Chapter 1

Commission Delegated Regulation (EU) 2017/180

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(1) When carrying out an assessment referred to in Article 3(1), competent authorities shall use at least the information on the internal approaches applied to the supervisory benchmarking portfolios which is contained in the following documents, where relevant:

(b) the institution's validation reports, conducted by qualified independent parties, when the internal model is initially developed and when any significant changes are made to the internal model. This information shall include tests to demonstrate that any assumptions made within the internal approaches are appropriate and do not underestimate or overestimate the risk, specific back-testing designed in relation to the risks and structures of their portfolios and use of hypothetical portfolios to ensure that the internal approaches are able to account for particular structural features that may arise, such as material basis risks and concentration risk;

(c) notifications of the number and justification of daily back-testing over-shootings, observed over the previous year, on the basis of back-testing on hypothetical and actual changes in the portfolio's value;

(d) model documentation including manuals, documentation on the development and calibration of the model and methodology for the internal approaches;

(e) reports regarding on-site visits.

(2) When carrying out an assessment referred to in Article 3(1), competent authorities shall take into account the following elements, where relevant:

(a) the choice of the VaR methodology applied by the institution;

(b) the model's application perimeter and the representativeness of the benchmarking portfolios;

(c) the justification and rationale in case a risk factor is incorporated into the institution's pricing model but not into the risk-measurement model;

(d) the set of risk factors incorporated corresponding to the interest rates in each currency in which the institution has interest rate sensitive on- or off-balance sheet positions;

(e) the number of maturity segments in which each yield curve is divided;

(f) the methodology applied to capture the risk of less than perfectly correlated movements between different yield curves;

(g) the set of risk factors modelled corresponding to gold and to the individual foreign currencies in which the institution's positions are denominated;

(h) the number of risk factors used to capture equity risk;

(i) the methodology applied to assess the risk arising from less liquid positions and positions with limited price transparency under realistic market scenarios;

(j) the track record of the proxies used in the model, assessment of their impact on the risk metrics;

(k) the length of the time series used for VaR;

(l) the methodology applied for determining the stressed period for sVaR, adequacy of the stressed period selected for the benchmarking portfolios;

(m) the methodologies applied in the risk-measurement model to capture nonlinearities for options, in particular where the institution uses Taylor-approximation approaches instead of full revaluation, and other products as well as to capture correlation risk and basis risk;

(n) the methodologies applied to capture name-related basis risk and whether they are sensitive to material idiosyncratic differences between similar but not identical positions;

(o) the methodologies applied to capture event risk;

(p) for internal incremental default and migration risk (IRC), the methodologies applied to determine liquidity horizons by position, as well as the PDs, LGDs and transition matrices used in the simulation referred to in Article 374 of Regulation (EU) No 575/2013;

(q) for the internal approach for correlation trading, the methodologies applied to capture risks laid down in Article 377(3) of Regulation (EU) No 575/2013, as well as the correlation assumptions between the relevant modelled risk factors.

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(3) Where competent authorities deem that the information referred to in paragraph 1 is not sufficient in order to reach conclusions in relation to the elements listed in paragraph 2, they shall promptly collect from the institutions additional information they deem necessary in order to finalise their assessment.

When deciding on what additional information to collect, competent authorities shall consider the materiality and relevance of the deviation of the institution's parameters and own funds requirements. Competent authorities shall collect the additional information in the way they deem to be most appropriate, including through questionnaires, interviews and ad hoc on-site visits.