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Chapter 1

Market Risk Measure

1.1 Measurement

MR is measured by annualised volatility corresponding to the value-at-risk (VaR) at a confidence level of 97.5% over the recommended holding period. The VaR is the percentage of the amount invested, that is returned to the retail investor.

1.2 PRIIPS categories

1.2.1 Category 3

- PRIIPS whose values reflect the prices of underlying investments, but not a constant multiple of the prices of those underlying investments
- either prices of the underlying assets available at least for
  - 2 years of daily

  - 4 years of weekly
  - 5 years of monthly

- or where existing appropriate benchmarks or proxies are available, provided that such benchmarks or proxies fulfil the same criteria for the length and frequency of the price history

1.3 MRM class determination for Categories

1.3.1 For Category 3 PRIIPS

Parameter	**Value**	**Comments**
VaR time horizon	At the end of the holding period	If the product is called or cancelled before the end of the recommended holding period according to the simulation - then, the period in years until the call or cancellation is used in calculations
Discounting	Risk-free discount factor from the present date to the end of the recommended period	
VEV	$\frac{\sqrt{1.96^2-2*\ln\left(VaR_{\text{PRICE SPACE}}\right)}-1.96}{\sqrt{T}}$ where T - is the recommended holding period	
MRM Class		In the case of a PRIIP having only monthly price data, the MRM class shall be increased by one additional class
Minimum Number of Simulations	$10,000$	
Simulation Method	bootstrapping the expected distribution of prices or price levels for the PRIIPS underlying contracts from the observed distribution of returns for these contracts with replacement	
Spot simulation	- calculate logreturns for each observation period - randomly select one observed period which corresponds to the return for all underlying contracts for each simulated period in the recommended holding period (the same observed period may be used more than once in the same	

The VaR in price space shall be calculated from a distribution of PRIIP values at the end of the recommended holding period.