Chapter 1

Commission Delegated Regulation (EU) No 528/2014

1

Article 8 Definition of the scenario matrix according to the scenario approach

(1) For each distinct underlying type, as referred to in Article 5(3), an institution shall define a scenario matrix which contains a set of scenarios.

(2) The first dimension of the scenario matrix shall be the price changes in the underlying above and below its current value. That range of changes shall consist of the following:

(a) for interest rate options or warrants, plus/minus the assumed change in interest rates set out in column 5 of Table 2 of Article 339 of Regulation (EU) No 575/2013;

(b) for options or warrants on equity or equity indices, plus/minus the weighting provided in Article 343 of Regulation (EU) No 575/2013;

(c) for foreign exchange and gold options or warrants, plus/minus the weighting indicated in Article 351 of Regulation (EU) No 575/2013 or, where appropriate, plus/minus the weighting indicated in Article 354 of Regulation (EU) No 575/2013;

(d) for commodity options (warrants), plus/minus the weighting indicated in point (a) of Article 360(1) of Regulation (EU) No 575/2013.

(3) The price change scenarios in the underlying shall be defined by a grid of at least seven points which includes the current observation and divides the range indicated in paragraph 2 in equally spaced intervals.

(4) The second dimension of the scenario matrix shall be defined by volatility changes. The range of changes in volatilities shall be between plus/minus 25 % of the implied volatility, where implied volatility shall be understood as referred to in Article 4(2). That range shall be divided into a grid of at least three points which include a 0 % change and where the range is divided into equally spaced intervals.

(5) The scenario matrix is determined by all possible combinations of points, as referred to in paragraphs 3 and 4. Each combination shall constitute a single scenario.