Chapter 4

Commission Implementing Regulation (EU) 2015/2197

Preamble

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 investment firms and amending Regulation (EU) No 648/2012 and in particular Article 354(3) thereof,

01/01/2021

Whereas:

(1) Under the standardised approach for market risk, institutions may hold lower own funds requirements for foreign exchange risk against matched positions in two currencies where these are considered as "closely correlated" in accordance with the methodology laid down in Article 354(1) of Regulation (EU) No 575/2013.

(2) When listing closely correlated currencies, the standard market practice of scaling down the maximum loss over 10 days to a one day maximum loss by dividing the maximum currency movement of 4 % by the square root of 10 should be applied. Therefore, the threshold for the maximum daily change in value within a pair of currencies should be set at 1,265 %.

(3) Daily percent currency movements should be determined as the difference between the napierian logarithms of the value of the currency pairs as observed on two consecutive days.

(4) The absolute value of the resulting percentage should be compared to the threshold of the maximum daily change in value within a pair of currencies of 1,265 %. Any values exceeding this threshold should be considered as breaches of the 4 %, 10-day maximum loss.

(5) It is necessary to determine a maximum number of acceptable losses, so that the pairs of currencies exceeding such a limit would not qualify as correlated in accordance with Article 354 of Regulation (EU) No 575/2013. Furthermore, the calculation of a maximum number of acceptable losses should consider both long and short positions in the foreign currency. The number of breaches allowed should be rounded down and, accordingly, the

maximum number of breaches should be set at 7 breaches of the maximum loss during the preceding 3 years and 65 breaches of the maximum loss during the preceding 5 years.

(6) Article 354(1) of Regulation (EU) No 575/2013 only provides for lower own funds requirements against positions in "relevant closely correlated currencies". As a consequence, only those exchange rate pairs formed by combining each of the different currencies of Member States with a list of currencies from third countries relevant for financial institutions in the Union should be assessed against the criteria for identifying closely correlated currencies.

(7) Certain other exchange rate pairs including only currencies from third countries should also be included in the assessment, given their relevance for institutions' portfolios in the Union. Further, given the requirements of Article 354(1) of Regulation (EC) No 575/2013 regarding the relevant observation periods, only currencies for which a five-year daily data series is available from a trustworthy source should be taken into account when considering the currencies to be included in the assessment.

(8) Article 354(4) of Regulation (EU) No 575/2013 establishes a specific treatment for the currency pairs formed by currencies from Member States participating in the second stage of the economic and monetary union ("ERM II") against the euro and between themselves. Therefore, pairs involving those currencies should not be considered as "relevant". However pairs formed by an ERM II currency on one side and a currency other than the euro or another ERM II currency on the other side should be considered "relevant".

(9) Therefore, the correlation of each one of the currency pairs formed by the combination of the currencies set out in the Annex to this Regulation should be assessed.

(10) In order to provide certainty over the use of the list of closely correlated currencies, that list should be kept under review in accordance with point (d) of Article 29(1) of Regulation (EU) No 1093/2010 of the European Parliament and the Council. For the same reasons, such review should be made at regular intervals and on or about the same date(s) on an annual basis, unless market developments require such a review to be carried out exceptionally at different times.

(11) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority to the Commission.

(12) The European Banking Authority has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010,

HAS ADOPTED THIS REGULATION: