



Commission de Surveillance  
du Secteur Financier

## Circular CSSF 22/809

Adoption of the Guidelines of the European Banking Authority on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (Capital Requirements Regulation)

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**Re:** Adoption of the Guidelines of the European Banking Authority on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (Capital Requirements Regulation)

Luxembourg, 2 May 2022

**To all credit institutions designated as Less Significant Institutions under the Single Supervisory Mechanism, to all CRR investment firms, and to all Luxembourg branches of credit institutions and of CRR investment firms having their registered office in a third country**

Ladies and Gentlemen,

The purpose of this circular is to inform you that the CSSF, in its capacity as competent authority, applies the Guidelines EBA/GL/2021/07 of the European Banking Authority (the “**EBA**”) on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (Capital Requirements Regulation) (the “**Guidelines**”), published on 13 July 2021. Consequently, the CSSF has integrated the Guidelines into its administrative practice and regulatory approach with a view to promoting supervisory convergence in this field at the European level.

All In-Scope entities (as defined below) shall duly comply with the Guidelines.

### 1. The Guidelines

The Guidelines are issued by the EBA in accordance with the mandate given under Article 325bc, paragraph 3 of Regulation (EU) No 575/2013 as amended by Regulation (EU) No 2019/876 (the “**CRR**”) <sup>1</sup>, which introduces, inter alia, the revised framework for minimum capital requirements for market risk (i.e. Fundamental Review of the Trading Book – FRTB).

As part of the changes, the CRR introduces the alternative internal model approach, which aims at taking into consideration tail risks, risk of market illiquidity as well as default risk through the sum of three components:

- i. the expected shortfall risk measure, which determines capital requirements for those risk factors for which a sufficient amount of observable data is available (modellable risk factors);
- ii. the stress scenario risk measure for risk factors with limited observable data (non-modellable risk factors);
- iii. the own funds requirement for default risk associated with credit and equity positions.

The Guidelines specify the criteria for the use of data inputs to determine the scenarios of future shocks applied to the modellable risk factors. They clarify the requirements that these data inputs should meet to be used for determining the scenario of future shocks in the institutions’ expected shortfall risk measure. The Guidelines are available on the [EBA’s website](#).

<sup>1</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

## 2. Scope of application

The present circular shall apply to all Less Significant Institutions<sup>2</sup>, to all CRR investment firms incorporated under Luxembourg law and to all Luxembourg branches of credit institutions and of CRR investment firms having their registered office in a third country (the “**In-Scope entities**”).

## 3. Supervisory expectations

In-Scope entities are required to assess the modellability of the risk factors of positions assigned to the trading desks included in the scope of the alternative internal model approach. For a risk factor to be modellable, it should be verified by the In-Scope entity that it meets the criteria to be specified in the relevant regulatory technical standards on criteria for assessing the modellability of risk factors under the Internal Model Approach (IMA) pursuant to Article 325be(3) CRR<sup>3</sup>. Those criteria are intended to ensure that the risk factors, which In-Scope entities include in the calculation of their expected shortfall risk measure, are sufficiently liquid and observable as underlined by the Basel Committee in the “Minimum capital requirements for market risk”.<sup>4</sup>

In-Scope entities are required to verify that the data inputs for all risk factors are accurate, appropriate, frequently updated and complete.

## 4. Date of application

This circular shall apply with immediate effect.

**Claude WAMPACH**  
Director

**Marco ZWICK**  
Director

**Jean-Pierre FABER**  
Director

**Françoise KAUTHEN**  
Director

**Claude MARX**  
Director General

<sup>2</sup> “Significant supervised entities” as defined in Article 2, point 16 of Regulation (EU) No 468/2014 of the European Central Bank (ECB) of 16 April 2014 (SSM Framework Regulation) shall refer to the relevant ECB rules (if any).

<sup>3</sup> Please see: <https://www.eba.europa.eu/regulation-and-policy/market-risk/draft-technical-standards-on-the-ima-under-the-frtb>.

<sup>4</sup> Minimum capital requirements for market risk, January 2019 (rev. February 2019), paragraphs MAR31.25 and MAR31.26.



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