

## MIFIDPRU 4 Annex 5R

### Notification under MIFIDPRU 4.12.10R and 4.14.20R of the intended use of own delta estimates

Details of Senior Manager responsible for this notification:

*If the notification is being made in respect of a MIFIDPRU investment firm or another SMCR firm, we would expect the individual responsible for it to hold a senior management function (SMF).*

Name of individual	
Job title / position	
Individual reference number (if applicable)	

1. Please list all MIFIDPRU investment firms on behalf of which this notification is made:

FRN	FCA investment firm name

2. Please confirm for which of the following purposes you intend to use own estimates for delta:

- a. the standardised approach for options under UK CRR Article 329
- b. the standardised approach for options under UK CRR Article 352(1)
- c. the standardised approach for options under UK CRR Article 358
- d. calculating TCD own funds requirement (supervisory delta)

*Note: Article 329, 352(1) and 358 UK CRR as applicable at 31 December 2021.*

3. Please confirm the basis on which this notification is made (select one):

- Individual basis for each MIFIDPRU investment firm covered by this notification
- Consolidated basis of a UK parent entity  
*Where the model will be used to estimate delta only for derivatives included in the consolidated situation, but not held by an individual MIFIDPRU investment firm.*
- Individual and consolidated basis  
*Where the same model is used to estimate delta for the same type of derivatives at both levels.*

4. For notifications on consolidated basis, please specify the FRN and name of the consolidating UK parent entity.

FRN	
Name	

5. The pricing model used to calculate delta estimates is required to meet the following minimum standards set out in MIFIDPRU 4.12.12G to MIFIDPRU 4.12.18G for each type of option (and as modified by MIFIDPRU 4.14.21R for supervisory delta):
- a. The level of sophistication of the pricing model is proportionate to the complexity and risk of each option, and the overall risk of the firm's/group's options trading business.
  - b. Delta is re-calculated at least daily, and promptly following significant movements in the market parameters used as inputs to calculate delta.
  - c. The pricing model used to calculate delta:
    - i. is based on appropriate assumptions that have been assessed and challenged by suitably qualified parties independent of the development process
    - ii. has been independently tested, including validation of the mathematics, assumptions, and software implementation and
    - iii. has been developed or approved independently of the trading desk.
  - d. Where available, generally accepted industry standard pricing models, such as for relatively simple options, have been used for the calculation of own deltas.
  - e. The IT systems used to calculate delta are sufficient to ensure that delta can be calculated accurately and reliably.
  - f. Adequate systems and controls are in place when using a pricing model to calculate a delta. This includes the following documented policies and procedures:
    - i. clearly defined responsibilities of the various areas involved in the calculation
    - ii. frequency of independent testing of the accuracy of the model used to calculate delta; and
    - iii. guidelines for the use of unobservable inputs, where relevant.
  - g. Risk management functions are aware of weaknesses of the model used to calculate a delta.

- h. Where a weakness is identified, estimates of delta result in a prudent contribution to the K-NPR requirement or, for supervisory delta, the K-TCD requirement. The outcome is prudent across the whole portfolio of options and underlying positions at all times.
- i. The relevant model estimates the rate of change of the value of the option for small changes in the market value of the underlying (supervisory delta only).

Please confirm that the pricing model used by the firm/group to calculate delta estimates meets these minimum standards and that the firm/group is able to demonstrate this by providing supporting evidence upon request.

Yes

4. Please complete the Option Price Template<sup>1</sup> and attach it with the notification.

Attached

5. Date from when own estimates will be used:

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<sup>1</sup> *Editor's note:* This template is available at the following address:  
<https://www.fca.org.uk/publication/documents/option-price-template-for-notification.xlsx>