

# Bank of England PRA

## QUESTIONNAIRE FOR ASA APPLICATIONS

This Questionnaire should be completed by firms seeking to apply derogations for the use of the Advanced Standardised Approach (ASA) for market risk. For credit institutions and investment firms, the ASA framework is outlined in Annex H Market Risk: Advanced Standardised Approach (CRR) Part.

This Questionnaire is designed to aid the PRA's understanding of the methods used to apply the derogations to meet the advanced standardised approach capital requirements, as well as the business, systems and control environment within which the methods are applied.

Applicant firms are asked to undertake a self-assessment against the rules relating to the derogations set out in:

- Annex H Market Risk: Advanced Standardised Approach (CRR) Part;

The self-assessment needs to be specific to the legal entities relevant to the ASA application. Firms should follow the structure of this Questionnaire when completing the application, in order to facilitate the efficiency of the PRA's review. The self-assessment per section should include a short introductory description of the business context and the main findings evidencing the attested compliance status, followed by a detailed analysis, addressing the specific points highlighted in this Questionnaire and including cross-references to the supporting documentation. As part of the self-assessment per section, the firm should clearly flag areas of potential or actual non-compliance and, where there is scope for interpretation in the rules, the firm should explain how it has chosen to interpret the rules.

In addition to the self-assessment, the supporting documentation and a summary of its salient points should clearly answer the individual requests for information in each section in this Questionnaire.

Where relevant and practical, any information provided should make use of internal documentation/management information (MI) in the form in which it was presented at the time through the firm's normal governance forums. We recognise that there may

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be circumstances where this requirement may need to be over-ridden in the interests of providing sufficiently detailed information in response to the requests of this Questionnaire. Please indicate where this is the case.

When providing policies, procedures or methodologies please explain the governance around these documents and provide committee meeting minutes if available. Please ensure that all policies and procedures provided govern the practices of the legal entities covered by the ASA application.

Where the self-assessment leads to identification of issues, the firm should outline the nature and materiality of the issue and provide details of any planned remediation. Also note that any finding reported shall evidence that a targeted review for the areas in scope of the application was carried out, whereas a general reference to global firm policies, which may indicate higher-level compliance, does not suffice.

Please include the following attestation issued and signed by an individual performing a relevant Senior Management Function (SMF):

*I confirm that for the ASA, [firm name] has carried out a comprehensive assessment of its compliance with the "PRA requirements". Based on this assessment, there is no evidence that any aspect of the use of derogation is materially non-compliant with the PRA's requirements. For these purposes, "PRA requirements" mean the requirements in the PRA Rulebook in regard to the use of derogation in the advanced standardised approach for market risk.*

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## List of abbreviations/ terms used

<b>Article</b>	<b>Refers to the articles in Annex H of the PRA Rulebook</b>
ACTP	Alternative Correlation Trading Portfolio
ASA	Advanced Standardised Approach
CIU	Collective Investment Undertakings
CSR	Credit Spread Risk
COB	Close Of Business
COM	Commodity
CRR	Capital Requirements Regulation
EQ	Equity
FX	Foreign Exchange
GIRR	General Interest Rate Risk
MI	Management Information
PRA	Prudential Regulation Authority
RFE	Risk Factor Evolution
SMF	Senior Management Function

## A Introduction to the ASA application

Please compile an introductory Section that shall cover the aspects given below to a sufficient level of detail, providing a common understanding for all members of the PRA's review team. The aspects that shall at a minimum be covered are explained below.

1. Please provide an overview of the rationale for the application, and a description of the business lines and trading desks that the application proposes to cover, along with the relationship to the legal entities relevant to the application, noting whether business lines cut across legal entity boundaries.
2. Please provide the projected impact on market risk regulatory capital requirements that the derogation permission is expected to produce by legal entity, clearly stating any assumptions being made. The capital impact should also be provided as proportion of total UK solo/solo-consolidated and consolidated capital requirements.
3. For legal entities within a group, please describe the relationship between the use of each derogation within the legal entity compared with the use of each derogation within the wider group.
4. Please provide details of the due diligence process undertaken by the SMF prior to their signing the application.
5. Please include a point of contact in your firm for the ASA application.

## B Derogations in the ASA for market risk measurement

Please provide a line-by-line self-assessment against each of the seven derogations listed in the following table for which permission to use the derogation is sought:

<b>Sub-article</b>	<b>Derogation</b>
Art. 325e(3)	Include all positions without optionality in vega and curvature risk measures
Art. 325i(2)	Permission to change from look-through approach to single-name approach for index positions
Art. 325j(1)(b)(ii) Art 325j(1) (2nd and 3rd sub-paragraphs) Art. 325j(4)	Apply a mandate-based approach for CIU risk calculations
Art. 325q(6)	Divide FX curvature components by 1.5
Art. 325q(7)	Replace reporting currency by another currency for FX risk calculations
Art. 325t(5)	Use alternative delta risk sensitivity calculations
Art. 325t(6)	Use alternative vega risk sensitivity calculations

Please provide self-contained responses to questions in the following sections, including detailed references to the relevant submitted documentation, and also provide the requested documentation in each section and fill in the template (if any) required for the section. You may reference these responses for the line-by-line self-assessment of the articles above.

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Please complete the cover section of the ASA permission template for all legal entities in scope of the application.

## **C Permission to include all positions without optionality in vega and curvature risk measures**

1. Please provide the rationale for including all positions without optionality in vega and curvature risk measures.
2. Please provide a summary of the product scope and the use of the curvature/vega risk measures for internal risk measurement.
3. Please quantify the capital impact of changing the calculation methodology from the default approach, and total capital and market risk capital held at the same date.

### **Template requirement:**

- Please complete the relevant sections of the ASA permission template for a given COB date for each legal entity in scope of the application.
- In particular, please provide the product scope, and list the top three product types without optionality for each risk class, based on the materiality of their curvature and vega exposures, and indicate if curvature/vega risk measures are used for internal risk measurement.

## **D Permission to change from look-through approach to single-name approach for index positions**

1. Please provide the rationale for the single-name approach, including the reason(s) it is considered to be more appropriate than the look-through approach.
2. Please provide a summary of the product scope for this permission request.
3. For each index in scope of the application, please provide relevant detailed information to demonstrate compliance against the conditions set out in Article 325i(3) of the PRA Rulebook.

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4. Please quantify the capital impact for a given COB date of changing the calculation methodology from the default approach, and total capital and market risk capital held at the same date.

**Template requirement:**

- Please extend the template as appropriate and provide a list of the separate Equity and Credit indices for which the alternative approach is requested.

## **E Permission to apply a mandate-based approach for CIU (collective investment undertakings) risk calculations**

1. Please provide the rationale for the mandate-based approach for CIU risk calculations, including the reason(s) why it is considered to be appropriate.
2. Please provide a summary of the mandate-based approach for each CIU in scope, including:
  - a. how your firm will obtain, and update when necessary, the limits within the CIU's mandate;
  - b. the stability of the CIU's limits;
  - c. evidence of compliance against the conditions set out in Article 325j(1) (2nd and 3rd sub-paragraphs), and Article 325j(4) of the PRA Rulebook, including the methodology used to translate the CIU mandate, given the firm's existing positions in the CIU, into a maximum possible capital charge. In particular, please outline any assumptions made and comment on how the chosen approach would respond to an increase in complexity of a CIU's mandate;
  - d. evidence of the capital adequacy of the mandate-based approach;
  - e. how the mandate-based approach has been validated (please separately provide full details of the independent model validation).
  - f. quantification of the capital impact of the mandate-based approach (Article 325j(1)(b)(ii)) for a given COB date in comparison with the default



approach (Art. 325j(1)(b)(i)), and total capital and market risk capital held at the same date.

**Documentation request:**

- Methodology document(s) for the proposed approach;
- Validation document(s) for the proposed approach.

**Template requirement:**

- Please extend the template as appropriate and provide a list of all CIUs included in this application, along with the types of positions held and their materiality.

## **F Permission to divide FX Curvature component by 1.5**

1. Please provide the rationale for requesting this permission.
2. Please provide a summary of the governance, validation, and implementation of the additional set of curvature sensitivities as defined in Article 325q(6).
3. Please quantify the capital impact of changing the calculation methodology from the default approach for a given COB date, and total capital and market risk capital held at the same date.

**Documentation request:**

- Methodology document(s) for governance and/or validation of calculating the additional set of curvature sensitivities for all foreign exchange risk factors (per Article 325q(6)).

**Template requirement:**

- Please extend the template as appropriate and provide a list of all the foreign exchange risk factors for which the alternative approach is requested.

## **G Permission to replace reporting currency ('base currency') by another currency for FX risk calculations**

1. Please provide the rationale for applying to replace firm's reporting currency by another currency ('the base currency') in all spot exchange rates to express the delta and curvature foreign exchange risk factors.
2. Please provide relevant detailed information to demonstrate compliance against the conditions set out in Article 325q(7) of the PRA Rulebook.
3. Please quantify the capital impact of changing the calculation methodology from the default approach for a given COB date, and total capital and market risk capital held at the same date.

### **Template requirement:**

- Please extend the template as appropriate and state the current reporting currency and the base currency.

## **H Permission to use alternative delta risk sensitivity calculations**

1. Please provide the rationale for using alternative delta risk sensitivity methods for each impacted risk class, at the level of the calculation type (and risk class) and not by individual product.
2. Please provide supporting evidence that the alternative approach is a more accurate/appropriate measure of risk compared to the default approach. Please provide this evidence separately for each asset class (i.e. GIRR, CSR for non-securitisation, CSR for securitisation, CSR for securitisations included in ACTP, EQ, COM, FX).
3. Please clarify whether the proposed delta calculations assume constant volatility.
4. Please explain whether delta can be recalculated promptly following significant movements in the inputs used to calculate delta.

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5. Please provide relevant detailed information to demonstrate compliance against the conditions set out in Article 325t(5) of the PRA Rulebook.
6. Please quantify the impact of changing the calculation methodology from the default approach. Where it is not possible to directly compare to the regulatory methodology for the full portfolio, please use alternative methods to provide a clear indication of the magnitude of possible differences across different product types and different market scenarios.

## **Documentation request:**

- Methodology document(s) for each impacted asset class at the level of the calculation type and risk class (and not by individual product);
- Validation document(s) for each impacted asset class at the level of the calculation type and risk class (and not by individual product).

## **Template requirement:**

- Please complete the relevant sections of the ASA permission template for a given COB date for all legal entities in scope of the application.
- In particular, please categorise the proposed alternative delta risk sensitivity calculations by risk class, as outlined in the template.

## **I Permission to use alternative vega risk sensitivity calculations**

1. Please provide the rationale for using alternative vega risk sensitivity methods for each impacted risk class, at the level of the calculation type (and risk class) and not by individual product.
2. Please provide supporting evidence that the alternative approach is a more accurate/appropriate measure of risk compared to the default approach. Please provide this evidence separately for each asset class (i.e. GIRR, CSR for non-securitisation, CSR for securitisation, CSR for securitisations included in ACTP, EQ, COM, FX).

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3. Please explain whether vega can be recalculated promptly following significant movements in the inputs used to calculate vega.
4. Please provide relevant detailed information to demonstrate compliance against the conditions set out in Article 325t(6) of the PRA Rulebook.
5. Please quantify the impact of changing the calculation methodology from the default approach. Where it is not possible to directly compare to the regulatory methodology for the full portfolio, please use alternative methods to provide a clear indication of the magnitude of possible differences across different product types and different market scenarios.

## **Documentation request:**

- Methodology document(s) for each impacted asset class at the level of the calculation type and risk class (and not by individual product);
- Validation document(s) for each impacted asset class at the level of the calculation type and risk class (and not by individual product).

## **Template requirement:**

- Please complete the relevant sections of the ASA permission template for a given COB date for all legal entities in scope of the application.
- In particular, please categorise the proposed alternative vega risk sensitivity calculations by risk class, as outlined in the template.

## **J Appendices**

### **J1 Worksheet template for data collection for derogations in ASA**

Please provide the following information as it relates to the derogations in the ASA:

- general summary information (in the tab “General ASA template”);
- information on the product types in scope of the derogation to include all positions without optionality in vega and curvature risk measures (in the tab “Article 325e(3)”);

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- categorisation of the proposed alternative delta risk sensitivity calculations by risk class (in the tab “Article 325t(5)”);
- categorisation of the proposed alternative vega risk sensitivity calculations by risk class (in the tab “Article 325t(6)”).