Basel Committee on Banking Supervision

Consultative Document

Revisions to market risk disclosure requirements

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Revisions to market risk disclosure requirements

1. Introduction

The Basel Committee on Banking Supervision has published in January 2019 a new version of the minimum capital requirements for market risk,[1] replacing an earlier version of the standard as published in January 2016. The new version of the market risk standard is structurally different from the previous one.

One of the main changes is the introduction of a "traffic light" approach for capital requirements as a consequence of the outcome of the profit and loss attribution (PLA) test for banks that use the internal models approach (IMA). The consequence of failing the PLA test has been revised from the former binary pass-or-fail outcome to a three-tiered "traffic light" approach with an intermediate "amber zone." Trading desks in the "green zone" are considered to have passed the PLA test and may use the IMA. Trading desks in the "amber zone" may continue to use the IMA but will be subject to a capital surcharge. Trading desks in the "red zone" are considered to have failed the PLA test and are not permitted to use the IMA; instead, they must use the standardised approach (SA) for determining their market risk capital requirements.

Another significant change is the introduction of the simplified standardised approach (SSA) as an alternative to calculate capital requirements for market risk. For banks that have relatively small or non-complex trading portfolios, the SSA – a recalibrated version of the Basel 2.5 market risk standardised approach – may be used by banks in lieu of use of the "full" standardised approach, subject to supervisory approval.

The Committee has considered how the changes outlined above will impact the Pillar 3 disclosure requirements associated with market risk. Additionally, the Committee takes the opportunity to propose further enhancements to disclosure requirements associated with market risk, with a view to continue promoting market discipline.

The next section describes the changes proposed in this consultative document. Section 3 reaffirms the Committee's exceptional treatment of proprietary and confidential information and its applicability to the proposed disclosure requirements. Section 4 outlines the next steps. Annex 1 presents the proposed changes to chapter DIS50 in the consolidated Basel framework, and Annex 2 contains the proposed illustrative example to be inserted in DIS99.

2. Proposed changes to market risk disclosure requirements

2.1 Specific revisions arising from the new market risk standard

The Committee proposes the following changes to the 1 January 2022 version of the templates to reflect the abovementioned changes to the framework.

- Template MR1 – Market risk under the standardised approach: Clarification of the scope of application to explicitly include the SA capital requirements for IMA trading desks that have failed model eligibility tests (ie PLA test or backtesting).

[1] Basel Committee on Banking Supervision, *Minimum capital requirements for market risk*, January 2019, www.bis.org/bcbs/publ/457.htm.

- Table MRB – Qualitative disclosures for banks using the IMA. Update of definitions in the table and its instructions to better reflect the January 2019 market risk standard.
- Table MRC – The structure of desks for banks using the IMA. Adjustments to specify a materiality threshold for the disclosure of information pertaining to individual trading desks, where this threshold is set at 50% of a bank's sum of the standalone market risk capital requirement as calculated per the standardised approach.
- Template MR2 – Market risk IMA: This template has been overhauled to provide comprehensive disclosure of the capital requirements for banks that use the IMA for all or part of their trading book portfolios.
  - Given the introduction of the capital surcharge for trading desks that are assigned to the PLA test's "amber zone," the total capital requirements under the IMA is no longer solely determined by the IMA. Accordingly, Template MR2 has been revised to provide the total capital requirements for banks that use the IMA, including granular sub-components of the calculation.
  - In relation to other disclosure templates that also provide market risk IMA capital requirement information, the market risk IMA capital requirement is specified to be the difference between a bank's total market risk capital requirement and the bank's SA capital requirement as reported in Template MR1.
- Template MR3 – RWA flow statements of market risk for trading desks under the IMA: Inclusion of three columns to reflect some of the new elements of the capital requirements under the IMA, namely the RWA surcharge for amber trading desk, the IMA RWA for green and amber desks, and the total SA RWA for trading desks ineligible to use IMA.
- Template MR4 – Market risk under the simplified standardised approach: This is a new template to reflect the introduction of the SSA. Banks using the SSA are expected to disclose the corresponding components of the market risk capital requirements. Its frequency is semiannual.

2.2 Clarification example

The Committee also proposes to include a text clarifying the application of templates MR2 and MR3 in the version of chapter DIS99 – Worked examples that will be effective as of 1 January 2022.

3. Protection of proprietary and confidential information

The Committee is aware that the proposed disclosure requirements might raise concerns regarding the disclosure of proprietary and confidential information. However, the Committee reaffirms the general application throughout the Pillar 3 standard of the exception granted to disclosure of proprietary or confidential information, as per DIS10.11. In cases where the proposed disclosure requirements, as described in this consultative document, would lead a bank to reveal its position or contravene its legal obligations associated with proprietary or confidential information, the bank would not be required to disclose the specific items, but instead to disclose more general information about the subject matter, and to explain in the narrative commentary which items have not been individually disclosed and why. This exceptional treatment for proprietary and confidential information would continue to apply in the proposed revisions to market risk disclosure requirements.

4. Next steps

The Committee welcomes comments from the public, including Pillar 3 disclosure users and preparers, on all aspects of this consultative document. In addition, the Committee seeks views of the public on the following specific issues:

1. the usefulness of RWA flow statements of market risk for trading desks under the IMA as per Template MR3, and any concrete proposals to enhance its usefulness; and
2. whether the specific minimum threshold for materiality for the disclosures of individual trading desks in Table MRC is adequate to inform Pillar 3 disclosure users about the structure of desks.

Comments must be submitted by 14 February 2020. Comments will be published on the Bank for International Settlements website, unless the respondent specifically requests confidential treatment.

After reviewing the responses received and concluding its own further analyses, the Committee intends to publish the revisions of the market risk disclosure requirements in time for implementation of these revisions by member jurisdictions by no later than 1 January 2022.

Annex 1: Proposed revisions to chapter DIS50 – Market risk

Changes in the text and templates of chapter DIS50 – Market risk effective as of 1 January 2022 are reflected in red font.

Introduction

50.1 The market risk section includes the market risk capital requirements calculated for trading book and banking book exposures that are subject to a market risk capital requirement in MAR10 to MAR40. It also includes capital requirements for securitisation positions held in the trading book. However, it excludes the counterparty credit risk capital requirements that apply to the same exposures, which are reported in DIS42.

50.2 The disclosure requirements under this section are:

General information about market risk

(1) Table MRA – General qualitative disclosure requirements related to market risk

Market risk under the standardised approach

(2) Template MR1 - Market risk under the standardised approach

Market risk under the Internal Models Approach (IMA)

(3) Table MRB - Qualitative disclosures for banks using the IMA

(4) Table MRC – The structure of desks for banks using the IMA

(5) Template MR2 – Market risk for banks using the IMA ~~per risk type~~

(6) Template MR3 – Risk-weighted assets (RWA) flow statements of market risk ~~exposures~~ for trading desks under the IMA

(7) Template MR4 – Market risk under the simplified standardised approach

Table MRA: General qualitative disclosure requirements related to market risk

Purpose: Provide a description of the risk management objectives and policies for market risk as defined in MAR11.1.

Scope of application: The table is mandatory for all banks that are subject to the market risk framework.

Content: Qualitative information.

Frequency: Annual.

Format: Flexible.

Banks must describe their risk management objectives and policies for market risk according to the framework as follows:

(a)	Strategies and processes of the bank, which must include an explanation and/or a description of:
	• The bank's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and the strategies/processes for monitoring the continuing effectiveness of hedges.
	• A general description of the trading desk structure (as defined in MAR12)
	• Types of instruments included in the trading desks or desk categories that are not covered by Template MRC.
	• Policies for determining whether a position is designated as trading, including the definition of stale positions and the risk management policies for monitoring those positions. In addition, banks should describe cases where instruments are assigned to the trading or banking book contrary to the general presumptions of their instrument category and the market and gross fair value of such cases, as well as cases where instruments have been moved from one book to the other since the last reporting period, including the gross fair value of such cases and the reason for the move.
(b)	The structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above.
(c)	The scope and nature of risk reporting and/or measurement systems.

Template MR1: Market risk under the standardised approach

Purpose: Provide the components of the capital requirement under the standardised approach for market risk.
Scope of application: The template is mandatory for banks having part or all of their market risk capital requirements measured according to the standardised approach. For the banks that use the internal models approach (IMA), the standardised approach capital requirement in this template must be calculated based on the portfolios in trading desks that do not use the IMA (ie trading desks that are not deemed eligible to use the IMA per the terms in MAR30.4).
Content: Capital requirement (as defined in MAR20 to MAR23 of the market risk framework).
Frequency: Semiannual.
Format: Fixed. Additional rows can be added for the breakdown of other risks.
Accompanying narrative: Banks must describe or provide a list of the trading desks which use the standardised approach for regulatory capital purposes (not including for the purpose of determining the output floor). In addition, banks must explain any changes in the scope of positions and trading desks for which capital requirements are calculated using the standardised approach (eg trading desks which are no longer allowed to be capitalised under the internal models approach as a consequence of failing the quantitative model eligibility tests).

		a
		Capital requirement in standardised approach
1	General interest rate risk	
2	Equity risk	
3	Commodity risk	
4	Foreign exchange risk	
5	Credit spread risk – non-securitisations	
6	Credit spread risk – securitisations (non-correlation trading portfolio)	
7	Credit spread risk – securitisation (correlation trading portfolio)	
8	Default risk – non-securitisations	
9	Default risk – securitisations (non-correlation trading portfolio)	
10	Default risk – securitisations (correlation trading portfolio)	
11	Residual risk add-on	
12	**Total**	

Linkages across templates

[MR1 12/a] is equal to [OV1 21/c]

Table MRB: Qualitative disclosures for banks using the IMA

Purpose: Provide the scope, main characteristics and key modelling choices of the different models used for the capital requirement computation of market risks using the IMA.

Scope of application: The table is mandatory for all banks using the IMA to calculate the market risk capital requirements. To provide meaningful information to users on a bank's use of internal models, the bank must describe the main characteristics of the models used at the group-wide level (according to the scope of regulatory consolidation) and explain the extent to which they represent all the models used at the group-wide level. The commentary must include the percentage of capital requirements covered by the models described for each of the regulatory models (expected shortfall (ES), default risk capital (DRC) requirement and stressed Expected Shortfall (SES) for non-modellable risk factors (NMRFs)).

Content: Qualitative information.

Frequency: Annual.

Format: Flexible.

(A) For ES models, banks must provide the following information:	
(a)	A description of ~~activities and risks~~ trading desks covered by the ES models. Where applicable, banks must also describe the main ~~activities and risks~~ trading desks not included in ES regulatory calculations (due to lack of historical data or model constraints) and treated under other measures (such as specific treatments allowed in some jurisdictions).
(b)	The soundness criteria on which the internal capital adequacy assessment is based (eg forward-looking stress testing) and a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards.
(c)	A general description of the ES model(s). For example, banks may describe whether the model(s) is (are) based on historical simulation, Monte Carlo simulations or other appropriate analytical methods and the observation period for ES based on stressed observations ($ES_{R,S}$) ~~and weighting methods of data for the calculation of the current period ES~~.
(d)	~~Data updating frequency.~~ The frequency by which model data is updated.
(e)	A description of the ES calculation based on current and stressed observations ~~the stress testing applied to the main significant portfolios that are modelled~~. For example, banks may describe the reduced set of risk factors used to calibrate the period of stress, ~~and the full set of risk factors,~~ the share of the variations in the full ES that is explained by the reduced set of risk factors, and the observation ~~horizon~~ period used to identify the most stressful 12 months.
(B) ~~NMRFs~~ SES	
(a)	Methodology used to achieve a capital assessment for an individual NMRF that is consistent with the required soundness standard.
(C) Banks using internal models to determine the DRC must provide the following information:	
(a)	A general description of the methodology: Information about the characteristics and scope of the value-at-risk (VaR) and whether different models are used for different exposure classes. For example, banks may describe the range of probability of default (PD) by obligors on the different types of positions, the approaches used to correct market-implied PDs as applicable, the treatment of netting, basis risk between long and short exposures of different obligors, mismatch between a position and its hedge and concentrations that can arise within and across product classes during stressed conditions.
(b)	The methodology used to achieve a capital assessment that is consistent with both the required soundness standard and [MAR33.18] to [MAR33.39].
(D) Validation of models and modelling processes	
~~(c)~~(a)	The approaches used in the validation of the models and modelling processes, describing general approaches used ~~(eg stress tests, sensitivity analysis, scenario analysis)~~, and the types of assumptions and benchmarks on which they rely.

Table MRC: The structure of trading desks for banks using the IMA

Purpose: Provide an overview of the structure of a bank's trading desks relevant for the IMA.

Scope of application: The template is mandatory for all banks using the IMA.

Content: Qualitative information. Banks must separately disclose all the trading desks they believe that are representative of their trading book portfolios under the IMA and, at a minimum, ~~the five trading desks~~ disclose the trading desks with the highest standalone SA capital requirements per MAR11.8(2) which, summed together, exceed 50% of total aggregate standalone capital requirement under the ~~IMA~~ SA.

Banks must tick the cell for each category of risk to which a desk gives rise and each category of products traded by a trading desk. When a trading desk gives rise to more than one type of risk, all the major risks generated by that trading desk should be ticked. Qualitative information may be provided on the different types of risks covered~~, especially for risks identified as "other"~~. When a trading desk trades more than one type of instrument, all the major types of instruments traded by that trading desk should be ticked.

Frequency: Semiannual.

Format: Flexible. Columns may be added, especially if the category of risk or trading product does not fit with one or some desk characteristics.

Accompanying narrative: Banks must decide which of their trading desks will be subject to the disclosure requirements in this table and in Template MR2 and explain the reasons for the selection and why it is representative of the bank's trading book under IMA. Banks must provide information on the number of trading desks under IMA that are not individually disclosed in this table, as well as on the main risks and main products traded by those trading desks.

	a	b	c	d	e	~~f~~	f ~~g~~	g ~~h~~	h ~~i~~	i~~j~~	j ~~k~~	k ~~l~~	l ~~m~~	m ~~n~~	n ~~o~~	o ~~p~~	p ~~q~~	q ~~r~~
	Main risk types for each trading desk (category)						Main types of instruments traded by this trading desk (category)											Description of trading desk activity
	General interest rate	Equity	Commodities	Foreign exchange (FX)	Credit spread	~~other~~	Cash	Forwards	Futures	Plain vanilla options	Complex options	Asset-backed securities	Mortgage-backed securities	Interest rate swaps	FX swaps	Credit default swaps	…	
Trading desk 1																		
…																		
Trading desk x																		

Template MR2: Market risk for banks using the IMA ~~per risk type~~

Purpose: Provide the components of the capital requirement under the IMA for market risk.

Scope of application: The template is mandatory for banks using the IMA for part or all of their market risk for regulatory capital calculations.

Content: Capital requirement calculation (as defined in MAR33) at the group-wide level (according to the scope of regulatory consolidation).

Frequency: Semiannual based on data from the previous quarter where applicable.

Format: Fixed.

Accompanying narrative: Banks must report the components of their total capital requirement that are included for their most recent measure and the components that are included for their average of the previous 60 days. Banks must also provide a comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in backtest results.

			a	b	c	d	e
			Risk measure: for previous 60 days / 12 weeks:				Number of backtesting exceptions
			Most recent	Average	High	Low	99.0%
1	Unconstrained expected shortfall						
2	ES for the regulatory risk classes	General interest rate risk					
3		Equity risk					
4		Commodity risk					
5		Foreign exchange risk					
6		Credit spread risk					
7	Constrained expected shortfall ~~(Rho*Unconstrained ES+(1-Rho)*aggregated risk class ES)~~						
8	IMCC (0.5*Unconstrained ES+0.5*constrained risk class ES)						
9	Capital requirement for non-modellable risk factors; SES						
10	Default risk capital requirement						
11	Capital surcharge for amber trading desks						
12	Capital requirements for green and amber trading desks (including capital surcharge)						
13	Total SA Capital requirements for trading desks ineligible to use the IMA as reported in MR1 (C_U)						
14	Difference in capital requirements under the IMA and SA for green and amber trading desks						
15 ~~12~~	SA capital requirements for all trading desks (including those subject to IMA) ~~Standardised approach capital charge for the entire trading book (ie all trading desks, including those subject to IMA)~~						
16 ~~11~~	Total market risk capital requirement: min(12+13; 15)+max(0, 14)						

Definitions and instructions

Row Number	Explanation
1	*Unconstrained expected shortfall*: Expected shortfall (ES) as defined in MAR33.1 to MAR33.12, calculated without supervisory constraints on cross-risk factor correlations. ~~Backtesting is based on daily VaR at the 99th percentile level of confidence of the unconstrained ES model on the full set of risk factors using the current observation period, as described in MAR30.4 (ie 12 months).~~
7	*Constrained expected shortfall*: ES as defined in MAR33.1 to MAR33.12, calculated ~~using empirical correlations recognised by banks across broad risk factor categories constrained by the supervisory aggregation scheme~~ in accordance with MAR33.14. The constrained ES disclosed should be the sum of partial expected shortfall capital requirements (ie all other risk factors should be held constant) for the range of broad regulatory risk factor classes (interest rate risk, equity risk, foreign exchange risk, commodity risk and credit spread risk).

Row Number	Explanation
~~8~~9	*Capital requirement for non-modellable risk factors*: aggregate regulatory capital measure calculated in accordance with MAR33.16 and MAR33.17, for risk factors in model-eligible trading desks that are deemed non-modellable in accordance with [MAR30.4].
10~~9~~	*Default risk capital (DRC) requirement*: in accordance with MAR33.18, measure of the default risk of trading book positions, except those subject to standardised capital requirements. This covers, inter alia, sovereign exposures (including those denominated in the sovereign's domestic currency), equity positions and defaulted debt positions.
11	*Capital surcharge for amber trading desks*: capital surcharge for eligible trading desks that is in the P&L attribution test "amber zone", calculated in accordance to MAR33.45.
12 ~~10~~	*Subtotal for green and amber trading desks:* (C_A+DRC) + Capital surcharge, in accordance with MAR33.41 to MAR33.43; MAR33.22; MAR33.45 Row 12= max[8/a+9/a; multiplier*8/b+9/b]+max[10/a; 10/b]+11 ~~Subtotal: for column (a), the sub-total is the sum of rows 7 to 9. For column (b), the sum of the 12-week average value disclosed in rows 7-9 is multiplied by the applicable multiplication factor set in accordance with MAR33.15.~~
13	*Total SA capital requirements for trading desks ineligible to use the IMA (C_U)*: SA capital requirements for trading desks that are either out-of-scope for model approval or that have been deemed ineligible to use the IMA, corresponding to the total capital requirement under the SA as reported in line 12 of table MR1.
15 ~~12~~	*SA capital requirement for all trading desks (including those subject to the IMA)*: the most recent standardised approach capital requirement as calculated for the entire trading book (ie all trading desks subject to the standardised approach and no trading desks subject to the IMA). ~~Total standardised approach capital charge for the entire trading book (ie all trading desks, including those subject to IMA): the most recent standardised approach charge as calculated for the entire trading book (ie all trading desks subject to the standardised approach and no trading desks subject to IMA).~~
16 ~~11~~	*Total market risk capital requirement*: the total capital requirement is calculated as set out in MAR33.43 ~~Total capital charge: the highest amount between columns (a) and (b) in rows 7 and 9.~~

Linkages across templates

[MR2:~~11~~16 minus MR2:13] is equal to [OV1 22/c]
[MR2:16 minus MR2:13] x 12.5 is equal to [CMS1 5/a]
[MR2:13] x 12.5 is equal to [CMS1 5/b]
[MR2:16] x 12.5 is equal to [CMS1 5/c]
[MR2:15] x 12.5 is equal to [CMS1 5/d]

Template MR3: RWA flow statements of market risk for trading desks under the IMA

Purpose: Flow statement explaining variations in market RWA for trading desks (TD) determined under the Internal Models Approach (IMA).

Scope of application: The template is mandatory for banks using the ~~an~~ IMA for market risk ~~exposures~~ capital requirements computation.

Content: Risk-weighted assets (RWA) for trading desks under an IMA (green and amber trading desks). Changes in components of RWA amounts over the reporting period for each of the key drivers should be based on a bank's reasonable estimation of the figure.

Frequency: Quarterly.

Format: Fixed format. The columns and rows 1 and 6 are fixed, all other rows are optional. Banks may add additional rows between rows ~~3 and 4~~ 1 and 6 to disclose best estimate of elements that ~~contribute to~~ drive RWA variations ~~where information on changes in RWA is available~~. Categories for such changes are defined below as: movements in risk levels, model changes, regulatory changes, acquisitions and disposals, foreign exchange and other. In the absence of additional rows, banks are expected to describe the approximate changes in RWAs in the narrative section using the same categories previously described.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.

		a	b	c	~~D~~	d	e	f
		IMCC	SES	DRC	~~Total RWA~~	RWA surcharge for amber TD	RWA for green and amber TD	Total SA RWA (TD ineligible to use IMA)
1	**RWA at previous quarter end**[2]							
~~2~~1a	*~~Regulatory a~~Adjustment*							
~~3~~1b	*RWA at previous quarter (end of day*)*							
	movements in risk levels, *model changes,* *regulatory changes,* *acquisitions and disposals,* *foreign exchange* *other*	Optional rows						
~~4~~6a	*RWA at current quarter (end of day**)*							
~~5~~6b	*~~Regulatory a~~Adjustment*							
6	**RWA at end of reporting period**[3]							

[2] See illustration of example in Annex 2

[3] See illustration of example in Annex 2

* The value at the last date of the quarter, which might differ from the value in row 1 which is the greater of the most recent value and averaged value.

** The value at the last date of the quarter, which might differ from the value in row 6 which is the greater of the most recent value and averaged value

Linkages across templates

MR3:6/a is equal to [MR2:8 a or b] x 12.5
MR3:6/b is equal to [MR2:9 a or b] x 12.5
MR3:6/c is equal to [MR2:10 a or b] x 12.5
MR3:6/d is equal to [[MR2:11] x 12.5
MR3:6/e is equal to [MR2:12] x 12.5
MR3:6/f is equal to [MR2:13] x 12.5

Definitions and instructions

Rows

<u>Optional Rows</u>

Movement in risk levels: changes due to movements in the nature or size of positions, other than those to ~~be reported on rows 5 and 6~~ specifically identified below.
Model changes: Significant updates to the model to reflect recent experience (eg recalibration), ~~as well as significant changes in model scope, including when desks moved from the IMA to the standardised approach or vice versa.~~ if more than one model update has taken place, additional rows could be necessary.
Regulatory changes: Methodology changes to the calculations driven by regulatory policy changes (including potential changes in RWA as a consequence of PLA tests starting from January 2023). Capital requirement consequences of failing modellability tests set out in MAR32 (ie backtesting or PLA tests) should be disclosed as regulatory changes, which include when trading desks moved from IMA to SA or conversely or when capital surcharge is imposed for the trading desks in the PLA test amber zone.
Acquisitions and disposals: Modifications due to acquisition or disposal of business/product lines or entities.
Foreign exchange: Changes driven by foreign currency translation movements.
Other: this category must be used to capture changes that cannot be attributed to any other category.

If the derived RWA from the capital requirement for any of the columns (a) to (e) / Rows (1) or (6), is not directly provided by the model outcomes (ie the most recent measure), but is instead calculated on the basis of the 60-day/12 months average, the bank may add an additional row after row 1 or before row 6 for adjustment *in* order to be able to provide the reconciliation of the amounts between rows (1) and (6).

Columns

- The capital requirement to consider for deriving risk-weighted assets in columns (a) to (d) in row 1 and 6 must be the actual amount of capital requirement taken into account in the aggregated capital requirement for green and amber trading desks, as reflected in column (e) except for column (a) which is before application of the multiplier.
- *~~ES~~ IMCC RWA* at previous quarter end/end of reporting period *column (a):* derived risk-weighted assets corresponding to the [capital requirement reflecting the regulatory ~~ES as well as any additional~~ capital ~~charge on the supervisor's decision~~ requirement for modellable risk factors (0.5*Unconstrained ES+0.5*constrained risk class ES) in accordance with MAR33.15] x 12.5.
- *~~NMRF~~ SES RWA* at previous quarter end/end of reporting period *column (b):* derived risk-weighted assets corresponding to the [capital requirement for non-modellable risks ~~as well as any additional capital charge on the supervisor's decision]~~ in accordance with MAR33.16 and MAR33.17] x 12.5.
- *DRC RWA* at previous quarter end/end of reporting period *column (c):* derived risk-weighted assets corresponding to the [capital requirement ~~as well as any additional capital charge on the supervisor's decision~~ for default risk capital requirement (DRC) in accordance with MAR33.19 to MAR33.39] x 12.5.
- *RWA surcharge for amber trading desks column (d)*: derived risk-weighted assets corresponding to the [capital surcharge reflecting the standardised approach for amber trading desks in accordance with MAR33.45] x 12.5.
- *IMA RWA for green and amber trading desks column (e):* derived risk-weighted assets corresponding to the [capital requirement for eligible trading desks (green and amber desks) in accordance with MAR33.41 (C_A) ; MAR33.22 DRC; MAR33.45 Capital surcharge] x 12.5.

- Total SA RWA at previous quarter end/end of reporting period column (f): derived risk-weighted assets corresponding to the [capital requirements for ineligible trading desks ie trading desks that are either out-of-scope for model approval or that have been deemed ineligible to use the IMA, corresponding to the total capital requirement under the SA as reported in line 12 of table MR, in accordance with MAR20 to MAR23] x12.5.
- ~~Total RWA at end of reporting period: derived risk-weighted assets corresponding to the [total capital charge for market risk in the basis of IMA x 12.5]; this amount must reconcile with the amounts shown in template OV1.~~
- ~~If the derived RWA from the capital requirement for any of the columns (a)-(d) / rows (1) or (6) is not directly provided by the model, but is instead calculated from the 60-day average, the bank may add an additional row for regulatory adjustment in order to be able to provide the reconciliation required in Template MR2 as well as the key drivers' amounts in rows (2)-(6).~~

Template MR4: Market risk under the simplified standardised approach

Purpose: Provide the components of the capital requirement under the simplified standardised approach for market risk.

Scope of application: The template is mandatory for banks that use simplified standardised approach to determine market risk capital requirements.

Content: Capital requirement (as defined in MAR40 of the market risk framework).

Frequency: Semiannual.

Format: Fixed. Additional rows can be added for the breakdown of other risks.

Accompanying narrative:

		a	b	c	d
			Options		
		Outright products	Simplified approach	Delta-plus method	Scenario approach
1	Interest rate risk				
2	Equity risk				
3	Commodity risk				
4	Foreign exchange risk				
5	Securitisation				
6	**Total**				

Linkages across templates

[MR4: 6a plus 6b or 6c or 6d] is equal to [OV1: 21/c]

Annex 2: Proposed revisions to chapter DIS99 – Worked examples

In order to provide users and preparers of the market risk disclosures as proposed above, the following paragraphs would be included in chapter DIS99 – Worked examples effective as of 1 January 2022.

Template MR2 and Template MR3 - illustration

99.3 The paragraphs below describe the relevant provisions for components of IMA capital requirement calculations.

(1) The aggregate capital requirement for approved and eligible TD **($IMA_{G,A}$)** according to MAR33.43 is defined as: **C_A + DRC +** Capital surcharge.

(2) According to MAR33.41 **C_A** is defined as:

$$C_A = max\left\{IMCC_{t-1} + SES_{t-1}; m_c \cdot IMCC_{avg} + SES_{avg}\right\}$$

(3) According to MAR33.22 **DRC** is defined as the greater of: (1) the average of the DRC requirement model measures over the previous 12 weeks; or (2) the most recent DRC requirement model measure.

(4) According to MAR33.45 **Capital surcharge**: is calculated as the difference between the aggregated standardised capital requirements ($SA_{G,A}$) and the aggregated internal models-based capital requirements ($IMA_{G,A} = C_A + DRC$) multiplied by a factor k. k and $SA_{G,A}$ are only recent, while $IMA_{G,A}$ is average or recent -> Surcharge is average or recent.

$$Capital\,surcharge = k \cdot \max\left\{0, SA_{G,A} - IMA_{G,A}\right\}, \text{ where } k = 0.5 \times \frac{\sum_{i \in A} SA_i}{\sum_{i \in G,A} SA_i}$$

Example 1: illustration of the correct specification for row 12 in template MR2

99.4 Applying the formulae set out in MAR33.22, MAR33.41, MAR33.43, and MAR33.45 (marked in blue below), the relevant components for C_A [either most recent (8+9) or average 1.5*8 +9] and DRC should take the respectively greater value of the "most recent" and "average" (marked in red). This results in the green and amber trading desk total capital requirements (including capital surcharge) of 485.

		a	b		
	Template MR2	Most recent	Average		Value taken for MR3 rows 1 or 6
		x 12.5[4]			
8	IMCC	100	130	*1.5	195
9	SES	130	100		100
	*(C_A = max [$IMCC_{t-1}$+SES_{t-1}; m_c*$IMCC_{avg}$+SES_{avg}])*	*(230)*	*(295)*		*(295)*
10	DRC	100	90		100
11	Capital surcharge for amber TD		90		90

4 Although Template MR2 must provide capital requirement values, to better illustrate the reconciliation with RWA figures in template MR3, the figures in this example are multiplied by 12.5.

12	Capital requirements for green and amber trading desks (including capital surcharge) max[8/a+9/a; multiplier*8/b+9/b]+max[10/a; 10/b]+11	485	**485**
13	SA Capital requirements for TD ineligible to use IMA C_u	20	

99.5 Example 2 and 3 illustrate what values are expected to be filled in each cell. The main drivers of changes in RWA between the previous and the current period would be disclosed in appropriate optional rows (including potential decrease of IMA RWA and corresponding increase of SA RWA driven by PLA tests results, in the row "regulatory changes"), which are not shown in this example.

Example 2: illustration of revised disclosure format for previous quarter rows in MR3

99.6 Extract of RWA disclosed in Template MR3 for this simplified example, assuming that capital requirements x 12.5 disclosed in Template MR2 were related to the previous period:

		a	b	c	d	e	f
		IMCC	SES	DRC	RWA surcharge for amber TD	RWA for green and amber TD	RWA SA (ineligible TD)
1	**RWA at previous quarter end**	**130**	**100**	**100**	**90**	**485**	**20**
1a	*Adjustment*	*-30*	*30*				
1b	*RWA at end of previous quarter (end of day*)*	*100*	*130*	*100*			

* The value at the last date of the quarter, which might differ from the value in row 1 which is the greater of the most recent value and averaged value.

Example 3: illustration of revised disclosure format for current quarter rows in MR3

99.7 Extract of RWA disclosed in Template MR3 for this simplified example, assuming that capital requirements x 12.5 disclosed in template MR2 are related to the current period (ie no change between the previous and current period):

		a	b	c	d	e	f
		IMCC	SES	DRC	RWA surcharge for amber TD	RWA for green and amber TD	RWA SA (ineligible TD)
6a	*RWA at end of current quarter (end of day**)*	*100*	*130*	*100*			
6b	*Adjustment*	*+30*	*-30*				
6	**RWA at end of reporting period**	**130**	**100**	**100**	**90**	**485**	**20**

** The value at the last date of the quarter, which might differ from the value in row 6 which is the greater of the most recent value and averaged value.