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 and the changes announced on 11 November 2021.

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 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
2. Template MR1 - Market risk under the standardised approach
3. Table MRB - Qualitative disclosures for banks using the IMA
4. Template MR2 - Market risk for banks using the IMA
5. Template MR3 – Market risk under the simplified standardised approach

Market risk under the standardised approach:

Market risk under the internal models approach (IMA):

Market risk under the simplified standardised approach (SSA):

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.
	• 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.
	• Description of internal risk transfer activities, including the types of internal risk transfer desk (RBC25).
(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. For 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 of MAR30.4).

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 are expected to supplement the template with a narrative commentary to explain any significant change over the reporting period and the key drivers of such changes. In particular, the narrative should inform about changes in the scope of application, including changes due to trading desks 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) Banks must provide a general description of the trading desk structure (as defined in MAR12) and types of instruments included in the IMA trading desks.

(B) For ES models, banks must provide the following information:

(a)	A description of trading desks covered by the ES models. Where applicable, banks must also describe the main 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 ($ES_{R,S}$).
(d)	The frequency by which model data is updated.
(e)	A description of the ES calculation based on current and stressed observations. For example, banks should describe the reduced set of risk factors used to calibrate the period of stress, the share of the variations in the full ES that is explained by the reduced set of risk factors, and the observation period used to identify the most stressful 12 months.

(C) SES

(a)	A general description of each methodology used to achieve a capital assessment that for categories of NMRFs is consistent with the required soundness standard.

(D) 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.

(E) Validation of models and modelling processes:

(a)	The approaches used in the validation of the models and modelling processes, describing general approaches used and the types of assumptions and benchmarks on which they rely.

Template MR2: Market risk for banks using the IMA

TABLE.4

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: Quarterly.

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 for ES, IMCC and SES, and 12 weeks for DRC. 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. Banks are also expected to include the corresponding figures at the previous quarter in this template and explain any significant changes in the current figures in the narrative section.

			a	b	c	d	e	f	g
			At the current quarter					At the previous quarter	
			Risk measure: for previous 60 days / 12 weeks:				Number of backtesting exceptions	Risk measure: for previous 60 days / 12 weeks	
			Most recent	Average	High	Low	VaR measure 99.0%	Most recent	Average
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	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	SA capital requirement for all trading desks (including those subject to IMA)						
16	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.
7	*Constrained expected shortfall*: ES as defined in MAR33.1 to MAR33.12, calculated 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	*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	*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 with MAR33.45.
12	*Subtotal for green and amber trading desks*: (C_A+DRC) + Capital surcharge, in accordance with MAR33.41 to MAR33.43; MAR33.22; and MAR33.45. Row 12= max[8/a+9/a; multiplier*8/b+9/b]+max[10/a; 10/b]+11.
13	*Total SA capital requirements for trading desks ineligible to use the IMA (C_U)*: standardised approach (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 row 12 of Template MR1.
14	*Difference in capital requirements under the IMA and SA for green and amber trading desks*: capital requirements for green and amber trading desks under the IMA ($IMA_{G,A}$) – capital requirements for green and amber trading desks under SA ($SA_{G,A}$) in accordance with MAR33.45).
15	*SA capital requirement for all trading desks (including those subject to the IMA)*: the most recent standardised approach capital requirement for all instruments across all trading desks, regardless of whether those trading desks are eligible for the IMA, as set out in MAR33.43 and MAR11.8(1).
16	*Total market risk capital requirement*: the total capital requirement is calculated as set out in MAR33.43.

Linkages across templates
[MR2:16 minus MR2:13] is equal to [OV1 22/c]
[MR2:16 minus MR2:13] x 12.5 is equal to [CMS1 5/a] (The linkage to "Template CMS1: Comparison of modelled and standardised RWA at risk level" will not hold if a bank using the standardised approach for market risk also uses SEC-IRBA and/or SEC-IAA when determining the default risk charge component for securitisations held in the trading book.)
[MR2:13] x 12.5 is equal to [CMS1 5/b] (The linkage to "Template CMS1: Comparison of modelled and standardised RWA at risk level" will not hold if a bank using the standardised approach for market risk also uses SEC-IRBA and/or SEC-IAA when determining the default risk charge component for securitisations held in the trading book.)
[MR2:16] x 12.5 is equal to [CMS1 5/c]
[MR2:15] x 12.5 is equal to [CMS1 5/d] (The linkage to "Template CMS1: Comparison of modelled and standardised RWA at risk level" will not hold if an AI using the standardised approach for market risk also uses SEC-IRBA and/or SEC-IAA when determining the default risk charge component for securitisations held in the trading book.)

Template MR3: Market risk under the simplified standardised approach

TABLE.5

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 the 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
		Outright products	Options		
			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**				

Definitions and instructions

	Explanation
5	*Securitisation*: specific capital requirement under MAR40.14.
a	*Outright products*: positions in products that are not optional. This includes the capital requirement under MAR40.3 to MAR40.40 (interest rate risk); the capital requirement under MAR40.41 to MAR40.52 (equity risk); the capital requirement under MAR40.63 to MAR40.73 (commodities risk); and the capital requirement under MAR40.53 to MAR40.62 (FX risk).
b	*Options under the simplified approach*: capital requirements for option risks (non-delta risks) under MAR40.76 from debt instruments, equity instruments, commodities instruments and foreign exchange instruments.
c	*Options under the delta-plus method*: capital requirements for option risks (non-delta risks) under MAR40.77 to MAR40.80 from debt instruments, equity instruments, commodities instruments and foreign exchange instruments.
d	*Options under the scenario approach*: capital requirements for option risks (non-delta risks) under MAR40.81 to MAR40.86 from debt instruments, equity instruments, commodities instruments and foreign exchange instruments.