

Basel Committee on Banking Supervision

MAR

Calculation of RWA for
market risk

MAR20

Standardised approach:
general provisions and
structure

**Version effective as of
01 Jan 2022**

Introduces a revised approach based on
expanded use of sensitivities as set out in the
January 2019 market risk publication.



BANK FOR INTERNATIONAL SETTLEMENTS

General provisions

- 20.1** The risk-weighted assets for market risk under the standardised approach are determined by multiplying the capital requirements calculated as set out in [MAR20](#) to [MAR23] by 12.5.
- 20.2** The standardised approach must be calculated and reported to the relevant supervisor on a monthly basis. Subject to supervisory approval, the standardised approach for market risks arising from non-banking subsidiaries of a bank may be calculated and reported to the relevant supervisor on a quarterly basis.
- 20.3** A bank must also determine its regulatory capital requirements for market risk according to the standardised approach for market risk at the demand of its supervisor.

Structure of the standardised approach

- 20.4** The standardised approach capital requirement is the simple sum of three components: the capital requirement under the sensitivities-based method, the default risk capital (DRC) requirement and the residual risk add-on (RRAO).

(1) The capital requirement under the sensitivities-based method must be calculated by aggregating three risk measures - delta, vega and curvature, as set out in [MAR21]:

- (a) *Delta*: a risk measure based on sensitivities of an instrument to regulatory delta risk factors.
- (b) *Vega*: a risk measure based on sensitivities to regulatory vega risk factors.
- (c) *Curvature*: a risk measure which captures the incremental risk not captured by the delta risk measure for price changes in an option. Curvature risk is based on two stress scenarios involving an upward shock and a downward shock to each regulatory risk factor.
- (d) The above three risk measures specify risk weights to be applied to the regulatory risk factor sensitivities. To calculate the overall capital requirement, the risk-weighted sensitivities are aggregated using specified correlation parameters to recognise diversification benefits between risk factors. In order to address the risk that correlations may increase or decrease in periods of financial stress, a bank must calculate three sensitivities-based method capital requirement values, based on three different scenarios on the specified values for the correlation parameters as set out in [MAR21.6] and [MAR21.7].

- (2) The DRC requirement captures the jump-to-default risk for instruments subject to credit risk as set out in [MAR22.2]. It is calibrated based on the credit risk treatment in the banking book in order to reduce the potential discrepancy in capital requirements for similar risk exposures across the bank. Some hedging recognition is allowed for similar types of exposures (corporates, sovereigns, and local governments/municipalities).
- (3) Additionally, the Committee acknowledges that not all market risks can be captured in the standardised approach, as this might necessitate an unduly complex regime. An RRAO is thus introduced to ensure sufficient coverage of market risks for instruments specified in [MAR23.2]. The calculation method for the RRAO is set out in [MAR23.8].

Definition of correlation trading portfolio

20.5 For the purpose of calculating the credit spread risk capital requirement under the sensitivities based method and the DRC requirement, the correlation trading portfolio is defined as the set of instruments that meet the requirements of (1) or (2) below.

- (1) The instrument is a securitisation position that meets the following requirements:
 - (a) The instrument is not a re-securitisation position, nor a derivative of securitisation exposures that does not provide a pro rata share in the proceeds of a securitisation tranche, where the definition of securitisation position is identical to that used in the credit risk framework.
 - (b) All reference entities are single-name products, including single-name credit derivatives, for which a liquid two-way market exists,¹ including traded indices on these reference entities.
 - (c) The instrument does not reference an underlying that is treated as a retail exposure, a residential mortgage exposure, or a commercial mortgage exposure under the standardised approach to credit risk.
 - (d) The instrument does not reference a claim on a special purpose entity.
- (2) The instrument is a non-securitisation hedge to a position described above.

Footnotes

1

A two-way market is deemed to exist where there are independent bona fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid-ask quotes can be determined within one day and the transaction settled at such price within a relatively short time frame in conformity with trade custom.