

COMMISSION DELEGATED REGULATION (EU) 2022/2058**of 28 February 2022****supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards on liquidity horizons for the alternative internal model approach, as referred to in Article 325bd(7)****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 ⁽¹⁾, and in particular Article 325bd(7), third subparagraph, thereof,

Whereas:

- (1) A general methodology for mapping a risk factor of a position to a broad risk factor category for the purposes of Article 325bd(1) of Regulation (EU) No 575/2013 should enable institutions to identify broad risk factor categories and broad risk factor sub-categories corresponding to the risks embedded in the risk factor in order to determine its appropriate liquidity horizon. The general methodology should be sufficiently generic to be applicable for most risk factors.
- (2) Given the particularities of certain risk factors, including those not falling under any broad risk factor category of Table 2 of Article 325bd of Regulation (EU) No 575/2013, the general methodology could lead to different outcomes across institutions where applied to those risk factors, leading to a lack of harmonisation and potential regulatory arbitrage. As a result, it is necessary to complement the general methodology with specific rules.
- (3) A high volume of daily average turnover of net Over The Counter (OTC) interest rate derivatives represents a good indicator of the liquid nature of their respective underlying currencies. It is therefore appropriate to consider that turnover indicator for specifying which currencies should constitute the most liquid currencies sub-category of the broad category of interest rate risk factor of Table 2 of Article 325bd of Regulation (EU) No 575/2013. The Bank for International Settlements (BIS) Triennial Central Bank Survey of OTC interest rate derivatives turnover ⁽²⁾ constitutes a reliable source of statistics to evaluate the OTC interest rate derivatives turnover by instrument and by currency. For that reason, and in order to ensure consistency with international practices, it is appropriate to consider the results of that survey for the purposes of specifying the currencies constituting the most liquid currencies sub-category.
- (4) Similarly, a high volume of daily average turnover of net OTC foreign exchange derivatives represents a good indicator of the liquid nature of their respective underlying currency pairs. It is therefore appropriate to consider that indicator for specifying which currency pairs should constitute the most liquid currency pairs sub-category of the broad category of foreign exchange risk factor of Table 2 of Article 325bd of Regulation (EU) No 575/2013. The BIS Triennial Central Bank Survey of OTC foreign-exchange derivatives turnover ⁽³⁾ constitutes a reliable source of statistics to evaluate the OTC foreign exchange derivatives turnover by instrument and by currency. For that reason, and in order to ensure consistency with international practices, it is appropriate to consider the results of that survey for the purpose of specifying the currency pairs constituting the most liquid currency pairs sub-category.

⁽¹⁾ OJ L 176, 27.6.2013, p. 1.

⁽²⁾ 'Interest rate derivatives market turnover in 2019', BIS Triennial Central Bank Survey 2019, Monetary and Economic Department.

⁽³⁾ 'Global foreign exchange market turnover in 2019', BIS Triennial Central Bank Survey 2019, Monetary and Economic Department.

- (5) Given the diversity of equity markets in the Union, it is necessary to define small and large market capitalisation for the purposes of the equity price and volatility sub-category of the broad category of equity risk factor of Table 2 of Article 325bd of Regulation (EU) No 575/2013 on the basis of a combination of an absolute threshold and a relative one. Given the need for consistency with international regulatory standards, it is appropriate to base the absolute threshold on the threshold established by the Basel Committee for Banking Supervision ⁽⁴⁾. Given that Commission Implementing Regulation (EU) 2016/1646 ⁽⁵⁾ provides a list of main indices based on the liquidity of the components of the indices, and given that the methodology for the establishment of that list is based on market capitalisation and free float, and on the condition of a minimum liquidity threshold, it is appropriate to establish the relative threshold in accordance with that Implementing Regulation. The equities in the main indices listed in Implementing Regulation (EU) 2016/1646 the components of which are all quoted in the Union, should therefore be considered as equities with large market capitalisation, while all other equities should be considered as equities with small market capitalisation.
- (6) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (7) 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 ⁽⁶⁾,

HAS ADOPTED THIS REGULATION:

CHAPTER 1

Mapping of risk factors

Article 1

General methodology

1. When mapping risk factors to the broad risk factor categories of Table 2 of Article 325bd of Regulation (EU) No 575/2013, institutions shall assign each risk factor to the most appropriate broad risk factor category, having regard to the nature of the risk captured by the risk factor and the data used as inputs for the risk factor in the risk measurement model.

When mapping risk factors to the broad risk factor sub-categories under the broad risk factor category of that Table, institutions shall assign the risk factor to the most appropriate broad risk factor sub-category of that broad risk factor category, having regard to the nature of the risk captured by the risk factor and the data used as inputs for the risk factor in the risk measurement model.

2. For the purposes of paragraph 1, where the nature of the risk factor does not correspond to any broad risk factor categories of Table 2 of Article 325bd of Regulation (EU) No 575/2013, institutions shall map that risk factor to the broad risk factor category 'Commodity' of that Table and to the broad risk factor sub-category 'Other types' of that category.

3. For the purposes of paragraph 1, for a risk factor that could be mapped to more than one broad risk factor category or broad risk factor sub-category, institutions shall identify all of those corresponding categories and corresponding sub-categories.

⁽⁴⁾ Minimum capital requirements for market risk, January 2019 (rev. February 2019).

⁽⁵⁾ Commission Implementing Regulation (EU) 2016/1646 of 13 September 2016 laying down implementing technical standards with regard to main indices and recognised exchanges in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (OJ L 245, 14.9.2016, p. 5).

⁽⁶⁾ 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).

Among those broad risk factor categories or those corresponding broad risk factor sub-categories, the risk factor shall be mapped to the broad risk factor category and the corresponding broad risk factor sub-category having the longest liquidity horizon.

Where more than one broad risk factor category or corresponding broad risk factor sub-category have the same longest liquidity horizon, the risk factor may be mapped to any of those broad risk factor categories and their corresponding broad risk factor sub-categories.

Article 2

Specific methodology for homogenous index instruments

1. By way of derogation from Article 1, where an institution represents a position in a homogeneous index instrument as a single risk factor in its risk measurement model, the institution may choose to map the risk factor in accordance with the methodology set out in paragraph 2.

For the purposes of this Article, a 'homogeneous index' shall mean an index that has one of the following compositions:

- (a) equities or other indices composed by equities only;
- (b) bonds or other indices composed by bonds only;
- (c) credit default swaps or other indices composed of credit default swaps only;
- (d) commodities or other indices composed of commodities only.

2. The liquidity horizon of a single risk factor modelling a homogeneous index instrument as referred to in paragraph 1 may be determined by an institution as follows:

- (a) the institution shall map the risk factor to the broad risk factor category of Table 2 of Article 325bd of Regulation (EU) No 575/2013 corresponding to the appropriate category for the homogenous index composition;
- (b) the institution shall apply the general methodology laid down in Article 1 separately to each of the homogeneous index's constituents to determine their appropriate liquidity horizons;
- (c) the institution shall compute the weighted average of the liquidity horizons determined in accordance with point (b) on the basis of each constituent's respective weight in the index;
- (d) the liquidity horizon of the risk factor modelling the homogeneous index instrument shall be the shortest liquidity horizon of the index's constituents sub-categories which is greater or equal to the weighted average referred to in point (c).

For the purposes of point (a), a risk factor of a homogenous index instrument having the composition referred to in paragraph 1, points (b) and (c), shall be mapped to the broad risk factor category 'Credit spread'.

Article 3

Specific methodology for inflation, mono-currency and cross-currency basis risk factors

1. By way of derogation from Article 1, institutions shall map inflation risk factors for a given currency to the broad risk factor category 'Interest rate', and to the broad risk factor sub-category of that currency.

2. By way of derogation from Article 1, institutions shall map mono-currency basis risk factors and cross-currency basis risk factors to the broad risk factor category 'Interest Rate', and to the broad risk factor sub-category of the currency denominating the basis.

*Article 4***Specific methodology for repo and dividend risk factors**

1. By way of derogation from Article 1, institutions shall map equity repo rates and dividend risk factors to the broad risk factor category 'Equity'.
2. By way of derogation from Article 1, for the purpose of determining the broad risk factor sub-category, equity repo rates and dividend risk factors for a given equity shall be treated as risk factors corresponding to the volatility of that equity.

CHAPTER 2

Determination of the most liquid currencies sub-category, determination of the most liquid currency pairs sub-category and definition of small and large market capitalisation sub-categories*Article 5***Most liquid currencies sub-category**

The currencies that constitute the most liquid currencies sub-category of the broad category of the interest rate risk factor of Table 2 of Article 325bd of Regulation (EU) No 575/2013 shall be those listed in Annex I to this Regulation.

*Article 6***Most liquid currency pairs sub-category**

The currency pairs that constitute the most liquid currency pairs sub-category of the broad category of the foreign exchange risk factor of Table 2 of Article 325bd of Regulation (EU) No 575/2013 shall be those listed in Annex II to this Regulation.

*Article 7***Definition of small and large market capitalisation**

1. For the purposes of the equity price and volatility sub-category of the broad category of equity risk factor of Table 2 of Article 325bd of Regulation (EU) No 575/2013, an equity with large market capitalisation shall meet at least one of the following conditions:
 - (a) the market capitalisation of the equity is greater than EUR 1,75 billion;
 - (b) the equity is included in one of the main indices set out in Annex I of Implementing Regulation (EU) 2016/1646 the components of which are all quoted in the Union.
2. All other equities than those referred to in paragraph 1 shall be considered as equities with small market capitalisation.

*Article 8***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, 28 February 2022.

For the Commission
The President
Ursula VON DER LEYEN

ANNEX I

List of most liquid currencies referred to in Article 5

- Euro (EUR);
 - US Dollar (USD);
 - Pound Sterling (GBP);
 - Japanese Yen (JPY);
 - Australian Dollar (AUD);
 - Swedish Krona (SEK);
 - Canadian Dollar (CAD).
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ANNEX II

List of currency pairs referred to in Article 6

For the purpose of this Annex, the following codes relating to currencies are used:

EUR (Euro), USD (US Dollar), JPY (Japanese Yen), GBP (Pound Sterling), CHF (Swiss Franc), CAD (Canadian Dollar), MXN (Mexican Peso), CNY (Chinese Yuan), NZD (New Zealand Dollar), RUB (Russian Ruble), HKD (Hong Kong Dollar), SGD (Singapore Dollar), TRY (Turkish Lira), KRW (South Korean Won), SEK (Swedish Krona), ZAR (South African Rand), INR (Indian Rupee), NOK (Norwegian Krone), BRL (Brazilian Real), AUD (Australian Dollar), DKK (Danish Krone), BGN (Bulgarian Lev), HRK (Croatian Kuna).

EUR/USD, EUR/JPY, EUR/GBP, EUR/CHF, EUR/CAD, EUR/MXN, EUR/CNY, EUR/NZD, EUR/RUB, EUR/HKD, EUR/SGD, EUR/TRY, EUR/KRW, EUR/SEK, EUR/ZAR, EUR/INR, EUR/NOK, EUR/BRL, EUR/AUD.

USD/JPY, USD/GBP, USD/AUD, USD/CAD, USD/CHF, USD/MXN, USD/CNY, USD/NZD, USD/RUB, USD/HKD, USD/SGD, USD/TRY, USD/KRW, USD/SEK, USD/ZAR, USD/INR, USD/NOK, USD/BRL, USD/DKK, USD/BGN, USD/HRK.

JPY/GBP, JPY/CAD, JPY/CHF, JPY/MXN, JPY/CNY, JPY/NZD, JPY/RUB, JPY/HKD, JPY/SGD, JPY/TRY, JPY/KRW, JPY/SEK, JPY/ZAR, JPY/INR, JPY/NOK, JPY/BRL, JPY/DKK, JPY/AUD, JPY/BGN, JPY/HRK.

GBP/AUD, GBP/CAD, GBP/CHF, GBP/MXN, GBP/CNY, GBP/NZD, GBP/RUB, GBP/HKD, GBP/SGD, GBP/TRY, GBP/KRW, GBP/SEK, GBP/ZAR, GBP/INR, GBP/NOK, GBP/BRL, GBP/DKK, GBP/BGN, GBP/HRK.

AUD/CAD, AUD/CHF, AUD/MXN, AUD/CNY, AUD/NZD, AUD/RUB, AUD/HKD, AUD/SGD, AUD/TRY, AUD/KRW, AUD/SEK, AUD/ZAR, AUD/INR, AUD/NOK, AUD/BRL.

CAD/CHF, CAD/MXN, CAD/CNY, CAD/NZD, CAD/RUB, CAD/HKD, CAD/SGD, CAD/TRY, CAD/KRW, CAD/SEK, CAD/ZAR, CAD/INR, CAD/NOK, CAD/BRL.

CHF/MXN, CHF/CNY, CHF/NZD, CHF/RUB, CHF/HKD, CHF/SGD, CHF/TRY, CHF/KRW, CHF/SEK, CHF/ZAR, CHF/INR, CHF/NOK, CHF/BRL, CHF/DKK, CHF/BGN, CHF/HRK.

MXN/CNY, MXN/NZD, MXN/RUB, MXN/HKD, MXN/SGD, MXN/TRY, MXN/KRW, MXN/SEK, MXN/ZAR, MXN/INR, MXN/NOK, MXN/BRL.

CNY/NZD, CNY/RUB, CNY/HKD, CNY/SGD, CNY/TRY, CNY/KRW, CNY/SEK, CNY/ZAR, CNY/INR, CNY/NOK, CNY/BRL.

NZD/RUB, NZD/HKD, NZD/SGD, NZD/TRY, NZD/KRW, NZD/SEK, NZD/ZAR, NZD/INR, NZD/NOK, NZD/BRL.

RUB/HKD, RUB/SGD, RUB/TRY, RUB/KRW, RUB/SEK, RUB/ZAR, RUB/INR, RUB/NOK, RUB/BRL.

HKD/SGD, HKD/TRY, HKD/KRW, HKD/SEK, HKD/ZAR, HKD/INR, HKD/NOK, HKD/BRL.

SGD/TRY, SGD/KRW, SGD/SEK, SGD/ZAR, SGD/INR, SGD/NOK, SGD/BRL.

TRY/KRW, TRY/SEK, TRY/ZAR, TRY/INR, TRY/NOK, TRY/BRL.

KRW/SEK, KRW/ZAR, KRW/INR, KRW/NOK, KRW/BRL.

SEK/ZAR, SEK/INR, SEK/NOK, SEK/BRL.

ZAR/INR, ZAR/NOK, ZAR/BRL.

INR/NOK, INR/BRL.

NOK/BRL.
