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 and amending Regulation (EU) No 648/2012 (Text with EEA relevance)

[X1PART THREE

CAPITAL REQUIREMENTS

TITLE IV

OWN FUNDS REQUIREMENTS FOR MARKET RISK

[X1CHAPTER 4

Own funds requirements for commodities risk

Article 355

Choice of method for commodities risk

Subject to Articles 356 to 358, institutions shall calculate the own funds requirement for commodities risk with one of the methods set out in Article 359, 360 or 361.

Article 356

Ancillary commodities business

1 Institutions with ancillary agricultural commodities business may determine the own funds requirements for their physical commodity stock at the end of each year for the following year where all of the following conditions are met:

- a at any time of the year it holds own funds for this risk which are not lower than the average own funds requirement for that risk estimated on a conservative basis for the coming year;
- b it estimates on a conservative basis the expected volatility for the figure calculated under point (a);
- c its average own funds requirement for this risk does not exceed 5 % of its own funds or EUR 1 million and, taking into account the volatility estimated in accordance with (b), the expected peak own funds requirements do not exceed 6,5 % of its own funds;
- d the institution monitors on an ongoing basis whether the estimates carried out under points (a) and (b) still reflect the reality.

2 Institutions shall notify to the competent authorities the use they make of the option provided in paragraph 1.

Article 357

Positions in commodities

1 Each position in commodities or commodity derivatives shall be expressed in terms of the standard unit of measurement. The spot price in each commodity shall be expressed in the reporting currency.

2 Positions in gold or gold derivatives shall be considered as being subject to foreign-exchange risk and treated in accordance with Chapter 3 or 5, as appropriate, for the purpose of calculating commodities risk.

3 For the purpose of Article 360(1), the excess of an institution's long positions over its short positions, or vice versa, in the same commodity and identical commodity futures, options and warrants shall be its net position in each commodity. Derivative instruments shall be treated, as laid down in Article 358, as positions in the underlying commodity.

4 For the purposes of calculating a position in a commodity, the following positions shall be treated as positions in the same commodity:

a positions in different sub-categories of commodities in cases where the sub-categories are deliverable against each other;

b positions in similar commodities if they are close substitutes and where a minimum correlation of 0,9 between price movements can be clearly established over a minimum period of one year.

Article 358

Particular instruments

1 Commodity futures and forward commitments to buy or sell individual commodities shall be incorporated in the measurement system as notional amounts in terms of the standard unit of measurement and assigned a maturity with reference to expiry date.

2 Commodity swaps where one side of the transaction is a fixed price and the other the current market price shall be treated, as a series of positions equal to the notional amount of the contract, with, where relevant, one position corresponding with each payment on the swap and slotted into the maturity bands in Article 359(1). The positions shall be long positions if the institution is paying a fixed price and receiving a floating price and short positions if the institution is receiving a fixed price and paying a floating price. Commodity swaps where the sides of the transaction are in different commodities are to be reported in the relevant reporting ladder for the maturity ladder approach.

3 Options and warrants on commodities or on commodity derivatives shall be treated as if they were positions equal in value to the amount of the underlying to which the option refers, multiplied by its delta for the purposes of this Chapter. The latter positions may be netted off against any offsetting positions in the identical underlying commodity or commodity derivative. The delta used shall be that of the exchange concerned. For OTC options, or where delta is not available from the exchange concerned the institution may calculate delta itself using an appropriate model, subject to permission by the competent authorities. Permission shall be granted if the model appropriately estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying.

Institutions shall adequately reflect other risks associated with options, apart from the delta risk, in the own funds requirements.

4 **[**[F1]The FCA and the PRA may each make technical standards**]** defining a range of methods to reflect in the own funds requirements other risks, apart from delta risk, in a manner proportionate to the scale and complexity of institutions' activities in options.

[F2]...

5 Where an institution is either of the following, it shall include the commodities concerned in the calculation of its own funds requirement for commodities risk:

- a the transferor of commodities or guaranteed rights relating to title to commodities in a repurchase agreement;
- b the lender of commodities in a commodities lending agreement.

Textual Amendments

F1 Words in Art. 358(4) substituted (31.12.2020) by The Capital Requirements (Amendment) (EU Exit) Regulations 2018 (S.I. 2018/1401), regs. 1(3), **222(1)(a)**(2) (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)

F2 Words in Art. 358(4) omitted (31.12.2020) by virtue of The Capital Requirements (Amendment) (EU Exit) Regulations 2018 (S.I. 2018/1401), regs. 1(3), **222(1)(b)** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)

Article 359

Maturity ladder approach

1 The institution shall use a separate maturity ladder in line with Table 1 for each commodity. All positions in that commodity shall be assigned to the appropriate maturity bands. Physical stocks shall be assigned to the first maturity band between 0 and up to and including 1 month.

TABLE 1

Maturity band(1)	**Spread rate (in %)(2)**
0 ≤ 1 month	1,50
> 1 ≤ 3 months	1,50
> 3 ≤ 6 months	1,50
> 6 ≤ 12 months	1,50
> 1 ≤ 2 years	1,50
> 2 ≤ 3 years	1,50
> 3 years	1,50

2 Positions in the same commodity may be offset and assigned to the appropriate maturity bands on a net basis for the following:

- a positions in contracts maturing on the same date;

b positions in contracts maturing within 10 days of each other if the contracts are traded on markets which have daily delivery dates.

3 The institution shall then calculate the sum of the long positions and the sum of the short positions in each maturity band. The amount of the former which are matched by the latter in a given maturity band shall be the matched positions in that band, while the residual long or short position shall be the unmatched position for the same band.

4 That part of the unmatched long position for a given maturity band that is matched by the unmatched short position, or vice versa, for a maturity band further out shall be the matched position between two maturity bands. That part of the unmatched long or unmatched short position that cannot be thus matched shall be the unmatched position.

5 The institution's own funds requirement for each commodity shall be calculated on the basis of the relevant maturity ladder as the sum of the following:

a the sum of the matched long and short positions, multiplied by the appropriate spread rate as indicated in the second column of Table 1 for each maturity band and by the spot price for the commodity;

b the matched position between two maturity bands for each maturity band into which an unmatched position is carried forward, multiplied by 0,6 %, which is the carry rate and by the spot price for the commodity;

c the residual unmatched positions, multiplied by 15 % which is the outright rate and by the spot price for the commodity.

6 The institution's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph 5.

Article 360

Simplified approach

1 The institution's own funds requirement for each commodity shall be calculated as the sum of the following:

a 15 % of the net position, long or short, multiplied by the spot price for the commodity;

b 3 % of the gross position, long plus short, multiplied by the spot price for the commodity.

2 The institution's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph 1.

Article 361

Extended maturity ladder approach

Institutions may use the minimum spread, carry and outright rates set out in the following Table 2 instead of those indicated in Article 359 provided that the institutions:

(a) undertake significant commodities business;

(b) have an appropriately diversified commodities portfolio;

(c) are not yet in a position to use internal models for the purpose of calculating the own funds requirement for commodities risk.

TABLE 2

	Precious metals (except gold)	**Base metals**	**Agricultural products (softs)**	**Other, including energy products**
Spread rate (%)	1,0	1,2	1,5	1,5
Carry rate (%)	0,3	0,5	0,6	0,6
Outright rate (%)	8	10	12	15

Institutions shall notify the use they make of this Article to their competent authorities together with evidence of their efforts to implement an internal model for the purpose of calculating the own funds requirement for commodities risk.**]**

Editorial Information

X1 Substituted by Corrigendum to 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 and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).