

Application under MIFIDPRU 4.12.66R for permission to use sensitivity models to calculate interest rate risk on derivative instruments in accordance with article 331(1) of the UK CRR

1. 1. Please list all group undertakings in respect of which this application is being made.

FRN	Undertaking name

2. 2. Please confirm the scope of the consolidated application for the model:

- Not applicable, as the model will only be applied at solo level
- The use of the model at solo and consolidated level will involve the same types of instruments
- The consolidated application for a model will include a wider range of instrument types than those covered by the model at solo level ▶ Give details below

For group applications, the below section (questions 3 to 7) must be completed separately for each entity requiring the permission, including for the consolidated situation of the consolidating UK parent if the application concerns a consolidated application of the model. Questions 5 and onwards must be completed separately for each set of instruments for which a net sensitivity position, weighted by maturity, is computed.

3. 3. Please confirm the FRN and name of the MIFIDPRU investment firm or consolidating UK parent this section relates to:

FRN of firm	
Name of firm	

4. 4. Please give a brief description of the nature of the firm's business and a full and clear explanation of why it is applying for this permission.

5. 5. Please provide summary information for each of the items listed in the below table. For some items you are required to attach additional documentation.

Item	Summary Information
a. Description of the current methodology used for interest rate risk on derivative instruments covered in articles 328 to 330 UK CRR.	
b. Description of the sensitivity models used to calculate interest rate risk under article 331 UK CRR.	
c. Product scope of the requested permission – please indicate the instruments for which net sensitivity positions are used and the currencies in which those positions are denominated.	
d. For the product scope requested, confirm that the interest rate risk is managed on a discounted cashflow basis.	
e. For the product scope requested, briefly indicate any growth plans for the exposures.	
f. Capital impact of changing the calculation methodology from the existing approach (i.e. the capital impact of applying article 331 UK CRR) and total capital and market risk capital held at the same date.	
<p>g. Provide worked examples of capital calculation under the current methodology and the new (article 331 UK CRR) methodology for a test portfolio composed of:</p> <ul style="list-style-type: none"> • Long 100,000 1Y ATM equity index call option • Short 100,000 1Y ATM equity index put option • Long 100,000 2Y ATM equity index call option • Short 100,000 5Y ATM equity index call option • Short 3M equity index futures in sufficient quantity to hedge the equity delta of the options <p>Assume that the base index level is 100 and that the equity index volatility is 20%. Please use these interest rate inputs¹ for the purposes of calculating the interest rate exposure. All options are European style exercise.</p>	
h. Please provide documentation describing how you construct interest rate curves from market data. Please list all models that rely on these curves to calculate sensitivity to interest rate movements. For each model, please provide the list of products to which it applies and the date of the last validation.	

¹ Editor's note: The interest rate inputs document is available at the following address: <http://www.fca.org.uk/your-fca/documents/forms/crr-article-331-interest-rate-inputs>

i.	Explanation of how you calculate the interest rate sensitivity of your portfolio in each bucket.	
j.	Explanation of how you handle interest rate basis risk.	

6. 6. Please confirm whether each of the standards in the below table is met and provide information to demonstrate how it is met:

Standard	Meets Standard?	Firm Analysis <i>Please demonstrate using examples where appropriate how the minimum standards are met</i>
a. Sensitivity models generate positions which have the same sensitivity to interest rate changes as the underlying cash flows.	<input type="checkbox"/> Yes <input type="checkbox"/> No	
b. Sensitivities are assessed with reference to independent movements in sample rates across the yield curve, with at least one sensitivity point in each of the maturity bands set out in Table 2 in article 339 UK CRR.	<input type="checkbox"/> Yes <input type="checkbox"/> No	
c. Sensitivities are appropriate to produce accurate valuation changes based on the assumed interest rate changes set out in Table 2 of article 339 UK CRR.	<input type="checkbox"/> Yes <input type="checkbox"/> No	