ANNEX I

'ANNEX I

Booking Instructions

(a) For the purposes of Annexes I to VI, the following shall apply:

(i) 'Booking date' means the date and time on which institutions book the transactions for the purposes of the benchmarking exercise;
(ii) 'Initial Market Valuation (IMV)' means the marked-to-market value of the instruments referred to in Annex III, at the IMV reference date and time;
(iii) 'IMV reference date' means the date and time with reference to which institutions shall determine the IMV of the transactions in the benchmarking portfolio;
(iv) 'IMV remittance date' means the date by which institutions shall submit the results of the IMV of the transactions in the benchmarking portfolio;
(v) 'VaR' means the Value at Risk;
(vi) 'sVaR' means the Stressed Value at Risk;
(vii) 'IRC' means the Incremental Risk Charge;
(viii) 'CTP' means the Correlation Trading Portfolio;
(ix) 'APR' means the All Price Risk calculated in accordance with Article 377(2) of Regulation (EU) No 575/2013;
(x) 'Risk Measures', (RM), for Internal Model Approved (IMA) banks, means the value of the VaR, sVaR, and when required IRC and APR for the portfolios, as set out in Annex III, between the RM initial and RM final reference date;
(xi) 'RM initial reference date' means the date on which institutions shall start to compute the RM values;
(xii) 'RM final reference date' means the date on which institutions shall finish to compute the RM values;
(xiii) 'RM remittance date' means the date by which institutions shall submit the results of the RM of the transactions in the benchmarking portfolio;
(xiv) 'Present Value (PV)' means the marked-to-market value of the portfolios, set out in Section 3 of this Annex, at the RM final reference date;
(xv) 'ATM' means 'At The Money' in terms of the relative position of the current or future price of a derivative's underlying asset with respect to the strike price of that derivative;
(xvi) 'OTM' means 'Out of The Money' in terms of the relative position of the current or future price of a derivative's underlying asset with respect to the strike price of that derivative;
(xvii) 'ITM' means 'In The Money' in terms of the relative position of the current or future price of a derivative's underlying asset with respect to the strike price of that derivative;
(xviii) 'long' means 'bought' and 'short' means 'sold';
(xix) 'CDS' means Credit Default Swaps;
(xx) for CDS, 'long' means 'bought protection' and 'short' means 'sold protection';
(xxi) 'MLN' means millions;
(xxii) 'OTC' means Over-The-Counter;
(xxiii) 'ASA' means the alternative standardised approach as referred to in Part Three, Title IV, Chapter 1a, Section 1 of Regulation (EU) No 575/2013;
(xxiv) 'SBM' means the Sensitivities-Based Method as referred to in Part Three, Title IV, Chapter 1a, Section 2 of Regulation (EU) No 575/2013;

(xxv) ‘DRC’ means the Default Risk requirement as referred to in Part Three, Title IV, Chapter 1a, Section 5 of Regulation (EU) No 575/2013;

(xxvi) ’RRAO’ means the Residual Risk Add-On as referred to in Part Three, Title IV, Chapter 1a, Section 4 of Regulation (EU) No 575/2013.

(b) The reference dates shall be the ones specified in Annex II and apply for the ‘benchmarking’.

(c) Unless explicitly specified otherwise in Section 1 of this Annex III, all positions shall be booked on the booking date referred to in Annex II. Once positions have been booked, each portfolio shall age for the duration of the benchmarking exercise and shall be calculated under the assumption that the institution does not take any action to manage the portfolio in any way during the entire period of the benchmarking exercise. Unless explicitly stated otherwise in the specifications for a particular instrument, strike prices for option positions shall be determined relative to prices for the underlying as observed at market close on the booking date.

(d) For the purposes of the initial market valuation, the valuation of each instrument shall be submitted to the institution’s competent authority by the IMV remittance date. By that date, the institution shall submit an explanatory note accompanying the results, in accordance with point (e). IMV shall be provided in accordance with the institution’s front office valuation, where possible. In case IMVs are not provided by the institution’s front office, the institution shall specify in the explanatory note who is the IMV data source provider.

(e) The explanatory note that institutions are to submit together with the IMV shall include all of the following for each instrument:

(i) the risk factors used to calculate the instrument’s IMV;

(ii) the pricing model used to calculate the instrument’s IMV and a description of this pricing model;

(iii) available reference data for the instrument in the institution’s own format;

(iv) the aspects referred to in points (h), (i), (l), (n), (o), (p), (w), (x), (z), and (hh) of this Annex;

(v) institutions approved to use internal models shall also report:

   a. the risk factors included in the internal model for the instrument;
   b. the risk factors included in the internal model that are also valuation inputs for the IMV of the instrument;
   c. the internal model specifics in relation to the instruments.

(f) For the purposes of point (e), sub point (v), all of the following shall be reported:

(i) concise internal model descriptions;

(ii) revaluation methods applied;

(iii) functional form applied for modelling of returns (such as absolute, relatives, other methods);

(iv) qualitative information on the time series used to calibrate the VaR model in relation to the instrument (such as source, methodology for normalisation, buckets applied, other information deemed relevant by the institutions to explain the results provided).

(g) The explanatory note referred to in point (d) shall be updated with each resubmission of any value, reflecting the changes between submissions. The explanatory note shall contain one section which lists all submission dates and the reasons for resubmissions.

(h) The risks of the positions shall be calculated without taking into account the funding costs. Where applicable, institutions shall use the overnight rate of the instrument currency as the discount rate. Collateral agreement shall be considered in place for the derivatives instruments referred to in Section 1 of Annex III. Where that is not possible, reasons shall be provided in the explanatory note referred to in point (d).

(i) Counterparty credit risk and credit valuation adjustment ('CVA') risk shall not be taken into account in the valuation of the risks of the portfolios. Where that is not possible, reasons shall be provided in the explanatory note referred to in point (d) of this Annex. Institutions shall report cases where other typologies of Valuation Adjustments are included in the IMV and explain for each financial instrument the methodology and the impact in the explanatory note referred to in point (d) of this Annex.

(j) For transactions that include long positions in CDS, institutions shall assume an immediate up-front fee is paid to enter the position as per the market standards and conventions. The maturity date for all CDS shall correspond to conventional quarterly termination dates.

(k) Additional specifications needed in order to carry out pricing calculations required for CDS positions shall be consistent with commonly used market standards and conventions and shall be explained in the explanatory note referred to in point (d) of this Annex.

(l) The maturity date shall ensure that the transaction is closest to the term-to-maturity specified in accordance with market standards and conventions.

(m) With respect to the details of instruments not referred to in Section 1 of this Annex III, institutions shall provide the assumptions that have been used, including the day count convention and the choice for a tradable and liquid instrument, where permitted, along with the results in the explanatory note referred to in point (d) of this Annex.

(n) Institutions that believe that assumptions in addition to those specified in this Section are relevant to the interpretation of the results of its exercise, including close of business timing, coupon rolls, mapping against indices and others, shall submit a description of those assumptions in the explanatory note referred to in point (d) of this Annex.

(o) The explanatory note referred to in point (d) of this Annex shall include explanations for risks not captured by the model for the instruments referred to in Section 1 of Annex III.

(p) All options shall be treated as if they are traded OTC, unless explicitly specified otherwise.

(q) The standard timing conventions for OTC options shall be followed. The time to maturity for an 'n-month' option shall be in n months. Where options expire on a non-trading day, institutions shall adjust the expiration date per business date, in accordance with market standards and conventions.

(r) All OTC options shall be treated as follows:

   (i) as American for single name equities and commodities.

   (ii) as European for equity indices, foreign exchange and swaptions.

(s) All OTC options shall be considered 'naked' so that the premium shall be excluded from the initial market valuation.

(t) Regarding the CTPs, institutions that have permission to use the APR model for CTPs shall provide details about their most relevant assumptions, market standards and conventions regarding the CTP instruments referred to in Section 1 of Annex III, including the hedge ratios they have calculated to make the CTP instruments CS01 neutral at the booking date.

(u) The IMV for each instrument shall be provided in the EBA instrument currency specified in Section 1 of Annex III for that instrument.

(v) For portfolios composed of one or more instruments denominated in EBA instrument currencies that are different from the EBA portfolio currency, the result shall be converted into the reported EBA portfolio currency using the ECB spot exchange rate of the relevant date. The converted result shall be explained in the explanatory note referred to in point (d) of this Annex.

(w) When booking positions, institutions shall follow appropriate market conventions, unless otherwise specified in these instructions in the Instruments descriptions (Section 1 of Annex III).

(x) Where an instrument, or the underlying instrument for a derivative, is subject to a corporate action that affects the benchmarking exercise, such as a call from the issuer, a default or similar actions, institutions shall exclude such instrument from the exercise together with any related CDS or option.

(y) With regard to an index series, 'on-the-run' shall refer to the most liquid and tradable series of that index available in the market. Institutions shall explain their choice of 'on-the-run' series along with the related results in the accompanying explanatory note referred to in point (d) of this Annex.

(z) Where not specified otherwise, institutions shall apply the EU Benchmarks Regulation for the interest rate in order to book the instruments specified in Section 1 of Annex III. Institutions shall specify the rate applied, apart from the ones specified in Section 1 of Annex III, in the explanatory note referred to in point (d) of these instructions.

(aa) Risk measures for the portfolios referred to in Section 2 to Section 4 of Annex III, together with the Present Value, shall be computed from the 'RM initial reference date' to the 'RM final reference date'. FRTB ASA Risk measures (SBM, DRC and RRAO) shall be computed for the 'RM final reference date'. Institutions shall submit the results of those calculations to their competent authority by RM remittance date. IMV and SBM shall be reported for each instrument. Risk measures, SBM, DRC, RRAO and Present Value, where applicable, shall be reported for each portfolio, individual, multiple instruments and aggregated.

(bb) For the portfolios referred to in Section 6 of Annex III, institutions shall report SBM results and submit them in line with the reporting dates of the IMV submission.

(cc) Institutions in the scope of the benchmarking exercise shall report solely instruments on which they are approved from supervisors and that are not forbidden to trade by internal policy decision or trading system limitations.

(dd) The results for individual and the aggregated portfolios shall be submitted only where the results of all the instruments that are part of them are also being submitted.

(ee) In Section 1 of Annex III (Instruments), 'Year T' shall mean 'current year' and Year T + X shall mean current year + X, with X as specified in Section 1 of Annex III.

(ff) In Section 1 of Annex III (Instruments), institutions shall determine the day of expiry/maturity in accordance with the following instructions:

(i) Where the date is specified, that specific date shall be used;
(ii) Where no date is specified, market convention, where available, shall be used. If for example there is a market convention that the day of expiry/maturity is the 3rd Friday of the month, then 'June Year T' shall mean the 3rd Friday of the June of the year T;
(iii) At the end of the month, where it is specified 'End of', it shall mean the last calendar day in the month;
(iv) For a fix period of time following the 'booking date', if the period is defined as a number of days, it is the last day of the period. If the period is defined in weeks, months or years, it is the same day of the following week, month or year with respect to the booking date, or, if the last month or year of the period is shorter, the last day of that month or year; if the 'booking date + x period' is a holiday day, then select the following working day;
(v) In case it is not specified otherwise the following assumptions shall be used: Day count convention: Act/360, Holiday calendar: Target2.

(gg) In Section 1 of Annex III (Instruments), for all CDS, unless explicitly specified otherwise, the following requirements shall apply:

(i) Coupon frequency: Quarterly;
(ii) Coupon (bps): 100;
(iii) Day count: ACT/360;
(iv) ISDA Definitions year: 2014;
(v) Restructuring clause: Modified-Modified Restructuring (MMR);
(vi) Maturity: December Year T+4;
(vii) Debt type: Senior;
(viii) Tenor: 5 Year;
(ix) Effective date as booking date;
(x) The used discount curve and recovery rate shall be indicated in the explanatory note referred to in point (d) of this Annex.

(hh) The IMV of bond instruments shall include accrued interest.

(ii) Institutions shall provide the information related to the time of valuation of the PV mentioning the time in the explanatory note referred to in point (e) of this Annex. Where possible, valuation of the PV shall be computed at close of business day.

(jj) The risk measures of the portfolios shall be calculated in the same currency of the portfolio currency, not including any FX risk, also related to the reporting currency of the institutions. The FX Risk shall be considered only when intrinsically included in the instruments. Where both reporting and portfolio currency results are reported as part of the exercise, for the ASA figures, results calculated in the reporting currency of the institution shall be translated into the EBA portfolio currency by spot conversion using the ECB spot exchange rate associated with the date of the calculation. The translation into the EBA portfolio currency does not imply a change in the FX risk factors.

(kk) Where Article 325q(7) of Regulation (EU) No 575/2013 ("base currency approach") applies, when performing SBM calculations and reporting SBM sensitivities, institutions shall consider the FX risk factors resulting from the application of the base currency approach. The reported values shall not be expressed in the chosen base currency but rather in the institutions' reporting currency by applying spot conversion using the ECB spot exchange rate associated with relevant date.