



TOPICS:
MARKET RISK, FRTB, JTD, RRAO

SOURCE:
 European Banking Authority

EBA Publishes Final Draft Technical Standards on the Alternative Standardised Approach for Market Risk as Part of its FRTB Roadmap

RTS on Gross Jump-to-default (JTD) Amounts and on Residual Risk Add-on (RRAO)

- **These final draft RTS provide technical specifications for the implementation of these two elements of the alternative standardised approach for market risk.** The draft RTS are part of the phase 3 deliverables of the EBA roadmap for the new market and counterparty credit risk approaches.

RTS on gross JTD

- One component of own funds requirements is the **Default Risk Charge (DRC)**, which is a capital requirement intended to capitalise default risks in the trading book. **To determine the DRC the gross jump-to-default (JTD) amount of exposures are to be calculated.**
- The draft RTS are intended to address the three mandates respectively:
 - (a) How the components P&Llong , P&Lshort , Adjustmentlong and Adjustmentshort are to be determined;
 - (b) Which alternative methodologies institutions are to use for estimating gross JTD amounts;
 - (c) How to determine the notional amount of instruments.

RTS on RRAO

- **The RRAO is intended to provide simple and conservative capital treatment for any other risks** that are not covered by the SbM (sensitivities-based method) or the DRC. **These draft RTS specify what an exotic underlying is and which instruments are instruments bearing residual risks.**

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