Chapter 1

Commission Delegated Regulation (EU) 2017/180

1

Article 10 Assessment of differences in the outcomes of internal approaches for market risk

(1) When carrying out an assessment referred to in Article 3(1) relating to market risk approaches, competent authorities shall apply the standards set out in paragraphs 2 to 8 of this Article.

(2) When assessing the causes of the differences for VaR values, competent authorities shall consider both of the following:

(b) the dispersion observed in the VaR metric provided by institutions under Implementing Regulation (EU) 2016/2070.

(3) For institutions using historical simulation, competent authorities shall assess the variability observed both in the alternative homogenised VaR calculations and in the VaR data reported by institutions referred to in paragraph 2, in order to determine the effect of the different options applied by those institutions within the historical simulation.

(4) Competent authorities shall assess the dispersion among institutions in relation to particular risk factors included in each one of the non-aggregated benchmark portfolios using the observed volatility and the observed correlation in the profit-and-loss vector provided by institutions applying historical simulation for non-aggregated portfolios.

(5) Competent authorities shall analyse VaR models of an institution for portfolios which might show a profit-and-loss time-series that significantly diverges from the profit-and-loss time-series of the institution's peers, even where the final own funds requirement for that particular portfolio is similar to the one provided by the institution's peers in absolute terms.

(6) In addition, for VaR, sVaR, IRC and models used for correlation trading activities, competent authorities shall assess the effect of regulatory variability drivers by clustering the metric outcomes by the different modelling options.

(7) Once the causes of variability stemming from the different regulatory options have been assessed, competent authorities shall assess whether the remaining variability and underestimation of own funds requirements is driven by one or more of the following:

(a) misunderstandings regarding the positions or risk factors involved;

1

(b) incomplete model implementation;

(c) missing risk factors;

(d) differences in calibration or data series used in modelling simulation;

(e) additional risk factors incorporated in the model;

(f) alternative model assumptions applied;

(g) differences attributable to the methodology applied by the institution.

(8) Competent authorities shall carry out a comparison between the outcomes obtained from portfolios, which only differ in a specific risk factor, to determine whether institutions have incorporated such a risk factor into their internal models consistently with their peer institutions.