its main risk driver if the protection is bought and short if the protection is sold.

15. For interest rate swaps where one counterparty receives floating-rate interest and pays fixed-rate interest, the institution shall identify the main risk driver as the risk-free rate which corresponds to the following:

- (a) the currency referenced in the swap contract;
- (b) one of the maturities set out in Article 325l(1) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the swap.

The position is long in its main risk driver if the institution pays fixed-rate interest and short if the institution receives fixed-rate interest.

16. For equity swaps where one counterparty receives the return on a stock or stock index and pays fixed-rate or floating-rate interest, the institution shall identify the main risk driver as the equity spot price or the index spot price, respectively.

The position is long in its main risk driver if the institution receives the return on the stock or stock index and short if the institution pays the return on a stock or stock index.

17. For commodity swaps where one counterparty receives cash flows based on the price of an underlying commodity and pays fixed-rate or floating-rate interest, the institution shall identify the main risk driver as the commodity spot price which corresponds to the following:

(a) the commodity type specified in the swap contract;

(b) one of the maturities set out in Article 325p(2) of Regulation (EU) No 575/2013, selected to match as close as possible the maturity of the swap.

The position is long in its main risk driver if the institution receives the cash flows based on the price of an underlying commodity and short if the institution pays the cash flows based on the price of an underlying commodity.

### *Article 7*

#### **Entry into force**

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*

**ANNEX**

*Table 1*

Credit quality	Sector	Maturity									
		less or equal to 0,375 years	greater than 0,375 years and less or equal to 0,75	greater than 0,75 years and less or equal to 1,5 year	greater than 1,5 year and less or equal to 2,5 years	greater than 2,5 years and less or equal to 4 years	greater than 4 years and less or equal to 7,5 years	greater than 7,5 years and less or equal to 12,5 years	greater than 12,5 years and less or equal to 17,5 years	greater than 17,5 years and less or equal to 25 years	greater than 25 years
All	Central government, including central banks, of Member States	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate
	Central government, including central banks, of a third country, multilateral development banks and international organisations referred to in Article 117(2) or Article 118	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate	Risk-free rate
Credit quality step 1 to 3	Regional or local authority and public sector entities	Risk-free rate	Risk-free rate	Risk-free rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Financial sector entities including credit institutions incorporated or established by a central government, a regional government or a local authority and promotional lenders	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Consumer goods and services, transportation and storage, administrative and support service activities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Technology, telecommunications	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Health care, utilities, professional and technical activities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Covered bonds issued by credit institutions established in Member States	Risk-free rate	Risk-free rate	Risk-free rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
Credit quality step 1	Covered bonds issued by credit institutions in third countries Credit quality step 1	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
Credit quality steps 2 to 3	Covered bonds issued by credit institutions in third countries Credit quality step 2 to 3	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
Credit quality step 4 to 6 and unrated	Central government, including central banks, of a third country, multilateral development banks and international organisations referred to in Article 117(2) or Article 118	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
	Regional or local authority and public sector entities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
	Financial sector entities including credit institutions incorporated or established by a central government, a regional government or a local authority and promotional lenders	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
	Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
	Consumer goods and services, transportation and storage, administrative and support service activities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
	Technology, telecommunications	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
	Health care, utilities, professional and technical activities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
Other sector	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate		
	Listed credit indices with a majority of its individual constituents being investment grade	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	
	Listed credit indices with a majority of its individual constituents being non-investment grade or unrated	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	

Table 2

Credit quality	Sector	Maturity									
		less or equal to 0,375 years	greater than 0,375 years and less or equal to 0,75	greater than 0,75 years and less or equal to 1,5 year	greater than 1,5 year and less or equal to 2,5 years	greater than 2,5 years and less or equal to 4 years	greater than 4 years and less or equal to 7,5 years	greater than 7,5 years and less or equal to 12,5 years	greater than 12,5 years and less or equal to 17,5 years	greater than 17,5 years and less or equal to 25 years	greater than 25 years
All	Central government, including central banks, of Member States	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate
Credit quality step 1 to 3	Central government, including central banks, of a third country, multilateral development banks and international organisations referred to in Article 17(2) or Article 18	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate
	Regional or local authority and public sector entities	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate
	Financial sector entities including credit institutions incorporated or established by a central government, a regional government or a local authority and promotional lenders	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Consumer goods and services, transportation and storage, administrative and support service activities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Technology, telecommunications	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Health care, utilities, professional and technical activities	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate
Credit quality step 1	Covered bonds issued by credit institutions established in Member States	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate
	Covered bonds issued by credit institutions in third countries Credit quality step 1	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate
Credit quality steps 2 to 3	Covered bonds issued by credit institutions in third countries Credit quality step 2 to 3	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
Credit quality step 4 to 6 and unrated	Central government, including central banks, of a third country, multilateral development banks and international organisations referred to in Article 17(2) or Article 18	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Regional or local authority and public sector entities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Financial sector entities including credit institutions incorporated or established by a central government, a regional government or a local authority and promotional lenders	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Basic materials, energy, industrials, agriculture, manufacturing, mining and quarrying	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Consumer goods and services, transportation and storage, administrative and support service activities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Technology, telecommunications	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Health care, utilities, professional and technical activities	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
Other sector	Other sector	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate
	Listed credit indices with a majority of its individual constituents being investment grade	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate	Inflation rate
	Listed credit indices with a majority of its individual constituents being non-investment grade or unrated	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate	Issuer credit spread rate

## 4. Accompanying documents

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

Article 94(10) of the CRR mandates the EBA to develop draft RTS to specify the method for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position as referred to in Articles 94(3), 273a(3) and 325a(2).

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.

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

#### A. Background and Problem identification

Under the CRR, institutions may calculate the own funds requirements for market risk and counterparty credit risk using simplified methods, provided that the size of their on- and off-balance sheet business falls below certain thresholds. More specifically, institutions have to calculate:

- the size of the on- and off-balance sheet trading business to assess if they are eligible for the derogation for small trading book business set out in Art. 94 of the CRR;
- the size of the on- and off-balance sheet derivative business to assess if they meet the conditions to use the simplified methods (i.e. simplified SA-CCR or OEM) for calculating the expected value of derivative transactions set out in Art. 273a of the CRR;
- the size of the on- and off-balance sheet business subject to market risk to assess if they meet the conditions to use the simplified standardized approach for market risk set out in Art. 325a of the CRR.

The previous version of the Regulation (as set out in the CRR2) stated that, for calculating the size of the on- and off-balance-sheet trading book business, “the absolute value of long positions shall be summed with the absolute value of short positions”. However, no clarification was included around the notions of long and short positions or the aggregation mechanism, thus leaving room for different interpretations and uncertainty around the calculation.



The CRR3 introduced additional specifications on how to carry out the aggregation across and between long and short positions.<sup>8</sup> In addition, it clarifies that a long position means that the market value of the position increases when the value of its main risk driver increases, and a short position means that the market value of the position decreases, when the value of its main risk driver increases. In addition, it mandates the EBA to provide further guidance on how to specify the main risk driver and hence determine if a transaction represents a long or short position.

The lack of a common method to identify the main risk driver of a position can result in an inconsistent determination of a long/short position across institutions, creating an unlevel playing field in the use of simplified methods for market risk and counterparty credit risk across EU banks.

## B. Baseline scenario

The EBA has carried out a quantitative analysis to calculate the number of banks that are **currently** eligible for the derogation under Article 94(3) of CRR and meet the conditions under Art. 273a(3) and 325a(2) of CRR to use simplified methods for measuring exposure value and market risk.<sup>9</sup>

The analysis uses supervisory data as of 30 June 2023 for the total EU/EEA population of 4176 banks reporting either at individual and/or consolidated level.<sup>10</sup> For each threshold calculation, a different sample of banks is used depending on the data quality criteria considered.

### Article 94 – Derogation for small trading book business

Table 1 shows that 3140 banks (or 90.9% of total) out of a sample of 3453 banks which submitted data of sufficient quality are below the thresholds set out in Art. 94 (5% of total assets and EUR 50 million) and can access the derogations for small trading books.

*Table 1 Number of banks by size of the on- and off-balance-sheet trading-book business in absolute terms (Art. 94(1)(b)) and in % of total assets (Art. 94(1)(a))*

Absolute threshold (in EUR million)/Relative threshold	[0%,5%)	[5%,10%)	[10%,15%)	[15%,20%)	[20%,Inf)
(0,50)	3140	5	2	2	5
[50,100)	38	4	2	2	6
[100,150)	18	1	1	1	1
[150,200)	18	1	1	0	3
[200,Inf)	72	31	11	8	80

<sup>8</sup> These include: a) The absolute value of the aggregated long position shall be summed with the absolute value of the aggregated short position; b) The value of the aggregated long (short) position shall be equal to the sum of the values of the individual long (short) positions included in the calculation.

<sup>9</sup> The analysis is based on the CRR2 provisions on the thresholds calculation and do not consider the specifications included in these RTS.

<sup>10</sup> For simplification, the analysis uses data as of the last day of June 2023. In reality, the assessment of the thresholds is carried out on a monthly basis using the data as of the last day of the month. An institution ceases to use the derogation under Art. 94 of the CRR or the simplified methods under Art. 273a and Art. 325a of the CRR within three months of either of the following cases: (a) the institution does not meet the threshold conditions for three consecutive months; (b) the institution does not meet the threshold conditions during more than 6 out of the last 12 months.

Sources: EBA Supervisory data, 30 June 2023.

Note: The sample covers 3453 banks reporting either at individual and/or consolidated level, which submitted data of sufficient quality in row 010 and columns 030 and 040 of template C90.00. The black box illustrates the number of banks that meet Art. 94 conditions (size of the on- and off-balance-sheet trading-book business below EUR 50 million and 5% of total assets).

Out of the 3140 banks that fall below the Art. 94 thresholds, the vast majority (3018 banks) have a very small trading book (below 1% of total assets and below EUR 10 million) and are likely to continue meeting the conditions for accessing the derogation in the future (Table 2). Moreover, the banks which lie close to the thresholds in both directions (dark orange zones) – and may be impacted by the provisions in the RTS – are very few (33) compared to the rest of the sample.

*Table 2: Number of banks by size of the on- and off-balance-sheet trading-book business in absolute terms (Art. 94(1)(b)) and in % of total assets (Art. 94(1)(a)), where the size of the on- and off-balance-sheet trading-book business is below EUR 100 million and 10% of total assets*

Absolute threshold (in EUR million) /Relative threshold	[0%,1 %)	[1%, 2%)	[2%, 3%)	[3%, 4%)	[4%, 5%)	[5%, 6%)	[6%, 7%)	[7%, 8%)	[8%, 9%)	[9%, 10%)
(0,10)	3018	21	7	0	2	0	0	0	1	0
[10,20)	36	9	3	2	1	1	1	0	0	0
[20,30)	9	2	2	2	1	0	0	1	1	0
[30,40)	10	4	1	0	0	0	0	0	0	0
[40,50)	8	0	2	0	0	0	0	0	0	0
[50,60)	7	7	1	0	0	0	0	0	0	2
[60,70)	6	0	2	0	0	0	0	0	0	0
[70,80)	4	2	0	0	0	0	0	0	0	0
[80,90)	4	1	0	0	1	0	1	1	0	0
[90,100)	3	0	0	0	0	0	0	0	0	0

Sources: EBA Supervisory data, 30 June 2023.

Notes: The sample covers 3453 banks reporting either at individual and/or consolidated level, which submitted data of sufficient quality in row 010 and columns 030 and 040 of template C90.00. The table shows the results only for 3187 banks which have a size of the on- and off-balance-sheet trading-book business below EUR 100 million and 10% of total assets. The black box illustrates the number of banks that meet Art. 94 conditions (size of the on- and off-balance-sheet trading-book business below EUR 50 million and 5% total assets).

### Article 273a – Conditions for using simplified methods for calculating the exposure value

**Error! Reference source not found.** shows that there are 1756 banks (80.6% of total 2178 banks with data of sufficient quality) below the thresholds (10% of total assets and EUR 300 million) set out in Art. 273a(1) and can access the derogations for using the simplified SA-CCR. Out of these, 1553 banks (71.3% of total banks) are below the thresholds (5% of total assets and EUR 100 million) set out in Art. 273a(2) and can access the derogations for using the OEM.

*Table 3: Number of banks, divided by size of the on- and off-balance-sheet derivative business in absolute terms (Art. 273a(1)(b)) and in % of total assets (Art. 273a(1)(a))*

Absolute threshold (in EUR million) /Relative threshold	[0%,5 %)	[5%,10 %)	[10%,15 %)	[15%,20 %)	[20%,In f)
(0,100)	1553	15	2	0	6
[100,300)	176	12	3	0	1

[300,500)	51	14	5	0	1
[500,1000)	51	14	3	0	3
[1000,Inf)	63	60	40	29	76

Sources: EBA Supervisory data, 30 June 2023.

Note: The sample covers 2178 banks reporting either at individual and/or consolidated level, which submitted data of sufficient quality in rows 010 and 050 and column 090 of template C34.01. The black box illustrates the number of banks that meet Art. 273a conditions (size of the on- and off-balance-sheet derivative business below EUR 300 million and 10% of total assets).

As Table 4 shows, the vast majority of banks (1363) have a very small derivative business (below 2.5% of total assets and below EUR 50 million), well below the Art. 273a(2) thresholds. This suggests that it is likely that they will meet the conditions for using the OEM or simplified SA-CCR in the future. Regarding banks which lie close to the thresholds of Art. 273a(1) in both directions (dark orange zones) and may be impacted by the provisions of these RTS, these are relatively few (82) compared to the rest of the sample.

*Table 4: Detail of table 5 (green and yellow area). Number of banks, divided by size of the on- and off-balance-sheet derivative business in absolute terms (Art. 273a(1)(b)) and in % of total assets (Art. 273a(1)(a)), where the size of the on- and off-balance-sheet derivative-book business is below EUR 500 million and 20% of total assets*

Absolute threshold (in EUR mil- lion) /Relative threshold	[0%,2 .5%)	[2.5% ,5%)	[5%,7 .5%)	[7.5%, 10%)	[10%,1 2.5%)	[12.5% ,15%)	[15%,1 7.5%)	[17.5% ,20%)
(0,50)	1363	35	5	2	1	0	0	0
[50,100)	139	16	7	1	1	0	0	0
[100,150)	35	27	1	0	0	0	0	0
[150,200)	19	23	3	2	2	0	0	0
[200,250)	13	15	4	1	0	0	0	0
[250,300)	34	10	1	0	1	0	0	0
[300,350)	8	9	1	1	0	0	0	0
[350,400)	9	4	3	1	3	2	0	0
[400,450)	2	5	0	2	0	0	0	0
[450,500)	5	9	5	1	0	0	0	0

Sources: EBA Supervisory data, 30 June 2023.

Note: The sample covers 2178 banks reporting either at individual and/or consolidated level, which submitted data of sufficient quality in rows 010 and 050 and column 090 of template C34.01. The table shows the results only for 1831 banks which have a size of the on- and off-balance-sheet derivative business below EUR 500 million and 20% of total assets. The black box illustrates the number of banks that meet Art. 273a conditions (size of the on- and off-balance-sheet derivative business below EUR 300 million and 10% of total assets).

### Article 325a – Conditions for using the simplified standardized approach for market risk

Table 5 shows that 3463 banks out of a sample of 3772 banks which submitted data of sufficient quality (91.8% of total) are below the thresholds set out in Art. 325a (10% of total assets and EUR 500 million) and can be exempted from using the FRTB SA.

*Table 5: Number of banks, divided by size of the on- and off-balance-sheet business subject to market risk in absolute terms (Art. 325a(1)(b)) and in % of total assets (Art. 325a(1)(a))*

Absolute threshold (in EUR million) /Relative threshold	[0%,5 %)	[5%,10 %)	[10%,15 %)	[15%,20 %)	[20%,In f)
(0,250)	3392	30	14	9	23

[250,500)	35	6	2	0	11
[500,750)	18	6	1	3	1
[750,1000)	15	5	0	1	1
[1000,Inf)	39	34	22	5	99

Sources: EBA Supervisory data, 30 June 2023.

Note: The sample covers 3772 banks reporting either at individual and/or consolidated level, which submitted data of sufficient quality in row 010 and columns 010 and 070 of template C90.00. The black box illustrates the number of banks that meet Art. 325a conditions (size of the on- and off-balance-sheet business subject to market risk below EUR 500 million and 10% of total assets).

As Table 6 shows, the vast majority of the banks (3228 out of 3463 banks) which meet the Art. 325a thresholds have a very small business subject to market risk (below 2% of total assets and below EUR 100 million) and are likely to meet the conditions for using the simplified methods for market risk in the future. Moreover, there are very few banks (47) that are positioned close to the thresholds in any dimension (dark orange zones) and which may be impacted by the provisions in the RTS.

*Table 6: Detail of table 1 (green and yellow area). Number of banks, divided by size of the on- and off-balance-sheet business subject to market risk in absolute terms (Art. 325a(1)(b)) and in % of total assets (Art. 325a(1)(a)), where the size of the on- and off-balance-sheet business subject to market risk is below EUR 1000 million and 20% of total assets*

Absolute threshold (in EUR million) /Relative threshold	[0%, 2%)	[2%, 4%)	[4%, 6%)	[6%, 8%)	[8%, 10%)	[10%, 12%)	[12%, 14%)	[14%, 16%)	[16%, 18%)	[18%, 20%)
(0,100)	3228	70	18	7	4	6	2	1	5	1
[100,200)	32	24	7	5	1	5	1	0	2	0
[200,300)	35	7	1	0	2	0	0	0	0	0
[300,400)	6	2	2	2	0	0	2	0	0	0
[40,500)	6	2	2	0	0	0	0	0	0	0
[500,600)	4	2	1	3	1	0	0	0	3	0
[600,700)	5	1	1	0	1	0	0	0	0	0
[700,800)	6	3	1	2	0	1	0	0	0	0
[800,900)	1	3	0	0	1	0	0	0	0	1
[900,1000)	3	1	2	0	2	0	0	0	0	0

Sources: EBA Supervisory data, 30 June 2023.

Note: The sample covers 3772 banks reporting either at individual and/or consolidated level, which submitted data of sufficient quality in row 010 and columns 010 and 070 of template C90.00. The table shows the results only for 3537 banks which have a size of the on- and off-balance-sheet business subject to market risk below EUR 1000 million and 20% of total assets. The black box illustrates the number of banks that meet Art. 94 conditions (size of the on- and off-balance-sheet business subject to market risk below EUR 500 million and 10% of total assets).

### C. Policy objectives

The specific objective of these draft RTS is to establish a common methodology for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position as referred to in Articles 94(3), 273a(3) and 325a(2) of CRR. In this way, these draft RTS are meant to ensure a consistent application of the conditions to use the derogation for the small trading book business (CRR Art. 94), the simplified method for calculating the expected value of derivative transactions (Art. 273a) and the simplified standardized approach for market risk (Art. 325a).

Generally, these draft RTS aim to create a level playing field, promote convergence among individual 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.

#### D. Options considered, Cost-Benefit Analysis, Preferred options

##### General methodology

CRR3 specifies that the EBA should take into consideration the method developed for the RTS on SA-CCR when developing the method for determining the direction of a position. Accordingly, the draft RTS aligns the method for determining whether a transaction represents a long or a short position with the method for determining whether a transaction is a long or a short position in the primary risk driver or in the most material risk driver in the given risk category for transactions set out in the RTS on SA-CCR.

Regarding the method to identify the risk driver, the CRR3 does not make any similar specification. The EBA considered two policy options to identify the main risk driver of a position.

##### **Option 1a: Use the approach set out in the RTS on SA-CCR to identify the main risk driver**

##### **Option 1b: Use an alternative approach**

Option 1a proposes to use the method set out in RTS on SA-CCR to identify the main risk driver of a position, similarly with what is done for determining the direction of a position. For non-derivative positions, the main risk driver is determined by firstly identifying the risk factors of the position, secondly computing the FRTB SA delta sensitivities for each of the identified risk factors, thirdly risk-weighting the sensitivities using the FRTB SA risk weights and finally comparing them across the identified risk factors to identify the main risk driver. For derivative positions, banks can use either the FRTB SA risk-weighted sensitivities (as for non-derivative positions) or the SA-CCR risk category add-ons to determine the main risk driver. Aligning the methodology with the one used in the RTS on SA-CCR reduces the operational burden for institutions and ensures consistency across different elements of the regulatory framework.

Under Option 1b, the EBA explored the possibility to use an alternative approach to identify the main risk driver. However, taking into account that the existing SA-CCR methodology has worked well in practice and banks are already familiar with it, the EBA saw little benefit of using an alternative methodology for the purpose of this RTS.

Option 1a is preferred.

##### Proportionality

Taking into account that the threshold calculations is particularly important for small and non-complex institutions, the EBA has considered three policy options for the methodology to identify the main risk driver and determine the direction of a position.

**Option 2a: Use a general methodology only**

**Option 2b: Include a simplified method in addition to the general methodology, available only to institutions eligible for the treatment set out in Art. 94(1), 273a(2) or 325a(1) of the CRR on the previous calculation date**

**Option 2c: Include a simplified method in addition to the general methodology, available to all institutions**

Option 2a considers only a general methodology to identify the main risk driver and determine the direction of a position. Under this option, the same methodology based on FRTB SA sensitivities should be used by all institutions irrespective of their size and complexity. This has the benefit of ensuring an accurate calculation of the size of on-and-off balance sheet business and a consistent application of the derogation in CRR Art. 94 and eligibility conditions of using the simplified methods for market and counterparty risks in Art. 325a and Art. 273a of the CRR across banks. However, it does not take into account the different degree of complexity institutions may have and potential difficulties faced by small and non-complex banks in using such method.

Considering that the calculation of these thresholds is particularly important for these type of banks, Option 2b introduces a simplified method in addition to the general methodology. Under the simplified method the main risk driver is easily identified on the basis of the type of instrument (for bonds, additional characteristics such as credit quality, sector and maturity are considered). This option acknowledges that the computation of FRTB SA sensitivities may be too burdensome or difficult or even impossible for small and non-complex banks. It has the benefit of reducing the operational burden for banks with a relatively simple trading and/or derivative business and introduces proportionality in the draft RTS.

Following the feedback received in the consultation, the EBA considered Option 2c which extends the possibility to use the simplified method to all institutions for the simple instruments (e.g. stocks, bonds, forward, IRS, etc.) included in its scope. This option would further simplify the framework, also for institutions not eligible for the treatment set out in Art. 94(1) or 325a(1) of the CRR on the previous calculation date. It would also enhance the level playing field between small and large institutions, as they may all use the same methods. In addition, in this way, institutions eligible for the treatment set out in Art. 94(1) or 325a(1) of the CRR but not eligible for the one set out in Art. 273a(2) on the previous calculation date, may use the simplified method both for non-derivative and derivative transactions (and vice versa).

Option 2c is preferred.

**Scope of the simplified method**

The EBA has considered two policy options for the scope of the simplified method.

**Option 3a: Cover simple instruments only**

### **Option 3b: Cover complex instruments in addition to simple instruments**

Option 3a restricts the scope of the simplified method to simple instruments only. These instruments are fixed-rate bonds, stocks, forward positions, IR swaps, CDS and plain vanilla options, which are normally traded by small banks. This is consistent with the original philosophy behind the introduction of the simplified method, which was to facilitate the thresholds calculation for small and non-complex banks that do not have the capacity of performing the general methodology.

Option 3b considers a broader scope of the simplified method, which may include more complex instruments. However, the EBA is of the view that banks which find the general approach too burdensome or impossible to perform, are not expected to trade in complex instruments which require more advanced methods. Hence, the simplified method should be compatible for banks holding simple instruments only.

Option 3a is preferred.

### **Treatment of FX risk factor for instruments in the scope of the simplified method**

**Option 4a: Take always into account the FX risk factor, if present, for the instruments that normally are not considered as pure FX trades, both under the general and simplified methods**

**Option 4b: Disregard the FX risk factor, if present, only for the instruments included in the scope of the simplified method that normally are not considered as pure FX trades**

**Option 4c: Always disregard the FX risk factor, if present, for the instruments that normally are not considered as pure FX trades, both under the general and simplified methods**

Option 4a will take into account all the risk factors related to the instruments under consideration, including the FX risk factor. On the other hand, Option 4b will further reduce the complexity of the simplified framework and ensure the stability of its outcome (e.g. by mitigating the undesired effect of a position changing its direction throughout its life). Under Option 4c, neither the general nor simplified methods would include in the analysis the FX risk factors, in case the instruments under consideration are non-FX trades. However, for complex trades, which require a more advanced assessment under the general method, it may be difficult to determine *a priori* that the FX risk factor is not the main risk driver.

Feedback from the consultation highlighted that considering the FX risk factor in bond categorization will lead to increased complexity.

Option 4b 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 3 months and ended on 24 July 2024. Six [6] responses were received, of which four [4] were published on the EBA website.

This paper 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.

In many cases several industry bodies made similar comments or the same body repeated its comments in the response to different questions. In such cases, the comments, and EBA analysis are included in the section of this paper where EBA considers them most appropriate.

Changes to the draft RTS have been incorporated as a result of the responses received during the public consultation.

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

In relation to the general methods for identifying the main risk driver of non-derivative and derivative positions and for determining their direction, the EBA acknowledges that most respondents broadly agree with the proposals set out in the CP.

Also, in relation to the inclusion of simplified methods identifying the main risk driver of simple non-derivative and derivative instruments and for determining their direction, the EBA acknowledges that most respondents broadly agree with the proposals set out in the CP.

Some respondents, however, highlighted that the proposed framework may still be complex to implement in some instances. In particular, the respondents remarked that the framework may be further simplified by disregarding the FX risk drivers for non-FX trades (i.e. trades that normally are not considered as pure FX trades, like for example a currency option, but that are only affected by translation risk, as it may be the case for stocks and bonds). In relation to this, the EBA is of the view that the FX risk drivers should be maintained as part of the assessment under the general methods but they can be disregarded under the simplified methods for specific for non-FX instruments (like bonds, stocks and derivative transactions the underlying of which is not foreign currency).

In addition to that, the EBA is of the view that the use of the simplified method should be made available to all institutions, for the simple instruments (e.g. stocks, bonds, futures, forwards, interest rate swaps, etc.) included in its scope. This would further simplify the framework and enhance the level playing field between institutions eligible for the treatment set out in Art. 94(1), Art. 273a(2) and/or 325a(1) of the CRR and those that are not.



Finally, in relation to the inclusion of other instruments to the simplified methods, the respondents provided a number of suggestions. The EBA is of the view that the following instruments should be included in the scope of the simplified methods:

- FX spot (cash) positions;
- Commodity spot positions;
- Funds and ETF;
- Repos;
- FRAs;
- Caps and Floors;
- Swaptions;
- Forward, futures and options on bonds;
- CDS indices;
- FX options;
- Equity swaps;
- Commodity swaps.

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

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>General comments</b>			
Template C 90.05 of ITS on supervisory reporting	<p>Three respondents express concerns relating to the application of these RTS in the context of the ITS on supervisory reporting, which introduces very high complexity in the template C 90.05, as data required implies several new developments in the systems and the creation of new axes of reporting. Furthermore, the template cannot be filled in automatically, as the allocation to the trading book or the banking book is usually included in the portfolio data. Such additional breakdown will have no added value from a supervision standpoint and is not required on the Level 1 texts (neither CRR2 nor CRR3). The respondents suggest accordingly to delete this information from the template. One respondent expresses the preference for a simpler approach and an exemption from the reporting requirement in the upcoming COREP template 90.05 when not using any of the simplified methods.</p>	<p>The comments relating to template C 90.05 of the ITS on supervisory reporting are out of the scope of the present consultation. For any consideration around template C 90.05 of the ITS on supervisory reporting, the EBA refers to the analysis provided in the <a href="#">final report on draft ITS on supervisory reporting</a>.</p>	No change needed.
Classification of long and short positions of fixed-income securities differs from existing classification for accounting purposes and from of past EBA stress tests requirements	<p>One respondent expresses concern as the new regulation for "non-derivatives" not covered by SA-CCR (including securities) leads to significant implementation costs, considering in particular that long/short classifications differ from existing classifications for accounting purposes and from the requirements of past EBA stress tests. Another</p>	<p>The EBA, while acknowledging that in some cases (e.g. for fixed-income securities) the classification of long and short positions differs from other existing classifications, remarks that:</p> <ul style="list-style-type: none"> <li>- the definition of long and short positions set out in Art. 94(3) of the CRR is clear in</li> </ul>	No change needed.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>respondent finds it problematic that the proposed definitions do not align with the established use of the terminology for “long” and “short” positions when it comes to fixed income securities. Beyond the high potential for confusion in reporting and in dialogue with regulators, the respondent sees a risk of confusion also in the public domain (e.g. in case of confusion of “short positions in COREP” with “short-selling”, it could materialise a reputational impact for both bond investors and issuers alike). The respondent recommends that EBA consider the alternative option of specifying that, when the main risk drivers are interest rates or credit spreads, the values to consider for determining direction are prices of regular fixed income securities – not the yield curves or spreads that these are related to in the risk factor modelling. According to the respondent, this alternative choice would align with existing use of the terms “long” and “short” for fixed income securities. This choice should for consistency be applied for both derivatives and non-derivative positions in this RTS.</p>	<p>requiring the position to be classified as long or short on the basis of its main risk driver, and</p> <ul style="list-style-type: none"> <li>- the mandate set out in Art. 94(10) of the CRR is clear in requiring the EBA to take into consideration the method developed for the RTS on SA-CCR under Art. 279a(3)(b) (i.e. the method for determining whether a transaction is a long or short position in the primary risk driver or in the most material risk driver in a given risk category).</li> </ul> <p>The EBA is of the view that the proposed treatment of non-derivative positions mainly dependent from interest rate or credit spread risk drivers is fully aligned with the treatment for derivative positions dependent on such risk drivers, which, in turn, is fully aligned with the method for determining whether a transaction is a long or short position in the primary or most material risk driver under the RTS on SA-CCR.</p> <p>The alternative option of specifying that, when the main risk drivers are interest rates or credit spreads, the direction of the position should be determined on the basis of prices rather than yields or spreads, creates in EBA’s view discrepancies with the identification and treatment of those risk drivers in other parts of the prudential framework, including under the SA-CCR and FRTB – and, as such, do not fully reflect the request set out in the mandate under Art. 94(10) of the CRR.</p>	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<p>Different approaches used for banks using SA-CCR but not FRTB.</p>	<p>One respondent remarks that banks that apply SA-CCR (and identify the main risk drivers of derivative transactions by determining sensitivities) but are not FRTB banks, can only use a simplified procedure for non-derivatives transactions. This means that different approaches are applied within a bank, which can lead to different treatments in the allocation of the risk category and in the allocation of long/short (a problem in the case of hedging).</p>	<p>The EBA remarks that, according to Art. 4 of the CP RTS, the use of the simplified method for non-derivative position is an option left to institutions eligible for the treatment set out in Art. 94(1) or 325a(1) of the CRR on the previous calculation date. However, according to Art. 2 and 3 of the CP RTS the general method is available to all institutions to identify the main risk drivers of non-derivative transactions (by determining sensitivities, consistently with the treatment applied to derivative transactions).</p> <p>In addition to that, the EBA is of the view that the use of the simplified method should be made available to all institutions, for the simple instruments (e.g. stocks, bonds, forward, IRS, etc.) included in its scope. This would further simplifies the framework, also for institutions not eligible for the treatment set out in Art. 94(1) or 325a(1) of the CRR on the previous calculation date. It would also enhance the level playing field between small and large institutions, as they may all use the same methods. In addition, in this way, institutions eligible for the treatment set out in Art. 94(1) or 325a(1) of the CRR but not eligible for the one set out in Art. 273a(2) on the previous calculation date, may use the simplified method both for non-derivative and derivative transactions (and vice versa).</p> <p>On the basis of the above, in the final draft RTS, the simplified method is extended to all institutions, for the simple instruments included in its scope.</p>	<p>Extension of the simplified method to all institutions, for the simple instruments included in its scope.</p>

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Fall-back approach in the case of multiple risk drivers.	<p>One respondent remarks that there is no indication that a fall-back approach can be applied in the case of multiple risk drivers, as provided for in the RTS for SA-CCR (Commission Delegated Regulation (EU) 2021/931). The current proposal for the simplified method leads to a high implementation effort, especially for the calculation cores. For the introduction of a simplified approach in the allocation, additional information is required, such as the sector of the issuer, liquidity of the currency, etc.). The respondent therefore proposes that the simplified method also includes the option of using a fall-back approach, as the results would not be improved by deriving sensitivities.</p>	<p>According to Art. 5 of the CP RTS, for derivative transactions, institutions may use one of the methods set out in Art. 4 of the RTS on SA-CCR (Commission Delegated Regulation (EU) 2021/931) to identify the material risk drivers of the transaction and the most material of those risk drivers. Therefore, the CP RTS includes the possibility to use the fall-back approach set out in Art. 4(2) of the RTS on SA-CCR. In case the institution uses that approach, the only main risk driver of the derivative transaction shall be the most material risk driver corresponding to the highest risk category add-on (see Art. 6(3)(a) of the CP RTS).</p> <p>In addition, for simple and commonly used non-derivative and derivative transactions, the CP RTS includes the simplified methods which avoid the calculation of sensitivities.</p> <p>Also, considering the further amendments introduced to the RTS following the consultation, the EBA is of the view that the proposed methodologies lead to minimal calculation efforts.</p>	No change needed.
Alternative labels for the new categories of “long” and “short” under these RTS.	<p>One respondent suggests the EBA considering alternative names for the new classification methods for positions in securities as “long” or “short” – such as “CRR-long”/“CRR-short”, “COREP-long”/“COREP-short,” or “risk-long”/“risk-short” – to avoid unnecessary conceptual confusion.</p>	<p>The EBA is of the view that alternative wording may be considered to clarify that a position identified as long or short for the purpose of the calculation of the thresholds set out in Art. 94(3), 273a(3) and 325a(2) of the CRR is either a long or short position in its main risk driver.</p>	<p>The following alternative wording is considered: “long position in its main risk driver” and “short position in its main risk driver”.</p>

**Responses to questions in Consultation Paper EBA/CP/2024/10**

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<p>Question 1. Do you agree with the general method for identifying the main risk driver of a non-derivative position and for determining its direction?</p>	<p>The majority of the respondents broadly agree with the general method for identifying the main risk driver of a non-derivative position and for determining its direction.</p> <p>One respondent, while recognising that the incorporation of the "FX" risk factor in bond categorization is conceptually sound, remarks that it leads to high complexity, particularly evident in the numerous case distinctions of the simplified approach. This is because the main risk driver and thus the long/short classification of a bond can change during its lifetime, potentially leading to cliff effects, reduced transparency and undesirable netting effects. Given these potential issues, the respondent suggests to consider the exclusion of the 'FX' risk factor in cases of pure translation effects (implementing a similar simplifying requirement as the one in place in the RTS on SA-CCR for cross-currency swaps).</p> <p>One respondent provides the following recommendations for improvements:</p> <ol style="list-style-type: none"> <li>1. Sensitivity Alignment: It is crucial that the sensitivities referenced in the RTS match those used for calculating the SBM Delta components of the CRR3 MR A-SA capital requirements. Therefore, the respondent requests that the RTS explicitly recognize the use of Article 325t(5) of the CRR.</li> </ol>	<p>The EBA acknowledges that the majority of respondents agree with the general methodology.</p> <p>With respect to the treatment of the FX risk factor for non-FX trades, the EBA consider that the FX risk driver should be part of the assessment under the general method. For the treatment of the FX risk factor for non-FX trades under the simplified method, the EBA refers to the analysis provided under Question 2.</p> <p>In relation to the application of Art. 325t of the CRR to the sensitivity calculation under these RTS, the EBA confirms that the provisions under Art. 325t should be applied.</p> <p>In relation to the netting of weighted sensitivities to interest rate and credit spread risk factors, the EBA confirms that no netting should be performed. The granularity of interest rate and credit spread risk drivers is as set out in Art. 325l to 325n of the CRR for interest rate and credit spread risk factors.</p> <p>In relation to cash positions in the domestic currency, the EBA confirms that such positions should not contribute to the determination of the size of the business.</p>	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>2. Interest Rates and Credit Spreads: Clarification is needed on the netting of weighted sensitivities. Specifically, whether a risk driver is:</p> <ul style="list-style-type: none"> <li>a. A curve tenor weighted sensitivity,</li> <li>b. All tenor weighted sensitivities on the same curve,</li> <li>c. All weighted sensitivities in the same bucket,</li> <li>d. Or all interest rate (or credit spread) weighted sensitivities of the position summed together.</li> </ul> <p>3. Zero Sensitivities: Positions with all weighted sensitivities at zero (e.g., cash positions and variation margin in domestic currency) should be explicitly stated as neither long nor short.</p>		
<p>Question 2. Do you agree with the analysis proposed in the background section and with the inclusion of this simplified method for fixed-rate bonds, floating-rate notes and stocks?</p>	<p>The majority of the respondents broadly agree with the analysis proposed in the background section and with the inclusion of this simplified method for fixed-rate bonds, floating-rate notes and stocks.</p> <p>One respondent requests confirmation that the simplified method may be used for all applicable positions in the trading book, with the regular method only being applied to bonds with optionality features.</p> <p>In addition, the respondent refers to the feedback provided in question 1 regarding the complexity-</p>	<p>The EBA acknowledges that the majority of respondents agree with the simplified method.</p> <p>In relation to its application, the EBA confirms that the simplified method may be applied to non-derivative positions in the trading book, where those non-derivative positions are covered by such a method (e.g. stocks), while the general method may be applied to all non-derivative positions in the trading book, either covered or not by the simplified method (e.g. bonds with optionality features).</p> <p>With respect to the treatment of the FX risk factor for non-FX trades, the EBA consider that, for the non-derivative and derivative transactions (e.g. stocks,</p>	<p>FX risk driver may be disregarded, if present, for the non-derivative and derivative transactions (e.g. stocks, bonds, interest rate, credit, equity and commodity derivatives) included in the scope of the simplified method and that normally</p>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>increasing effect of the "FX" risk factor in bond categorization.</p> <p>One respondent highlights that in the Danish mortgage bond market there are various types of optionality features, and the exclusion from the simplified method of bonds with any optionality could disrupt small banks' access to DKK-denominated covered bonds.</p>	<p>bonds, interest rate, credit, equity and commodity derivatives) included in the scope of the simplified method and that normally are not considered as pure FX trades, the FX risk driver may be disregarded, if present, as this may further reduce the complexity of the simplified framework and the stability of its outcome.</p> <p>In addition, the EBA considers extending the use of the simplified method for the specific products covered by the method to all institutions, as that may reduce computational burden and unnecessary overload of IT systems for simple trade types, and ensures a level playing field between small and large institutions.</p> <p>For the treatment of bonds with optionality features under the simplified method, the EBA refers to the analysis provided under Question 3.</p>	<p>are not considered as pure FX trades.</p>
<p>Question 3. Do you think that other non-derivative instruments should be included in the simplified method? If yes, please provide rationale and proposed treatment.</p>	<p>One respondent suggests clarifying that the bond approach also applies to liability positions with a corresponding change of sign and money market and repo transactions. The respondent also suggests carefully considering bond products with options (e.g. reverse convertibles) under the simplified method: if these products do not account for a significant proportion of the portfolio, the main risk drivers (interest rates or equities) can be identified. In addition, the respondent suggests extending the equity approach to funds and ETFs (similar to the treatment of equity and equity indices in the derivatives area) and deriving a</p>	<p>On the one hand, the EBA is of the view that the simplified method for non-derivative instruments should also encompass:</p> <ul style="list-style-type: none"> <li>- FX spot (cash) positions;</li> <li>- Commodity spot positions;</li> <li>- Funds and ETFs;</li> <li>- Repos.</li> </ul> <p>On the other hand, the EBA considers other instruments proposed by respondents (e.g. commercial real estate loans and leases) as not</p>	<p>The following non-derivative instruments are introduced under the simplified method:</p> <ul style="list-style-type: none"> <li>- FX spot (cash) positions;</li> <li>- Commodity spot positions;</li> </ul>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>corresponding provision for commodity positions (as the simplified approach for derivatives also considers commodity derivatives). FX spot transactions are also relevant, and their classification should be similar to FX forwards.</p> <p>One respondent, while agreeing that callable bonds and capped floaters should be treated as bonds with optionality features, remarks that, since 2014, Danish short-term mortgage bonds financing longer-term loans have a mandatory maturity extension feature, which is technically an option but serves to ensure investor participation in refinancing auctions during distressed markets (similar covered bonds exist in other countries e.g. Norway). The respondent argues that such bonds should be allowed within the simplified method and should be treated as bonds without optionality features (maturity = effective maturity).</p> <p>One respondent suggests including additional non-derivative instruments in the simplified method:</p> <ol style="list-style-type: none"> <li>1. Commercial Real Estate Loans                     <p>Rationale: Commercial real estate loans are a significant part of many banks' portfolios and are sensitive to both credit risks and market conditions (like property values and rental income). Simplified methods could help standardize risk assessment across the industry.</p> <p>Proposed Treatment: Use a standardized loan-to-value (LTV) ratio approach to</p> </li> </ol>	<p>suitable to be included in the trading book and as such out of scope of the simplified method.</p> <p>In addition, the EBA notes that some types of bond proposed (i.e. corporate or municipal bonds) are already covered under the proposed treatment for fixed-rate bonds and floating-rate notes.</p> <p>In relation to the clarification requested around the treatment of liability positions, the EBA is of the view that the simplified method already clarifies the treatment when instruments are sold (see Art. 4(3) and (4) of the CP RTS).</p>	<ul style="list-style-type: none"> <li>- Funds and ETFs</li> <li>- Repos</li> </ul>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>assess default risk, complemented by regional market indices to capture fluctuations in property values.</p> <p>2. Corporate Bonds</p> <p>Rationale: While similar to fixed-rate bonds, corporate bonds have varying degrees of credit risk depending on the issuer's financial health. A simplified method can streamline the risk management process.</p> <p>Proposed Treatment: Classify corporate bonds into simplified risk categories based on the credit ratings provided by major rating agencies, adjusted by sector-specific factors to account for cyclical vulnerabilities.</p> <p>3. Municipal Bonds</p> <p>Rationale: Municipal bonds are generally considered lower risk but can vary greatly based on local government finances. Simplified risk assessment methods can provide a more uniform approach to managing these investments.</p> <p>Proposed Treatment: Apply a tiered risk framework based on the economic stability and fiscal health of the issuing municipality, using indicators such as debt-to-revenue ratios and demographic trends.</p>		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Question 4. Do you agree with the general method for identifying the main risk driver of a derivative position and for determining its direction?	<p>4. Leases</p> <p>Rationale: Leases are a common financial instrument for banks but carry risks related to the lessee's ability to make payments and the residual value of the leased asset.</p> <p>Proposed Treatment: Implement a model that estimates default risk based on lessee credit quality and a depreciation schedule for the asset, adjusting for the expected economic life and usage intensity of the asset.</p> <hr/> <p>The majority of the respondents broadly agree with the general method for identifying the main risk driver of a derivative position and for determining its direction.</p> <p>One respondent requests clarification on whether the same approach is applicable for derivatives as for non-derivative instruments (the highest weighted delta sensitivity results in the material risk factor) or whether an analogy to the approach in the SA-CCR is mandatory. It would be helpful and sufficient if determining the material risk factor using the highest weighted sensitivity was also the method of choice for derivatives. A general alignment with SA-CCR would involve considerably more effort and have no added value. The respondent also refers to the general points on the general methodology under question 1.</p>	<p>The EBA acknowledges that the majority of respondents agree with the general methodology.</p> <p>With respect to the application of the same approach to non-derivative and derivative transactions for the identification of the main risk driver, the EBA notes that determining the main risk driver using the highest weighted sensitivity is a possibility both for non-derivative (see Art. 2(2)(c) of the CP RTS) and derivative transactions (see Art. 6(3)(b) of the CP RTS).</p>	No change needed.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<p>Question 5. Do you agree with the analysis proposed in the background section and with the inclusion of this simplified method for futures, options and swaps?</p>	<p>Two respondents broadly agree with the analysis proposed in the background section and with the inclusion of this simplified method for futures, options and swaps.</p> <p>One respondent suggests clarifying the following points:</p> <ul style="list-style-type: none"> <li>- In the background section, paragraph 25 (forwards and futures on equity, commodity and FX) mentions that, for contracts in a foreign currency, FX and the underlying are the two main risk drivers. It is slightly different for equity stocks in a foreign currency (in that case, the understanding is that it can be assumed that FX is not a main risk driver, according to paragraph 24). The respondent considers this approach questionable: a basket on an equity index and a future on the same equity index should be strictly considered in the same way. However, in the proposed RTS (Article 8(2)), the underlying is well mentioned as the unique main risk driver, which makes sense in the respondent’s view.</li> <li>- Paragraph 29 of the background section mentions that “one possible way to treat all plain vanilla options is simply to disregard the FX component for the determination of the main risk driver.” The respondent suggests clarifying the point,</li> </ul>	<p>The EBA acknowledges that two respondents agree with the simplified method.</p> <p>With respect to the treatment of the FX risk factor for non-FX trades, the EBA refers to the analysis provided under Question 2.</p> <p>With respect to some aspects to be clarified, as requested by one respondent:</p> <ul style="list-style-type: none"> <li>- The EBA notes that, in paragraph 25 of the background section of the CP, the statement “If the forward or future is in foreign currency, there are two risk drivers, but FX moves in the same direction as the other risk driver” is wrong. In fact, the case where the forward or futures value is negative (and as such the FX moves in the opposite direction as the other risk driver) is not considered.</li> <li>- The EBA clarifies that the approach proposed in paragraph 29 of the background section of the CP (for equity and commodity options in foreign currency) takes into consideration that: <ul style="list-style-type: none"> <li>o the equity and commodity risk weights are equal to or higher than the FX risk weights,</li> <li>o for plain vanilla equity and commodity call options in foreign currency, the FX risk driver moves in</li> </ul> </li> </ul>	

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	<p>given that it could suggest that the institutions are free to choose if FX is a main risk driver or not (including the case of plain vanilla puts). However, the respondent notes that the point is clarified in Article 8(5): “the institution shall determine the main risk driver as the equity spot price or the index spot price, respectively.”</p> <ul style="list-style-type: none"> <li>- Paragraph 26 of the background section mentions “if the IR swap is in foreign currency, there are two risk drivers, but FX moves in the same direction as the other risk driver”. The respondent suggests clarifying this statement (as the respondent considers that FX and IR do not always affect the IR swap valuation in the same direction). However, in the draft RTS (Article 8(8)), FX is not considered as a main risk driver in such an IR swap, that makes sense in the respondent’s view: for interest rate swaps where one counterparty receives floating-rate interest and pays fixed-rate interest, the position is long if the institution pays fixed-rate interest and short if the institution receives fixed rate interest.</li> <li>- The background section (in paragraph 26, for instance) could be clearer about the determination of the direction in case of products in a foreign currency. The</li> </ul>	<p>the same direction as the other risk driver,</p> <ul style="list-style-type: none"> <li>o for plain vanilla equity and commodity put options in foreign currency, the FX risk driver moves in the opposite direction as the other risk driver, but in many cases its weighted sensitivity is lower (in absolute value) than that of the equity or commodity risk driver.</li> </ul> <p>In consideration of the above, the proposed simplification included in paragraph 29 is to always treat the equity or commodity risk driver as the main risk driver (even if this may not hold true in few cases for put options).</p> <ul style="list-style-type: none"> <li>- The EBA notes that, in paragraph 26 of the background section of the CP, the statement “If the IR swap is in foreign currency, there are two risk drivers, but FX moves in the same direction as the other risk driver” is wrong. In fact, the case where the swap value is negative (and as such the FX moves in the opposite direction as the other risk driver) is not considered.</li> <li>- The EBA confirms that, in accordance with Articles 1 and 5 of these draft RTS, the FX risk drivers should be identified as set out to in Art. 325q of the CRR. The FX risk drivers are therefore the spot exchange rates between</li> </ul>	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>respondent understands that FX refers to the “foreign_currency/institution’s reporting currency” risk factor i.e. FX higher means that the foreign currency appreciates against institution’s reporting currency. The respondent proposes to replace “If the IR swap is in foreign currency, there are two risk drivers, but FX moves in the same direction as the other risk driver” by: “If the IR swap is in foreign currency, there are two risk drivers, but the FX rate foreign currency/institution’s reporting currency moves in the same direction as the other risk driver”.</p>	<p>the currencies in which the instruments are denominated and the institution’s reporting currency.</p>	
<p>Question 6. Do you think that other derivative instruments should be included in the simplified method? If yes, please provide rationale and proposed treatment.</p>	<p>One respondent suggests considering the inclusion of the following products:</p> <ul style="list-style-type: none"> <li>- Forward rate agreements,</li> <li>- swaptions,</li> <li>- caps/floors,</li> <li>- collars.</li> </ul> <p>Those are standard hedging instruments and if they cannot be treated under the simplified approach but rather the sensitivity-based methods, it will entail increased expense for small and less complex banks.</p> <p>Another respondent also suggests the inclusion of caps, floors, €-STR futures and options, SOFR futures and options, as well as futures and options</p>	<p>On the one hand, the EBA is of the view that the simplified method for derivative instruments should also encompass:</p> <ul style="list-style-type: none"> <li>- Forward rate agreements;</li> <li>- Swaptions;</li> <li>- Caps/floors;</li> <li>- Forward, futures and options on bonds;</li> <li>- CDS indices;</li> <li>- FX options;</li> <li>- Equity swaps;</li> <li>- Commodity swaps.</li> </ul> <p>On the other hand, the EBA considers other instruments proposed by respondents (e.g. digital</p>	<p>The following derivative instruments are introduced under the simplified method:</p> <ul style="list-style-type: none"> <li>- Forward rate agreements ;</li> <li>- Swaptions;</li> <li>- Caps/floors;</li> <li>- Forward, futures and</li> </ul>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>on T-Bill and Bund. Those instruments are often traded, and interest rates are major underlyings as equity, FX and commodities. As for fixed rate bonds, futures and forward contracts move in the opposite direction of interest rates. In case of foreign currency, the respondent proposes to consider that the underlying is the main risk driver. In the same way, for plain vanilla options, the respondent proposes to apply the same treatment as for other underlyings (equity, FX, commodities). In addition, the consultation paper mentions (Article 8(7)) the case of single name Credit Default Swaps (CDS). In the respondent's view, it could be relevant to consider the CDS index, too. The main risk driver and the sense should be the same as for single name CDS.</p> <p>Another respondent suggests including the following derivative instruments in the simplified method:</p> <ol style="list-style-type: none"> <li>Equity-Linked Derivatives (e.g., Equity Options, Convertible Bonds)</li> </ol> <p>Rationale: These derivatives are sensitive to movements in equity markets but are not always thoroughly covered in simplified regulatory assessments. Including them could provide a more complete view of market risk, especially for institutions heavily invested in equity markets.</p>	<p>asset derivatives) as not suitable to be included in the simplified method because requiring more advanced assessment.</p> <p>In addition, the EBA notes that some instruments proposed (e.g. equity options) are already covered under the simplified method as proposed in the CP.</p>	<p>options on bonds;</p> <ul style="list-style-type: none"> <li>- CDS indices;</li> <li>- FX options;</li> <li>- Equity swaps;</li> <li>- Commodity swaps.</li> </ul>

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>Proposed Treatment: Implement a simplified approach similar to that used for plain vanilla options, using models like the Black-Scholes for pricing, but adjusted for equity-specific factors such as dividend yields and company-specific volatility.</p> <p>2. Weather Derivatives</p> <p>Rationale: These are niche but increasingly relevant as industries related to agriculture, energy, and insurance use them to hedge against weather risks. A simplified approach could standardize risk management for such derivatives.</p> <p>Proposed Treatment: Use historical weather data and standard deviations to establish a baseline for expected payouts and apply a simplified valuation model that estimates potential financial impacts based on predicted weather patterns.</p> <p>3. Inflation Derivatives (e.g. Inflation Swaps)</p> <p>Rationale: As inflation concerns grow globally, these instruments become critical for managing inflation risk. However, they are often complex to evaluate.</p> <p>Proposed Treatment: Adopt a simplified method based on inflation expectations derived from government bonds and inflation-linked securities, using a model</p>		



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>that captures the spread between nominal and real yields.</p> <p>4. Digital Asset Derivatives (e.g. Bitcoin Futures, Cryptocurrency Options)</p> <p>Rationale: The rapid growth of digital assets and their derivatives presents new challenges in risk management. Simplified regulatory approaches would help institutions navigate these relatively uncharted waters.</p> <p>Proposed Treatment: Establish a framework based on volatility metrics specific to digital assets, considering factors like trading volume, liquidity, and historical price fluctuations, similar to how commodity derivatives are treated but adjusted for the high volatility and emerging regulatory status of digital assets.</p>		

