

Basel Committee on Banking Supervision

DIS

Disclosure requirements

DIS50

Market risk

This chapter describes disclosure requirements for market risk.

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Reflects change in underlying market risk capital requirements published in January 2019. Updated to take account of new implementation date as announced on 27 March 2020.



BANK FOR INTERNATIONAL SETTLEMENTS

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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 market risk capital requirements in [MAR10](#) to [MAR33](#). 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
2. Template MR1 - Market risk under the standardised approach
3. Table MRB - Qualitative disclosures for banks using the IMA
4. Table MRC - The structure of trading desks for banks using the IMA
5. Template MR2 - Market risk IMA per risk type
6. Template MR3 - Risk-weighted asset (RWA) flow statements of market risk exposures under the IMA

Market risk under the standardised approach:

Market risk under the internal models approach (IMA):

Table MRA: General qualitative disclosure requirements related to market risk

TABLE.1

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

TABLE.2

Purpose: Provide the components of the capital requirements 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.

Content: Capital requirements (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. In addition, banks must explain any changes in the scope of positions for which capital requirements are calculated using the standardised approach.

□

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

TABLE.3

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 covered by the ES models. Where applicable, banks must also describe the main activities and risks 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 and weighting methods of data for the calculation of the current period ES. |
| (d) | Data updating frequency. |
| (e) | A description of 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 used to identify the most stressful 12 months. |
-

(B) NMRFs

(a) Methodology used to achieve a capital assessment 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 . |
| (c) | 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. |
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Table MRC: The structure of trading desks for banks using the IMA

TABLE.4

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 are representative of their trading book under IMA and, at a minimum, the five trading desks with the highest aggregate standalone capital requirement under IMA. Banks must tick the cell for each category of risk to which a trading 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	b	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r
	Main risk types for each trading desk (category)						Main types of instruments traded by this 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 2																		
...																		
Trading desk x																		

Template MR2: Market risk IMA per risk type

TABLE.5

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

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		☐				
8	(Rho*Unconstrained ES+(1-Rho)*aggregated risk class ES)						
9	Capital requirement for non-modellable risk factors		☐				
10	Default risk capital requirement		☐				
11	Subtotal: a=8+9+10, b=multiplier*8+9+10		☐				
12	Total capital requirement						
13	Standardised approach capital requirement for the entire trading book (ie all trading desks, including those subject to IMA)						

Definitions and instructions

Row number	Explanation
1	<i>Unconstrained expected shortfall:</i> 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	<i>Constrained expected shortfall:</i> 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).
9	<i>Capital requirement for non-modellable risk factors:</i> aggregate regulatory capital measure calculated in accordance with MAR33.16 , for risk factors in model-eligible trading desks that are deemed non-modellable in accordance with MAR30.4 .

10	<i>Default risk capital (DRC) requirement:</i> 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	<i>Subtotal:</i> for column (a), the sub-total is the sum of rows 8 to 10. For column (b), the sum of the 12-week average value disclosed in rows 8-10 is multiplied by the applicable multiplication factor set in accordance with MAR33.15 .
12	<i>Total capital requirement:</i> the highest amount between columns (a) and (b) in rows 8 and 10.
12	<i>Total standardised approach capital requirement for the entire trading book (ie all trading desks, including those subject to IMA):</i> the most recent standardised approach requirement as calculated for the entire trading book (ie all trading desks subject to the standardised approach and no trading desks subject to IMA).

Linkages across templates

[MR2:12] is equal to [OV1 22/c]

Template MR3: RWA flow statements of market risk exposures under the IMA

TABLE.6

Purpose: Flow statement explaining variations in market RWA determined under the internal models approach (IMA).

Scope of application: The template is mandatory for banks using an IMA for their market risk exposures.

Content: Risk-weighted assets (RWA) for market risk. Changes in 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. Banks may add additional rows between rows 3 and 4 to disclose additional elements that contribute to 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 RWA 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
	ES	NMRF	DRC	Total RWA

1	RWA at previous quarter-end				
2	<i>Regulatory adjustment</i>				
3	RWA at end of day previous quarter				
4	RWA at end of day previous current quarter				
5	<i>Regulatory adjustment</i>				
6	RWA at end of reporting period				

Definitions and instructions

Optional rows

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.

Model changes: Significant updates to the model to reflect recent experience (eg recalibration), as well as significant changes in model scope, including when trading desks moved from the IMA to the standardized 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.

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.

Columns

ES / RWA at end of reporting period: Derived risk-weighted assets corresponding to the [capital requirement reflecting the Regulatory ES as well as any additional capital requirement on the supervisor's decision] x 12.5.

NMRF / RWA at end of reporting period: Derived risk-weighted assets corresponding to the [capital requirement for non-modellable risks as well as any additional capital requirement on the supervisor's decision] x 12.5.

DRC / RWA at end of reporting period: Derived risk-weighted assets corresponding to the [capital requirement as well as any additional capital requirement on the supervisor's decision] x 12.5.

Total RWA at end of reporting period: derived risk-weighted assets corresponding to the [total capital requirement 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).

Linkages across templates

[MR3:1/d] is equal to [OV1:22/b]

[MR3:6/d] is equal to [OV1:22/a]