EBA publishes final draft standards on key aspects related to the implementation of the standardised approach for counterparty credit risk

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**The European Banking Authority (EBA) published today its final draft Regulatory Technical Standards (RTS) on the Standardised Approach for Counterparty Credit Risk (SA-CCR). These draft RTS specify key aspects of the SA-CCR and represent an important contribution to its smooth harmonised implementation in the EU. The RTS are part of the mandates assigned to the EBA within its important role in implementing the SA-CCR and Fundamental Review of the Trading Book (FRTB) frameworks in the EU.**

The final draft RTS set out the method for identifying the material risk drivers of derivative transactions on the basis of which the mapping to one or more of the risk categories is to be done. In addition, these RTS set out the formula that institutions are to use to calculate the supervisory delta of options, when mapped to the interest rate risk category, which is compatible with negative interest rates. Finally, the final draft RTS introduce a method suitable for determining the direction of the position in a material risk driver.

On the mapping of derivatives into risk categories, the final draft RTS follow a three-pronged methodology for the identification of the material risk driver(s) of derivative transactions. The first approach, relies on purely qualitative information and is suitable for simple and standard derivative transactions (e.g. interest rate and cross currency swaps). The second approach is more detailed and hinges on a quantitative assessment of the sensitivities in order to classify possible risk drivers based on materiality considerations. The third approach is a conservative and simple backstop, which identifies all possible risk drivers of a transaction as material. This last approach will always be available as a fall back option and will allow a proportionate implementation of the framework when the second approach is too burdensome.

The formula for the supervisory delta of interest rate options, specified in the RTS, is an application of the Black-Scholes (BS) model, on which SA-CCR relies. Such an application is made feasible by shifting the interest rate curve to move interest rates back into positive territory. In addition, the RTS specify the parameters that are to be used in the supervisory delta formula.

Finally,  for determining the direction of the position in a particular risk driver (long or short), the methodology introduced in these RTS leverages on the same elements (i.e. cash flows and sensitivities) used for the identification of the material risk driver(s) of derivative transactions, which are specifically envisaged for reducing the burden on institutions.

Legal basis

The final draft RTS have been developed according to Article 277(5) and Article 279a(3) of Regulation (EU) No 575/2013 (CRR), as amended by Regulation (EU) 2019/876. Article 277(5) mandates the EBA to develop draft regulatory technical standards to specify: (a) the method for identifying transactions with only one material risk driver, and (b) the method for identifying transactions with more than one material risk driver and for identifying the most material of those risk drivers for the purposes of Article 277(3). Article 279a(3) mandates the EBA to develop draft regulatory technical standards to specify: (a) in accordance with international regulatory developments, the formula that institutions shall use to calculate the supervisory delta of call and put options mapped to the interest rate risk category compatible with market conditions in which interest rates may be negative as well as the supervisory volatility that is suitable for that formula, and (b) 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 the given risk category for transactions referred to in Article 277(3).