# RTS on the method for the main risk driver identification and threshold calculation on long and short positions

**Overall position**

We find 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.

We would prefer a simpler approach and an exemption from the reporting requirement in the upcoming COREP template 90.5 when not using any of the simplified methods (even though this does not specifically relate to this RTS).

We would appreciate if the EBA provided 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.

**4.1. Q 1: Do you agree with the general method for identifying the main risk driver of a non-derivative position and for determining its direction?**

We find it problematic that these 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, we see a risk of confusion also in the public domain. Should someone influential confuse “short positions in COREP” with “short-selling”, it could have reputational impact for both bond investors and issuers alike. We therefore strongly recommend 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. 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.

We are aware that this is contrary to the choices made already in the prior RTS for derivatives. We would prefer that the same methodology is used for COREP C 34.01 and C 90.05 – i.e. that the existing RTS is also amended accordingly.

We have some further recommendations for improvements:

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. We request that the RTS explicitly recognize the use of CRR Article 325t, paragraph 5.
2. Interest Rates and Credit Spreads: Clarification is needed on the netting of weighted sensitivities. Specifically, whether a risk driver is:
	1. A curve tenor weighted sensitivity,
	2. All tenor weighted sensitivities on the same curve,
	3. All weighted sensitivities in the same bucket,
	4. Or all interest rate (or credit spread) weighted sensitivities of the position summed together.
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.

**4.2. Q 2: Do you agree with the analysis proposed in the background section and with the inclusion of this simplified method for fixedrate bonds, floating-rate notes and stocks?**

In the Danish mortgage bond market, there are various types of optionality. The simplified method's exclusion of bonds with any optionality could disrupt small banks' access to DKK-denominated covered bonds.

Clarification is needed to confirm that a small bank may use the simplified method for all applicable positions in the trading book and apply the regular method only to bonds with optionality features.

* 1. **Q 3: Do you think that other non-derivative instruments should be included in the simplified method? If yes, please provide rationale and proposed treatment.**

We agree that callable bonds and capped floaters should be treated as bonds with optionality features. However, 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. We argue that such bonds should be allowed within the simplified method. Similar covered bonds exist in other countries (e.g., Norway) and should be treated as bonds without optionality (maturity = effective maturity).