

Chapter 7

Commission Delegated Regulation (EU) No 526/2014

Article 1 Determining an appropriate proxy spread

(1) The proxy spread for a given counterparty shall be deemed appropriate having regard to the rating, industry and region of the counterparty according to the fourth subparagraph of Article 383(1) of Regulation (EU) No 575/2013, where the following conditions are satisfied:

(a) the proxy spread has been determined by considering all of the attributes of rating, industry and region of the counterparty as specified in points (b), (c) and (d);

(b) the attribute of rating has been determined by considering the use of a predetermined hierarchy of sources of internal and external ratings. Ratings shall be mapped to credit quality steps, as referred to in Article 384(2) of Regulation (EU) No 575/2013. In cases where multiple external ratings are available their mapping to credit quality steps shall follow the approach for multiple credit assessments set out in Article 138 of that Regulation;

(c) the attribute of industry has been determined by considering at least the following categories:

(i) public sector;

(ii) financial sector;

(iii) others;

(d) the attribute of region has been determined by considering at least the following categories:

(i) Europe;

(ii) North America;

(iii) Asia;

(iv) rest of the world;

(e) the proxy spread reflects in a representative way available credit default swap spreads and spreads of other liquid traded credit risk instruments, corresponding to the relevant combination of applicable categories and satisfying the data quality criteria referred to in paragraph 3;

(f) the appropriateness of the proxy spread is determined with reference to the volatility rather than to the level of the spread.

(2) In the process of considering the attributes of rating, industry and region of the counterparty in accordance with paragraph 1, the estimation of the proxy spread shall be deemed appropriate for a regional government or local authority based on the credit spread of the relevant sovereign issuer where either of the following conditions are met:

(a) the regional government or local authority and the sovereign have the same ratings;

(b) there is no rating for the regional government or local authority.

(3) All inputs used in the determination of a proxy spread shall be based on reliable data observed on a liquid two-way market as defined in second subparagraph of Article 338(1) of Regulation (EU) No 575/2013. Sufficient data shall be available to generate proxy spreads for all relevant tenors and for the historical periods referred to in Article 383(5) of that Regulation.