II

(Non-legislative acts)

REGULATIONS

COMMISSION DELEGATED REGULATION (EU) 2022/2257

of 11 August 2022

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the calculation methods of gross jump-to-default amounts for exposures to debt and equity instruments and for exposures to default risk arising from certain derivative instruments, and specifying the determination of notional amounts of instruments other than the instruments referred to in Article 325w(4) of Regulation (EU) No 575/2013

(Text with EEA relevance)

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 amending Regulation (EU) No 648/2012 ([1]), and in particular Article 325w(8), third subparagraph, thereof,

Whereas:

(1) The Fundamental Review of the Trading Book ('FRTB'), whose final rules were adopted by the Basel Committee in January 2019, seeks to address the shortcomings identified during the global financial crisis as regards the own funds requirements for market risks. As part of the improvement brought by the FRTB, a new own funds requirement was introduced under the standardised approach to capture the default risk of exposures to debt and equity instruments. It is necessary to provide further technical elements to clarify the specifications of the FRTB rules introduced into Union law by Regulation (EU) 2019/876 of the European Parliament and of the Council ([2]) for the purpose of reporting requirements, and to complement those specifications where necessary. Those technical elements concern the calculation of the gross jump-to-default ('JTD') amounts for exposures to debt and equity instruments, the estimation of the gross jump-to-default amounts for exposures to default risk arising from certain derivative instruments, and the specification of the notional amounts of instruments other than the instruments referred to in Article 325w(4) of Regulation (EU) No 575/2013.

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

([1]) OJ L 176, 27.6.2013, p. 1.

([2]) Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (OJ L 150, 7.6.2019, p. 1).

(3) The European Banking Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council [3],

HAS ADOPTED THIS REGULATION:

Article 1

Determination of the components $P\&L_{long}$, $P\&L_{short}$, $Adjustment_{long}$ and $Adjustment_{short}$ for the calculation of gross JTD amounts for exposures to debt and equity instruments

1. Institutions shall determine the components $P\&L_{long}$ and $P\&L_{short}$ referred to in Article 325w(1), (2) and (5) of Regulation (EU) No 575/2013 by use of the following formulae:

$$PL_{long} = V_A - V_{notional}$$

$$PL_{short} = V_A - V_{notional}$$

where:

V_A = the market value of the instrument from which the exposure arises for the institution at the time of the calculation of the gross JTD amount for that exposure.

2. Institutions shall determine the components $Adjustment_{long}$ and $Adjustment_{short}$ referred to in Article 325w(1) and (2) of Regulation (EU) No 575/2013 by use of the following formulae:

$$Adjustment_{long} = -V_F$$

$$Adjustment_{short} = -V_F$$

where:

V_F = the market value of the instrument from which the exposure arises for the institution, calculated under the assumption that at the time of the calculation of the gross JTD amount for that exposure, the debt instrument defaulted and experienced a zero recovery rate.

3. Institutions shall determine the components $Adjustment_{long}$ and $Adjustment_{short}$ referred to in Article 325w(5) of Regulation (EU) No 575/2013 by use of the following formulae:

$$Adjustment_{long} = -V_F$$

$$Adjustment_{short} = -V_F$$

where:

V_F = the market value of the instrument from which the exposure arises for the institution, calculated under the assumption that at the time of the calculation of the gross JTD amount for that exposure, the equity instrument experienced a full loss in value.

(3) Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

Article 2

Estimation of the gross JTD amounts for the exposures referred to in Article 325w(7) of Regulation (EU) No 575/2013

1. The alternative methodology to estimate the gross JTD amounts of the exposures referred to in Article 325w(7) of Regulation (EU) No 575/2013 shall consist in calculating the difference between the market value of a derivative instrument as referred to in that paragraph, from which the exposure arises for the institution at the time of the estimation of the gross JTD amount, and the market value of that derivative instrument, calculated under the assumption that the obligor is in default at that time.

2. Where the obligor is in default at the time of the estimation, and the market value of the instrument from which the exposure arises for the institution at that time reflects the gain or loss resulting from the default of the obligor, the alternative methodology referred to in Article 325w(7) of Regulation (EU) No 575/2013 shall consist in regarding the gross JTD amount of the exposure to be zero.

Article 3

Determination of notional amounts of instruments other than the instruments referred to in Article 325w(4) of Regulation (EU) No 575/2013

1. For the purposes of Article 325w(1) and (2) of Regulation (EU) No 575/2013, institutions shall determine the notional amounts of instruments other than those referred to in Article 325w(4), points (a) and (b), of that Regulation by use of the following formulae:

(a) for exposures to debt instruments classified as senior debt instruments or covered bonds, the notional amount of the instrument from which the exposure arises shall be:

   (i) in case of a long exposure:

$$\text{Notional amount} = \frac{V_D - V_F}{1 - LGD}$$

   (ii) in case of a short exposure:

$$\text{Notional amount} = \frac{V_F - V_D}{1 - LGD}$$

   where:

   LGD = the LGD assigned to the debt instrument in accordance with Article 325w(3) of Regulation (EU) No 575/2013;

   V_D = the market value of the instrument from which the exposure arises for the institution, calculated under the assumption that, at the time of the calculation of the gross JTD amount for that exposure, the debt instrument defaulted and experienced a recovery rate that is calculated with respect to the face value of the debt instrument and which shall be equal to (1–LGD);

   V_F = V_F as specified in Article 1(2) of this Regulation;

(b) for exposures to debt instruments classified as non-senior debt instruments, the notional amount of the instrument from which the exposure arises shall be zero.

2. For the purposes of Article 325w(5) of Regulation (EU) No 575/2013, the notional amount of the instrument from which the exposure arises, and that is not a cash equity instrument, shall be zero.

Article 4

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 11 August 2022.

For the Commission
The President
Ursula VON DER LEYEN