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The Impact of the FRTB on Correlation Trading

CONTENTS

EXECUTIVE SUMMARY

The capitalization of the correlation trading portfolio (CTP) under the Fundamental Review of the Trading Book (FRTB), the Basel III market risk capital framework, will have an adverse economic impact for users of these instruments. In particular, there is a lack of clarity and consistency in the application of the look-through approach (LTA) under the sensitivities-based method (SBM) and the default risk charge (DRC). In the EU and the UK, this is the case for the SBM, whereas the LTA is explicitly permitted in the US. There is also a lack of clarity on how the LTA should be applied under the DRC across all jurisdictions.

Current best practice within bank risk management functions is to apply the LTA for CTP baskets and indices, reflecting the underlying risks, and then net the resulting exposures on a single-name basis. Implementing a capital requirement that includes the LTA would be consistent with the economic risk. This would enable banks to manage both the economic risk and the capital requirements in consistent processes, creating appropriate incentives for risk management and market pricing. Without the LTA, banks face excessive capital requirements that do not reflect the underlying risk.

This paper sets out the industry position on best practice as it is applied to the current regulation, and makes recommendations for improvements that would help to clarify the regulatory requirements for the CTP to ensure alignment with how banks manage the risk of such products. Market participants support a globally consistent approach to the CTP to maintain liquidity in this important market.

Section 1 explains the importance of CTP tranched products in financial markets.

Section 2 summarizes the industry's CTP recommendations for the SBM, DRC and residual risk add-on (RRAO).

Section 3 provides context for the CTP recommendations for the SBM.

Section 4 provides context for the CTP recommendations for the DRC.

Section 5 provides context for the CTP recommendations for the RRAO.

The appendix specifies the regulatory texts for the CTP across major jurisdictions.

INTRODUCTION

Correlation trading is a credit business focused on the trading of synthetic securitizations of corporate credit exposures, with the aim of providing vanilla credit market returns to investors, tailored to the risk appetite. Correlation trades can either be leveraged for a higher risk/return profile, known as junior tranches, or deleveraged for lower risk/return, known as senior tranches.

Unlike traditional securitization markets, synthetic securitizations use market-traded credit default swaps (CDS) referencing underlying credit exposures, so they can be valued and risk managed based on the underlying risk drivers. The benefits of this market include greater liquidity for the CDS market, a wider range of investors for the corporate debt market and, ultimately, improved funding conditions for corporate issuers.

The current rules for the standardized approach under the FRTB (FRTB-SA) are unclear and inconsistent, particularly for the SBM, the DRC and the RRAO.

Best practice in current bank risk management methods is to apply an LTA for CTP baskets and indices, which aligns with the underlying risks and allows banks to net their exposures on a single-name basis. Implementing capital treatment that excludes an LTA would be inconsistent with the underlying risk, forcing banks to manage both the economic risk and the capital requirements in separate and inconsistent processes, which would lead to disproportionate capital requirements.

This paper provides the industry's views on the current regulations and recommends improvements to the FRTB that would provide more clarity for those institutions that provide CTP products to their clients, reducing the capital impact of the framework.

1. THE IMPORTANCE OF THE CTP MARKET

Correlation trading products enhance financial market efficiency, improve risk management capabilities and support broader economic growth by enabling enhanced credit risk transfer and price discovery.

1. Market Efficiency

- Improves corporate debt market liquidity: Enables continuous trading and price formation in credit markets, reducing execution costs and market impact.
- Reduces transaction and hedging costs: Allows portfolio-level trading instead of individual bonds, significantly lowering operational and execution expenses.
- Enables efficient large portfolio trading: Permits investors to take or hedge large credit positions without disrupting underlying bond markets.
- Supports better shock absorption during stress: More liquidity helps markets handle volatility without severe dislocations.
- Creates deeper, more resilient credit markets: Attracts diverse participants with different risk appetites and different views on the market.
- Increases market depth: Broadens investor base in credit markets by offering more tailored risk profiles.

2. Price Discovery and Risk Signals

- Reveals market views on systemic risks: Tranche pricing shows market assessment of broad economic risks and sector-specific concerns.
- Shows default probability expectations: Different tranche spreads indicate market expectations for default timing and severity.
- Creates benchmarks for credit risk pricing: Provides reference points for valuing similar credit instruments and structured products.
- Provides early warning indicators: Changes in tranche pricing can signal emerging market stress or credit concerns.

3. Risk Management

- Facilitates precise credit risk transfer: Allows institutions to transfer specific layers of credit risk to willing investors.
- Separates systematic from idiosyncratic risks: Enables investors to isolate and trade specific risk components.
- Enables cost-effective portfolio hedging: Improves risk management tools and reduces structural market risks by providing efficient tools for hedging large credit portfolios without trading individual names.
- Enhances tailored hedging.

- Reduces portfolio rebalancing costs: Allows portfolio adjustments through tranche trading rather than underlying bonds.

4. Macro-economic Support

- Reduces corporate borrowing costs: Better risk transfer and liquidity lead to lower funding costs for companies.
- Enhances capital allocation efficiency: Helps direct capital to its most productive uses.
- Increases bank lending capacity: Access to wider and better risk management tools allows banks to optimize capital usage and lending. For example, balance sheet reduction through CTP-based significant risk transfer transactions frees up capital for additional lending.
- Supports banks in raising funding: Credit-linked notes with CTP underlying instruments provide banks with an efficient option to raise long-term funding, which helps expand the investor base.
- Facilitates investment flows: Enables exposure to deleveraged and capital protected structures. This creates multiple access points to credit markets for different investor types and expands the investment universe for investors of varying risk appetites and time horizons.
- Macro-economic resilience: Greater distribution of risks across a greater investor base.

These benefits create a more efficient, resilient financial system that better serves the real economy, while providing regulators with important market signals for systemic risk monitoring. The interconnected nature of these benefits means improvements in one area often enhances others, creating positive feedback loops in market efficiency and economic growth. A reduction in access to effective hedging instruments, combined with higher hedging costs, could limit banks' ability to provide funding and risk management services to clients, which in turn slows investment and economic expansion.

2. MAIN FINDINGS AND RECOMMENDATIONS

The current market risk capital rules for the CTP are inconsistent with the official sector drive towards greater transparency and simplicity in financial regulation. For firms that provide liquidity in CTP instruments, the lack of risk sensitivity and misalignment with risk management practices, combined with differences in regional implementation, leaves significant interpretation uncertainty and regulatory risk.

It is crucial that targeted revisions are made to the SBM and the rules for the DRC are clarified to provide greater certainty and consistency for implementation. Those revisions should be made at both the Basel and jurisdictional levels.

Specifically, ISDA makes the following recommendations:

SBM

The rules should explicitly allow banks to look through CTP index and baskets to single-name constituents. This would ensure a capital outcome that is aligned with the underlying risk and allow recognition of hedging under the framework.

DRC

The DRC for all multi-underlying instruments should be calculated as follows:

- Decomposition into single-name jump to defaults (JTDs), calculated by a valuation model as a marginal default[1] without rescaling[2] the single-name JTDs.
- Calculation of single-name JTDs using the non-securitization supervisory loss given default (LGD).
- Netting against all other exposures in the same underlying name, including single-name CDSs and decomposed single-name exposure of untranched indices.
- Bucketing of single-name exposures should follow the non-securitization approach.
- Assigning non-securitization risk weights to the netted single-name JTDs.

RRAO

The industry proposes that where a collection of tranches covers the entire capital structure, ie, 0-100% on the same underlying index or basket as such is economically equivalent to the untranched index or basket, then such a combination of tranches should not be subject to the RRAO charge.

[1] Marginal default refers to the calculation as stipulated under MAR22.39(2) of the Basel III market risk capital framework that states: "the single name equivalent constituent of a securitization (eg, tranched position) is the difference between the unconditional value of the securitization and the conditional value of the securitization assuming that the single name defaults"

[2] Rescaling refers to the stipulation under MAR22.39(2) that states: "where in particular the sum of the decomposed single name amounts must be consistent with the undecomposed value of the securitization", given that the sum of model-based marginal defaults would not be the same as the undecomposed jump to default of the securitization without any rescaling

3. SENSITIVITIES-BASED METHOD

The standard practice within current bank risk management methods for CTP baskets and indices is to apply an LTA to decompose them into individual names and reflect the underlying risks. However, paragraph [MAR21.34(2)] of the FRTB framework seems to imply that for the purposes of credit spread risk (CSR), indices and index tranches might not be decomposed in single-name exposures, while bespoke tranches may.

"Index CTP instruments cannot be broken down into its constituents (ie, the index CTP should be considered a risk factor as a whole) and the above-mentioned netting at the issuer level does not apply either."

MAR 21.34(2)[3]

This would imply that netting of sensitivities from almost identical index positions is not permitted. For example, in CDX NA IG, apart from maturity, the only difference between IG43 and IG44 is one issuer among the underlying reference names[4]. If look-through or decomposition is not applied, the almost full overlap of names between IG43 and IG44 is not recognized, and capital will effectively be based on the full spread position. It is worth noting that the IG43-IG44 roll has traded in a tight range, even during the market volatility following the US imposition of higher tariffs in April 2025. During other stressed periods such as the COVID-19 pandemic or Russia's invasion of Ukraine, index rolls have also shown fairly low volatility[5]. The capital charge if the LTA is not applied would be a very large order of magnitude higher than the potential spread losses on the IG43 vs IG44.

When the LTA is applied, the capitalization would align more with risk management best practices and recognize the similarities of reference names between IG43 and IG44. As such, the name-by-name maturity mismatch and the net open positions in differing underlying issuers will still be appropriately captured and capitalized.

Not recognizing any netting benefits is clearly too conservative. Similarly, netting of sensitivities stemming from non-index products with sensitivities of index products could be interpreted as not permitted, despite there generally being a high degree of overlap in the underlying single names of the bespoke tranches and the corresponding index.

This fundamentally breaks the hedge relationship between index and non-index products, and across different series of the same index, with only minor differences in composition, and will result in risk-reducing hedging activities that will materially increase capital charges if implemented.

Besides this misalignment with the actual risk, this provision to disallow a look through to the single-name exposures seems to contradict the risk factor definition. In particular, [MAR21.11(2)(a)] states that the risk factor is defined along two dimensions – the "relevant underlying credit spread curves" and vertices. This language is consistent with [MAR21.9(1)(a)] for non-securitization risk factors, indicating the relevant risk factors should be those of the underlying single-name exposures; hence contradicting [MAR21.34(2)].

[3] MAR21.34, Calculation of RWA for Market Risk, Bank for International Settlements, www.bis.org/basel_framework/chapter/MAR/21.htm?inforce=20230101&published=20240705#paragraph_MAR_21_20230101_21_34

[4] Difference of constituents is only due to corporate action related to an entity

[5] Rolls in IG32/33 and IG34/35 also traded in a relatively stable range in extreme market stress periods during the COVID-19 pandemic and following Russia's invasion of Ukraine

There is concern within industry that [MAR21.34(2)] could overwrite [MAR21.11(2)(a)], which could mean that an LTA for CTP products is not acceptable, forcing banks to manage the economic risk and the capital requirements in separate and inconsistent processes. This would lead to capital requirements that are not aligned with the economic risk, acting as a disincentive for risk-reducing hedging activities.

Additionally, in the absence of decomposition, it is unclear where to map the undecomposed CSR sensitivity, as no index buckets exist in CTP.

Regional variations have been identified within the rules. In the US, the draft Basel III endgame rules[6] explicitly permit the decomposition of multi-underlying instruments for CTP CSR. This could be achieved for the EU and UK by removing the following language from Article 325i(1)(a) and (1)(b): "*except for a position in an index included in the ACTP [for which they shall calculate a single sensitivity to the index.]*"[7,8,9] This would ensure a level playing field before a more comprehensive revision of the CTP capitalization rules can be implemented in the EU and the UK. Over the longer term, the global Basel FRTB standards should clarify that an LTA is permitted and jurisdictional implementations should be aligned.

Industry Recommendation

The industry recommends that the rules should explicitly allow decomposition of CTP index and baskets to single-name constituents. This is to ensure a capital outcome that is aligned with the underlying economic risk and that hedging is recognized under the framework.

[6] Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, Federal Register, September 18, 2023, www.federalregister.gov/documents/2023/09/18/2023-19200/regulatory-capital-rule-large-banking-organizations-and-banking-organizations-with-significant

[7] Regulation (EU) No 575/2013 of the European Parliament and of the Council, Article 325i(1) – "Treatment of index instruments and other multi-underlying instruments", European Commission, eur-lex.europa.eu/legal-content/EN/

[8] Policy Statement PS9/24: Near-Final Market Risk Rules, Prudential Regulation Authority, September 2024. Article 325i(1): Treatment of index instruments and other multi-underlying instruments, www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2024/september/ps924app2.pdf

[9] The European Commission could achieve this by using a delegated act or by instructing the European Banking Authority

4. DEFAULT RISK CHARGE

As explained above, standard practice within current bank risk management for CTP baskets and indices is to apply an LTA and decompose them into individual names to reflect the underlying risks. It is critical that decomposition into single names is also allowed in CTP DRC for the purposes of hedge recognition, as it aligns capital requirements with economic risks and the day-to-day risk management of these positions. It is therefore important to clarify in regulation how the LTA can be applied, as it is the only way to net across tranches, single names and untranched indices of different series and ensure capital requirements reflect the actual net default risk of the underlying baskets.

However, the rules for CTP DRC remain unclear. The Basel III FRTB framework[10] allows, in principle, for banks to decompose tranched exposures into single names for the purposes of calculating the DRC of the CTP.

At the same time, it is unclear how decomposition, including subsequent netting at the single-name level, should be applied. To ensure appropriate risk sensitivity, the decomposition into, and subsequent netting of, single-name exposures of all multi-underlying instruments should follow this logic:

- Decomposition into single name JTDs, calculated by a valuation model as a marginal default[11] without rescaling[12] the single-name JTDs;
- Calculation of single-name JTD using the non-securitization supervisory LGD;
- Netting against all other exposures in the same underlying name, including single-name CDSs and decomposed single-name exposure of untranched indices;
- Bucketing of single-name exposures should follow the non-securitization approach;
- Assigning non-securitization risk weights to the netted single-name JTDs.

The following example uses a first-to-default basket with notional €10 million hedged with a CDS on Name 1 with notional €5 million (assuming senior unsecured, ie, applying the 75% LGD, this corresponds to €3.75 million in JTD terms) and illustrates why recommendations (a) and (b) are crucial to ensure a risk-sensitive capitalization of the CTP when netted according to recommendation (c).

[10] Calculation of RWA for market risk, Bank for International Settlements, www.bis.org/basel_framework/standard/MAR.htm?tldate=20250930

[11] 'Marginal default' refers to the calculation as stipulated under MAR22.39(2) that states: "the single name equivalent constituent of a securitization (eg, tranched position) is the difference between the unconditional value of the securitization and the conditional value of the securitization assuming that the single name defaults"

[12] 'Rescaling' refers to the stipulation under MAR22.39(2) that states: "where in particular the sum of the decomposed single name amounts must be consistent with the undecomposed value of the securitization" given that the sum of model-based marginal defaults would not be the same as the undecomposed jump to default (JTD) of the securitization without any rescaling

	1st to default basket				CDS Hedge	1st to default basket partially hedged		
Names	Undecomposed JTD	Scaled Marginal JTD	Marginal JTD (100% LGD)	Marginal JTD (75% LGD)	JTD (75% LGD)	Net JTD Scaled	Net JTD (100% LGD)	Net JTD (75% LGD)
Name 1	€10MM	€3.33MM	€10MM	€7.5MM	-€3.75MM	-€0.42MM	€6.25MM	€3.75MM
Name 2		€3.33MM	€10MM	€7.5MM		€3.33MM	€10MM	€7.5MM
Name 3		€3.33MM	€10MM	€7.5MM		€3.33MM	€10MM	€7.5MM
Sum	€10MM	€10MM	€30MM	€22.5MM	-€3.75MM	€6.24MM	€26.25MM	€18.75MM

In the table above, the first red column represents a scenario in which each of the marginal single-name JTDs would be scaled proportionally so that the total sum of the decomposed JTD is equal to the undecomposed JTD of €10 million. The second red column reflects the netting with the single-name CDS in relation to the first name.

The first amber column relates to the scenario in which the unscaled marginal JTDs are calculated with a 100% LGD. The second amber column reflects the netted JTD with the single-name CDS, where the latter is based on an LGD of 75% for senior unsecured, whereas the decomposed marginal single-name JTDs would be based on a 100% LGD.

The green columns are consistent with the amber columns, with the exception that both the decomposed JTDs as well as the JTD of the single-name CDS are consistently based on an LGD of 75%.

Regarding point (a), scaling the JTDs would result in a significantly lower exposure (€3.33 million each in the Scaled Marginal JTD column), compared to the actual exposure when each name defaults separately, which, without considering any recovery rate, is €10 million per name. The scaling method is arbitrary and inconsistent with the way single-name risk is managed, underestimating the risk of equity tranches and overestimating the risk of senior tranches.

Regarding point (b), applying a consistent recovery assumption across both single-name and decomposed single-name exposures from multi-underlying instruments ensures an accurate net JTD representation. As per the example above, Name 1's JTD should be €3.75 million (as shown in the last green column), rather than €6.25 million as in the second amber column, which exceeds the total remaining exposure of €5 million after applying the single-name hedge. The green column reflects the industry recommendations set out under (a) and (b) as it ensures accurate and consistent single-name gross and net JTD exposures.

Recommendation (d) is necessary as netting per (c) would remove any association with a particular index family. Any decomposed single-name exposure for a given name would be indistinguishable from other single-name exposures and therefore the bucketing applicable to non-securitization exposures needs to be applied, which is based on the three buckets as per MAR22.22, instead of index families as per MAR22.40.

Similarly, recommendation (e) is crucial because, after netting on a single-name basis, it becomes impossible to assign securitization risk weights as no net single-name exposure can be traced to a specific instrument.

Industry Recommendation

To ensure transparency and consistency, the industry recommends that the DRC for all multi-underlying instruments should be calculated as follows:

- Decomposition into single-name JTDs, calculated by a valuation model as a marginal default[13] without rescaling[14] the single-name JTDs;
- Calculation of single-name JTD using the non-securitization supervisory LGD;
- Netting against all other exposures in the same underlying name, including single-name CDSs and decomposed single-name exposure of untranched indices;
- Bucketing of single-name exposures should follow the non-securitization approach;
- Assigning non-securitization risk weights to the netted single name JTDs.

[13] 'Marginal default' refers to the calculation as stipulated under MAR22.39(2) that states: "the single name equivalent constituent of a securitization (eg tranched position) is the difference between the unconditional value of the securitization and the conditional value of the securitization assuming that the single name defaults"

[14] 'Rescaling' refers to the stipulation under MAR22.39(2) that states: "where in particular the sum of the decomposed single name amounts must be consistent with the undecomposed value of the securitization", given that the sum of model-based marginal defaults would not be the same as the undecomposed JTD of the securitization without any rescaling

5. RESIDUAL RISK ADD-ON

There are general concerns over the RRAO relating to the lack of a risk-based offset / netting. Additionally, the CTP suffers adversely on 'full capital structure' trades where a collection of tranches receives an RRAO charge, despite being a replication of an untranched index or basket. Where the full capital structure of tranches is fully hedged with the replicating untranched index / basket, this creates a zero-risk position, but one that still produces a significant RRAO charge.

Industry Recommendation

The industry proposes that where a collection of tranches is economically equivalent to index or single-name CDS position(s) on an untranched pool, those tranches should not be subject to the RRAO charge.

APPENDIX: JURISDICTIONAL REGULATIONS

The following table sets out the CTP regulatory text in the Basel III framework, and how this has been transposed in the US, the EU and the UK. Japan's FRTB requirements are not set out here, but are aligned with the Basel III framework.

Risk component	BCBS	US	EU	UK
CTP eligibility	**MAR20.5:** 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.	**§ __.202 (Definitions):** Correlation trading position. Except as provided in paragraph (2) of this definition, correlation trading position means: (i) A securitization position for which all or substantially all of the value of the underlying exposures reference the credit exposures to single name companies for which a two way market exists, or on commonly traded indices based on such exposures, for which a two way market exists; or (ii) A position that is not a securitization position and that hedges a position described in paragraph (1)(i) of this definition. (2) Notwithstanding paragraph (1) of this definition, a correlation trading position does not include: (i) A resecuritization position; (ii) A derivative of a securitization position that does not provide a pro rata share in the proceeds of a securitization tranche; or (iii) A securitization position for which the underlying assets or reference exposures are retail exposures, residential mortgage exposures, or commercial mortgage exposures	**Article 325:** 6. Securitisation positions and nth-to-default credit derivatives that meet all the following criteria shall be included in the ACTP: (a) the positions are neither re-securitisation positions, nor options on a securitisation tranche, nor any other derivatives of securitisation exposures that do not provide a pro-rata share in the proceeds of a securitisation tranche; (b) all their underlying instruments are: (i) single-name instruments, including single-name credit derivatives, for which a liquid two-way market exists; (ii) commonly-traded indices based on the instruments referred to in point (i). A two-way market is considered to exist where there are independent bona fide offers to buy and sell, so that a price that is reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one day and settled at that price within a relatively short time conforming to trade custom. 7. Positions with any of the following underlying instruments shall not be included in the ACTP: (a) underlying instruments that are assigned to the exposure classes referred to in point (h) or (i) of Article 112; (b) a claim on a special purpose entity, collateralised, directly or indirectly, by a position that, in accordance with paragraph 6, would itself not be eligible for inclusion in the ACTP. 8. Institutions may include in the ACTP positions that are neither securitisation positions nor nth-to-default credit derivatives but that hedge other positions in that portfolio, provided that a liquid two-way market as described in the second subparagraph of paragraph 6 exists for the instrument or its underlying instruments	**Article 325:** 6. An institution shall include securitisation positions and nth-to-default credit derivatives that meet all the following criteria in the ACTP: (a) the positions are neither re-securitisation positions, nor options on a securitisation tranche, nor any other derivatives of securitisation exposures that do not provide a prorata share in the proceeds of a securitisation tranche; and (b) all their underlying instruments are: (i) single-name instruments, including single-name credit derivatives, for which a liquid two-way market exists; and (ii) commonly-traded indices based on the instruments referred to in point (i). A two-way market is considered to exist where there are independent bona fide offers to buy and sell, so that a price that is reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one day and settled at that price within a relatively short time conforming to trade custom. 7. An institution shall not include positions with any of the following underlying instruments in the ACTP: (a) underlying instruments that are assigned to the exposure classes referred to in point (h) or (i) of Credit Risk: Standardised Approach (CRR) Part Article 112(1); and/or (b) a claim on a special purpose entity, collateralised, directly or indirectly, by a position that, in accordance with paragraph 6, would itself not be eligible for inclusion in the ACTP. 8. An institution may include in the ACTP positions that are neither securitisation positions nor nth-to-default credit

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Risk component	BCBS	US	EU	UK
CTP eligibility				derivatives but that hedge other positions in that portfolio, provided that a liquid two-way market as described in paragraph 6 exists for the instrument or its underlying instruments.
CSR bucketing and RWs	**MAR21.58:** Sensitivities to CSR arising from the CTP and its hedges are treated as a separate risk class as set out in MAR21.1. The buckets, risk weights and correlations for the CSR securitisations (CTP) apply as follows: (1) The same bucket structure and correlation structure apply to the CSR securitisations (CTP) as those for the CSR non-securitisation framework as set out in [MAR21.51] to [MAR21.57] with an exception of index buckets (ie buckets 17 and 18). (2) The risk weights and correlation parameters of the delta CSR non-securitisations are modified to reflect longer liquidity horizons and larger basis risk as specified in [MAR21.59] to [MAR21.61]. **MAR21.59:** For calculating weighted sensitivities, the risk weights for buckets 1 to 16 are set out in Table 6. Risk weights are the same for all tenors (i.e. 0.5 years, 1 year, 3 years, 5 years, 10 years) within each bucket: TABLE 6 **MAR21.60:** For aggregating delta CSR securitisations (CTP) risk positions within a bucket, the delta risk correlation eqn is derived the same way as in MAR21.54 and MAR21.55, except that the correlation parameter applying when the sensitivities are not related to same curves, eqn , is modified. (1) eqn is now equal to 1 if the two sensitivities are related to same curves, and 99.00% otherwise. (2) The identical correlation parameters for eqn and eqn to CSR non-securitisation as set out in MAR21.54 and MAR21.55 apply.	**§ _.209: (3)** (i) For credit spread risk for correlation trading positions, a [BANKING ORGANIZATION] must establish buckets along two dimensions, credit quality and sector as set out in Table 5 of this section. In assigning a delta sensitivity to a sector, a [BANKING ORGANIZATION] must follow market convention. A [BANKING ORGANIZATION] must assign each delta sensitivity to one and only one of the sector buckets in Table 5 of this section. Delta sensitivities that a [BANKING ORGANIZATION] cannot assign to a sector must be assigned to the other sector, bucket 17 in Table 6 of this section. TABLE 5 (ii) For calculating risk weighted delta sensitivities for credit spread risk for correlation trading positions, a [BANKING ORGANIZATION] must use the risk weights in Table 5 of this section. The risk weights are the same for all tenors within a bucket. (iii) For purposes of aggregating risk weighted delta sensitivities of credit spread risk for correlation trading positions within a bucket as specified in § __.206(b)(2), a [BANKING ORGANIZATION] must use the following correlation parameters: (A) For buckets 1 to 16, the correlation parameter ρkl between risk weighted delta sensitivities WSk and WSl equals: [Formula 29] ρkl = ρkl(name) * ρkl(tenor) * ρkl(basis), where, (1) ρkl(name) equals 100 percent if the two names of the delta sensitivities to risk factors k and l are identical, and 35 percent otherwise;	**Article 325ak:** Risk weights for the sensitivities to credit spread risk factors for securitisations included in the ACTP risk factors shall be the same for all maturities (0,5 years, 1 year, 3 years, 5 years, 10 years) within each bucket and shall be specified for each bucket in Table 6 pursuant to the delegated act referred to in Article 461a: TABLE 6 For the purposes of this Article, an exposure shall be assigned the credit quality category corresponding to the credit quality category that it would be assigned under the Standardised Approach for credit risk set out in Title II, Chapter 2. By way of derogation from the second paragraph, institutions may assign a risk exposure of an unrated covered bond to bucket 4 where the institution that issues the covered bond has a credit quality step 1 to 3. Article 325al: 1. The delta risk correlation ρk l shall be derived in accordance with Article 325ai, except that, for the purposes of this paragraph, ρk l (basis) shall be equal to 1 where the two sensitivities are related to the same curves, otherwise it shall be equal to 99,00 %. 2. The correlation γb c shall be derived in accordance with Article 325aj.	**Article 325ak:** 1. Risk weights for the sensitivities to CSR factors for securitisations included in the ACTP risk factors shall be the same for all maturities (0.5 years, one year, three years, five years, ten years) within each bucket and shall be specified for each bucket in Table 6: TABLE 6 2. The assignment of a risk exposure to investment grade or non-investment grade and unrated shall be on the basis of an external credit assessment by a nominated ECAI of the corresponding issuer. For an individual issuer for which a credit assessment by a nominated ECAI is not available, an institution using the approach referred to in the Credit Risk: Internal Ratings Based Approach (CRR) Part shall map the internal rating of the issuer to one of the external credit assessments. Article 325al: 1. An institution shall derive the delta risk correlation *ρkl* in accordance with Article 325ai, except that, for the purposes of this paragraph, *ρkl* (*basis*) shall be equal to 1 where the two sensitivities are related to the same curves, otherwise it shall be equal to 99.00%. 2. An institution shall derive *γbc* in accordance with Article 325aj.

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Risk component	BCBS	US	EU	UK
CSR bucketing and RWs	**MAR 21.61** For aggregating delta CSR securitisations (CTP) risk positions across buckets, the correlation parameters for eqn are identical to CSR non-securitisation as set out in MAR21.57.	(2) ρkl(tenor) equals 100 percent if the two tenors of the delta sensitivities to risk factors k and l are identical, and 65 percent otherwise; and (3) ρkl(basis) equals 100 percent if the two delta sensitivities are related to the same curve, and 99.9 percent otherwise. (B) For bucket 17, the delta bucket-level risk position equals the sum of the absolute values of the risk weighted delta sensitivities allocated to this bucket [Formula 34] (C) For purposes of aggregating delta bucket-level risk positions across buckets within the credit spread risk for correlation trading positions risk class as specified in § __.206(b)(3), a [BANKING ORGANIZATION] must calculate the cross-bucket correlation parameter Ybc as follows: [Formula 32] Ybc = Ybc(credit quality) * Ybc(sector), where, (1) Ybc(credit quality) equals 50 percent where the two buckets b and c are both in the set of buckets 1 to 16 and have a different credit quality category, where speculative and sub-speculative grade is treated as one credit quality category; Ybc(credit quality) equals 100 percent otherwise; and (2) Ybc(sector) equals 100 percent if the two buckets belong to the same sector, and the specified values set out in Table 6 of this section otherwise. TABLE 6 (ii) For calculating risk weighted delta sensitivities for credit spread risk for securitization positions non-CTP, a [BANKING ORGANIZATION] must use the risk weights in Table 7 of this section. TABLE 7		

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Risk component	BCBS	US	EU	UK
Look through of index CTP	**MAR21.34:** A look-through approach must always be used for indices that do not meet the criteria set out in MAR21.31(2) to MAR21.31(5), and for any multi-underlying instruments that reference a bespoke set of equities or credit positions. (1) Where a look-through approach is adopted, for index instruments and multi-underlying options other than the CTP, the sensitivities to constituent risk factors from those instruments or options are allowed to net with sensitivities to single-name instruments without restriction. (2) Index CTP instruments cannot be broken down into its constituents (ie the index CTP should be considered a risk factor as a whole) and the above-mentioned netting at the issuer level does not apply either. (3) Where a look-through approach is adopted, it shall be applied consistently through time10, and shall be used for all identical instruments that reference the same index.	**§ _.205(d)(1)** For purposes of calculating the delta capital requirement under § __.206(b) and the curvature capital requirement under § __.206(d): (i) A [BANKING ORGANIZATION] must apply the look-through approach for any market risk covered position that is an index instrument or a multi-underlying option. Where the look-through approach is adopted: (A) The curvature scenarios and delta sensitivities to constituent risk factors from those index instruments and multi-underlying options are allowed to net with the curvature scenarios and delta sensitivities of single-name positions without restriction; and (B) A [BANKING ORGANIZATION] must apply the look-through approach consistently through time and must use the approach consistently for all market risk covered positions that reference the same index.	**Article 325i:** 1. Institutions shall use a look-through approach for index and other multi-underlying instruments in accordance with the following: (a) for the purposes of calculating the own funds requirements for delta and curvature risk, institutions shall consider that they hold individual positions directly in the underlying constituents of the index or other multi-underlying instruments, except for a position in an index included in the ACTP for which they shall calculate a single sensitivity to the index; (b) institutions are allowed to net the sensitivities to a risk factor of a given constituent of an index instrument or other multi-underlying instrument with the sensitivities to the same risk factor of the same constituent of single name instruments, except for positions included in the ACTP; (c) for the purposes of calculating the own funds requirements for vega risk, institutions may either consider that they directly hold individual positions in the underlying constituents of the index or other multi-underlying instrument, or calculate a single sensitivity to the underlying of that instrument. In the latter case, institutions shall assign the single sensitivity to the relevant bucket as set out in Subsection 1 of Section 6 as follows: (i) where, taking into account the weightings of that index, more than 75 % of constituents in that index would be mapped to the same bucket, institutions shall assign the sensitivity to that bucket and treat it as a single-name sensitivity in that bucket; (ii) in all other cases, institutions shall assign the sensitivity to the relevant index bucket.	**Article 325i:** 1. An institution shall use a look-through approach for index and other multi-underlying instruments in accordance with the following: (a) for the purposes of calculating the own funds requirements for delta and curvature risk, an institution shall consider that they hold individual positions directly in the underlying constituents of the index or other multi-underlying instruments, except for a position in an index included in the ACTP for which they shall calculate a single sensitivity to the index; (b) an institution may net the sensitivities to a risk factor of a given constituent of an index instrument or other multi-underlying instrument with the sensitivities to the same risk factor of the same constituent of single name instruments, except for positions included in the ACTP; and (c) for the purposes of calculating the own funds requirements for vega risk, an institution may either consider that they directly hold individual positions in the underlying constituents of the index or other multi-underlying instrument, or calculate a single sensitivity to the underlying of that instrument. In the latter case, an institution shall assign the single sensitivity to the relevant bucket as set out in Subsection 1 of Section 6 as follows: (i) where, taking into account the weightings of that index, more than 75% of constituents in that index would be mapped to the same bucket, an institution shall assign the sensitivity to that bucket and treat it as a single-name sensitivity in that bucket; (ii) in all other cases, an institution shall assign the sensitivity to the relevant index bucket

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Risk component	BCBS	US	EU	UK
DRC treatment	**MAR22.36:** For the computation of gross JTD on securitisations (CTP), the same approach must be followed as for default risk-securitisations (non-CTP) as described in MAR22.27. **MAR22.37:** The gross JTD for non-securitisations (CTP) (ie single-name and index hedges) positions is defined as their market value. **MAR22.38** Nth-to-default products should be treated as tranched products with attachment and detachment points defined below, where "Total names" is the total number of names in the underlying basket or pool: (1) Attachment point = (N – 1) / Total names (2) Detachment point = N / Total names Net jump-to-default risk positions (net JTD) **MAR22.39** Exposures that are otherwise identical except for maturity may be offset. The same concept of long and short positions from a perspective of loss or gain in the event of a default as set out in MAR22.10 and offsetting rules for non-securitisations including scaling down positions of less than one year as set out in MAR22.15 to MAR22.18 apply to JTD risk positions for securitisations (non-CTP). (1) For index products, for the exact same index family (eg CDX. NA.IG), series (eg series 18) and tranche (eg 0–3%), securitisation exposures should be offset (netted) across maturities (subject to the offsetting allowance as described above). (2) Long and short exposures that are perfect replications through decomposition may be offset as follows. When the offsetting involves decomposing single name equivalent exposures, decomposition using a valuation model would be allowed in certain cases as follows. Such decomposition is the sensitivity of the security's value to the default of (2) Long and short exposures	**§ __.210:** (1) Gross default exposure. (i) A [BANKING ORGANIZATION] must determine the gross default exposure for each correlation trading position using the approach for non-securitization debt or equity positions in paragraphs (b)(1)(i), (ii), and (vi) of this section, including the determination of the direction (long or short) of the correlation trading position, provided that the gross default exposure for a correlation trading position is its market value. (ii) A [BANKING ORGANIZATION] must treat a Nth-to-default position as a tranched position with attachment and detachment points calculated as: *Attachment point* = $(N-1)$ *Total names* , *Detachment point* = *N Total names* . where "total names" is the total number of single names in the underlying basket or pool. (2) Net default exposure. (i) A [BANKING ORGANIZATION] may recognize offsetting for correlation trading positions that are otherwise identical, except for maturity, including index tranches of the same series. (ii) A [BANKING ORGANIZATION] may offset combinations of long gross default exposures and combinations of short gross default exposures of tranches that are perfect replications of non-tranched correlation trading positions. (iii) A [BANKING ORGANIZATION] may offset long and short gross default exposures of the types of exposures listed in paragraphs (d)(2)(i) and (ii) through decomposition, provided that the long and short gross default exposures are otherwise equivalent except for a residual component and that a [BANKING ORGANIZATION] must account for the residual exposure in the calculation of the net default exposure.	**Article 325ab:** 1. For the ACTP, the own funds requirements shall include the default risk for securitisation exposures and for non-securitisation hedges. Those hedges shall be removed from the default risk calculations for non-securitisation. There shall be no diversification benefit between the own funds requirements for the default risk for non-securitisations, the own funds requirements for the default risk for securitisations not included in the ACTP and own funds requirements for the default risk for securitisations included in the ACTP. **Article 325ac:** 1. For the purposes of this Article, the following definitions apply: (a) 'decomposition with a valuation model' means that a single name constituent of a securitisation is valued as the difference between the unconditional value of the securitisation and the conditional value of the securitisation assuming that single name defaults with an LGD of 100 %; (b) 'replication' means that the combination of individual securitisation index tranches are combined to replicate another tranche of the same index series, or to replicate an untranched position in the index series; (c) 'decomposition' means replicating an index by a securitisation of which the underlying exposures in the pool are identical to the single name exposures that compose the index. 2. The gross JTD amounts for securitisation exposures and non-securitisation exposures in the ACTP shall be their market value or, if their market value is not available, their fair value determined in accordance with the applicable accounting framework. 3. Nth-to-default products shall be treated as tranched products with the following attachment and detachment points:	**Article 325ab:** 1. For the ACTP, an institution shall ensure that the own funds requirements includes the default risk for securitisation exposures and for non-securitisation hedges. Those hedges shall be removed from the default risk calculations for non-securitisation. There shall be no diversification benefit between the own funds requirements for the default risk for nonsecuritisations, the own funds requirements for the default risk for securitisations not included in the ACTP and own funds requirements for the default risk for securitisations included in the ACTP. 2. For traded non-securitisation credit and equity derivatives, an institution shall determine JTD amounts by individual constituents applying a look-through approach. [Note: This rule corresponds to Article 325ab of CRR as it applied immediately before revocation by **Article 325ac** 1. For the purposes of this Article, the following definitions apply: (a) 'decomposition using a valuation model' means that a single name constituent of a securitisation is valued as the difference between the unconditional value of the securitisation and the conditional value of the securitisation assuming that single name defaults with an LGD of 100%; (b) 'replication' means that the combination of individual securitisation index tranches are combined to replicate another tranche of the same index series, or to replicate an untranched position in the index series; and (c) 'decomposition' means replicating an index by a securitisation of which the underlying exposures in the pool are identical to the single name exposures that compose the index. 2. The gross JTD amounts for securitisation exposures and non-securitisation exposures in the ACTP shall be their market value or, if their market value is not

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Risk component	BCBS	US	EU	UK
DRC treatment	that are perfect replications through decomposition may be offset as follows. When the offsetting involves decomposing single name equivalent exposures, decomposition using a valuation model would be allowed in certain cases as follows. Such decomposition is the sensitivity of the security's value to the default of the underlying single name obligor. Decomposition with a valuation model is defined as follows: a single name equivalent constituent of a securitisation (eg tranched position) is the difference between the unconditional value of the securitisation and the conditional value of the securitisation assuming that the single name defaults, with zero recovery, where the value is determined by a valuation model. In such cases, the decomposition into single-name equivalent exposures must account for the effect of marginal defaults of the single names in the securitisation, where in particular the sum of the decomposed single name amounts must be consistent with the undecomposed value of the securitisation. Further, such decomposition is restricted to vanilla securitisations (eg vanilla CDOs, index tranches or bespokes); while the decomposition of exotic securitisations (eg CDO squared) is prohibited. (3) Moreover, for long and short positions in index tranches, and indices (non-tranched), if the exposures are to the exact same series of the index, then offsetting is allowed by replication and decomposition. For instance, a long securitisation exposure in a 10–15% tranche vs combined short securitisation exposures in 10–12% and 12–15% tranches on the same index/series can be offset against each other. Similarly, long securitisation exposures in the various tranches that, when combined perfectly, replicate a position in the index series (non-tranched) can be offset	(iv) A [BANKING ORGANIZATION] may offset long and short gross default exposures of different tranches of the same index and series through replication and decomposition, if the residual component has the attachment and detachment point nested with the original tranche or the combination of tranches. A [BANKING ORGANIZATION] must account for the residual component of the unhedged tranche. (3) Calculation of the standardized default risk capital requirement for correlation trading positions. (i) To calculate the default risk capital requirement for a correlation trading position, a [BANKING ORGANIZATION] must assign each index to a bucket of its own. (ii) A [BANKING ORGANIZATION] must assign a bespoke correlation trading position that is substantially similar to an index to the bucket corresponding to the index. A [BANKING ORGANIZATION] must assign each bespoke correlation trading position that is not substantially similar to an index to a bucket of its own. (iii) For a non-securitization position that hedges a correlation trading position, a [BANKING ORGANIZATION] must assign such position and the related correlation trading position to the same bucket. (iv) A [BANKING ORGANIZATION] must calculate the bucket-level default risk capital requirement, *DRCb*, for each bucket, *b*, for correlation trading positions as follows: $DRCb = (\sum RWi \times net\ default\ exposure i \in long) - HBRCTP \times (\sum RWi \times |net\ default\ exposure i| \in short)$ where, (A) i refers to a correlation trading position belonging to bucket b. (B) *HBRCTP* equals the hedge benefit ratio specified in paragraph (a)(2)(iv)(A) of this section, but calculated using the	(a) attachment point = (N – 1) / Total Names; (b) detachment point = N / Total Names; where 'Total Names' shall be the total number of names in the underlying basket or pool. 4. Net JTD amounts shall be determined by offsetting long gross JTD amounts and short gross JTD amounts. Offsetting shall only be possible between exposures that are otherwise identical except for maturity. Offsetting shall only be possible as follows: (a) for indices, index tranches and bespoke tranches, offsetting shall be possible across maturities within the same index family, series and tranche, subject to the provisions on exposures of less than one year laid down in Article 325x; long gross JTD amounts and short gross JTD amounts that perfectly replicate each other may be offset through decomposition into single name equivalent exposures using a valuation model; in such cases, the sum of the gross JTD amounts of the single name equivalent exposures obtained through decomposition shall be equal to the gross JTD amount of the undecomposed exposure; (b) offsetting through decomposition as set out is point (a) shall not be allowed for resecuritisations or derivatives on securitisation; (c) for indices and index tranches, offsetting shall be possible across maturities within the same index family, series and tranche by replication or by decomposition; where the long exposures and short exposures are otherwise equivalent, apart from one residual component, offsetting shall be allowed and the net JTD amount shall reflect the residual exposure; (d) different tranches of the same index series, different series of the same index and different index families may not be used to offset each other.	available, their fair value determined in accordance with the applicable accounting framework. 3. Nth-to-default products shall be treated as tranched products with the following attachment and detachment points: (a) attachment point = (N – 1) / Total Names; (b) detachment point = N / Total Names, where 'Total Names' shall be the total number of names in the underlying basket or pool. 4. An institution shall determine net JTD amounts by offsetting long gross JTD amounts and short gross JTD amounts. Offsetting shall only be possible between exposures that are otherwise identical except for maturity. Offsetting shall only be possible as follows: (a) for indices, index tranches and bespoke tranches, offsetting shall be possible across maturities within the same index family, series and tranche, subject to the provisions on exposures of less than one year laid down in Article 325x; long gross JTD amounts and short gross JTD amounts that perfectly replicate each other may be offset through decomposition into single name equivalent exposures using a valuation model; in such cases, the sum of the gross JTD amounts of the single name equivalent exposures obtained through decomposition shall be equal to the gross JTD amount of the undecomposed exposure; (b) offsetting through decomposition as set out in point (a) shall not be allowed for resecuritisations or derivatives on securitisation; (c) for indices and index tranches, offsetting shall be possible across maturities within the same index family, series and tranche by replication or by decomposition; where the long exposures and short exposures are otherwise equivalent, apart from one residual component, offsetting shall be allowed and the net JTD amount shall reflect the residual exposure;

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Risk component	BCBS	US	EU	UK
DRC treatment	against a short securitisation exposure in the index series if all the positions are to the exact same index and series (eg CDX. NA.IG series 18). Long and short positions in indices and single-name constituents in the index may also be offset by decomposition. For instance, single-name long securitisation exposures that perfectly replicate an index may be offset against a short securitisation exposure in the index. When a perfect replication is not possible, then offsetting is not allowed except as indicated in the next sentence. Where the long and short securitisation exposures are otherwise equivalent except for a residual component, the net amount must show the residual exposure. For instance, a long securitisation exposure in an index of 125 names, and short securitisation exposures of the appropriate replicating amounts in 124 of the names, would result in a net long securitisation exposure in the missing 125th name of the index. (4) Different tranches of the same index or series may not be offset (netted), different series of the same index may not be offset, and different index families may not be offset. **MAR22.40** For default risk of securitisations (CTP), each index is defined as a bucket of its own. A non-exhaustive list of indices include: CDX North America IG, iTraxx Europe IG, CDX HY, iTraxx XO, LCDX (loan index), iTraxx LevX (loan index), Asia Corp, Latin America Corp, Other Regions Corp, Major Sovereign (G7 and Western Europe) and Other Sovereign. **MAR22.41** Bespoke securitisation exposures should be allocated to the index bucket of the index they are a bespoke tranche of. For instance, the bespoke tranche 5% - 8% of a given index should be allocated to the bucket of that index.	combined long and short net default exposures across all indices in the correlation trading position default risk category. (C) The summation of risk-weighted net default exposures in the formula spans all exposures relating to the index. (D) *RWi* equals: (1) For tranched correlation trading positions: (i) For the calculation of Expanded Total Risk-Weighted Assets, the corresponding risk weight that would apply to the securitization exposure under § __.132 or § __.133 multiplied by 8 percent; or (ii) For the calculation of Standardized Total Risk-Weighted Assets, the corresponding risk weight that would apply to the securitization exposure under § __. 42, § __.43, or § __.44 multiplied by 8 percent. (2) For non-tranched hedges of correlation trading positions, the same risk weights as for non-securitization debt or equity positions, provided that such hedges must be excluded from the calculation of the standardized default risk capital requirement for non-securitization debt or equity positions. (v) A [BANKING ORGANIZATION] must calculate the standardized default risk capital requirement for correlation trading positions by aggregating the bucket-level capital requirements as follows: $DRCCTP = max\left(\sum(max(DRCb, 0) + 0.5 \times min(DRCb, 0))\ b\ , 0\right)$.	**Article 325ad** 1. Net JTD amounts shall be multiplied by: (a) for non-tranched products, the default risk weights corresponding to their credit quality as specified in Article 325y(1) and (2); (b) for tranched products, the default risk weights referred to in Article 325aa(1). 2. Risk-weighted net JTD amounts shall be assigned to buckets that correspond to an index. 3. Weighted net JTD amounts shall be aggregated within each bucket in accordance with the following formula: eqn	(d) different tranches of the same index series, different series of the same index and different index families may not be used to offset each other. **Article325ad** 1. An institution shall multiply net JTD amounts by: (a) for non-tranched products, the default risk weights corresponding to their credit quality as specified in paragraphs 1 and 2 of Article 325y; (b) for tranched products, the default risk weights referred to in paragraph 1 of Article 325aa. 2. Risk-weighted net JTD amounts shall be assigned to buckets that correspond to an index. 3. Weighted net JTD amounts shall be aggregated within each bucket in accordance with the following formula: eqn where: *DRCb* = the own funds requirement for the default risk for bucket b; i = an instrument belonging to bucket b *WtSACTP* = the ratio recognising a benefit for hedging relationships within a bucket, which shall be calculated in accordance with the *WtS* formula set out in paragraph 4 of Article 325y, but using long positions and short positions across the entire ACTP and not just the positions in the particular bucket. 4. An institution shall calculate the own funds requirements for the default risk for the ACTP by using the following formula: Eqn where: *DRCACTP* = the own funds requirement for the default risk for the ACTP; *DRCb* = the own funds requirement for the default risk for bucket b.

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Risk component	BCBS	US	EU	UK
DRC treatment	**MAR22.42** The default risk weights for securitisations applied to tranches are based on the corresponding risk weights for the banking book instruments, which is defined in a separate Basel Committee publication - Revisions to the Securitisations framework of 2014, 2016 and 2018, with the following modification: the maturity component in the banking book securitisation framework is set to zero, ie a one-year maturity is assumed to avoid double-counting of risks in the maturity adjustment (of the banking book approach) since migration risk in the trading book will be captured in the credit spread capital requirement. **MAR22.43** For the non-tranched products, the same risk weights for non-securitisations as set out in MAR22.24 apply. For the tranched products, banks must derive the risk weight using the banking book treatment as set out in MAR22.42. **MAR22.44** Within a bucket (ie for each index) at an index level, the capital requirement for default risk of securitisations (CTP) is determined in a similar approach to that for non-securitisations. (1) The hedge benefit ratio (HBR), as defined in MAR22.23, is modified and applied to net short positions in that bucket as in the formula below, where the subscript ctp for the term HBRctp indicates that the HBR is determined using the combined long and short positions across all indices in the CTP (ie not only the long and short positions of the bucket by itself). The summation of risk-weighted amounts in the formula spans all exposures relating to the index (ie index tranche, bespoke, non-tranche index or single name). (2)A deviation from the approach for non-securitisations is that no floor at zero applies at the bucket level, and consequently, the DRC requirement at the index level (eqn) can be negative. eqn			

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Risk component	BCBS	US	EU	UK
DRC treatment	**MAR22.45** The total DRC requirement for securitisations (CTP) is calculated by aggregating bucket level capital amounts as follows. For instance, if the DRC requirement for the index CDX North America IG is +100 and the DRC requirement for the index Major Sovereign (G7 and Western Europe) is -100, the total DRC requirement for the CTP is 100-0.5*100=50 eqn			
RRAO	**MAR23.4:** Instruments bearing other residual risks are those that meet criteria (1) and (2) below: (1) Instruments subject to vega or curvature risk capital requirements in the trading book and with pay-offs that cannot be written or perfectly replicated as a finite linear combination of vanilla options with a single underlying equity price, commodity price, exchange rate, bond price, credit default swap price or interest rate swap; or (2) Instruments which fall under the definition of the correlation trading portfolio (CTP) in MAR20.5, except for those instruments that are recognised in the market risk framework as eligible hedges of risks within the CTP.	**§ __.211** (a) A [BANKING ORGANIZATION] must calculate the residual risk add-on for all market risk covered positions identified as follows: (1) Market risk covered positions that have an exotic exposure. (2) Market risk covered positions that are: (i) Correlation trading positions with three or more underlying exposures, except for market risk covered positions that are hedges of correlation trading positions; (ii) Subject to the curvature capital requirement (excluding any market risk covered positions without optionality that a [BANKING ORGANIZATION] chooses to include in the calculation of its curvature capital requirement as described under § __.206(d)) or the vega capital requirements and have pay-offs that cannot be replicated as a finite linear combination of vanilla options or the underlying instrument; (iii) Options or positions with embedded options that do not have a maturity; and (iv) Options or positions with embedded options that do not have a strike price or barrier, or that have multiple strike prices or barriers.	**Article 325u(2)** 2. Instruments are considered to be exposed to residual risks where they meet any of the following conditions: (a) the instrument references an exotic underlying, which, for the purposes of this Chapter, means a trading book instrument referencing an underlying exposure that is not in the scope of the delta, vega or curvature risk treatments under the sensitivities-based method laid down in Section 2 or the own funds requirements for the default risk set out in Section 5; (b) the instrument is an instrument bearing other residual risks, which, for the purposes of this Chapter, means any of the following instruments: (i) instruments that are subject to the own funds requirements for vega and curvature risk under the sensitivities-based method set out in Section 2 and that generate pay-offs that cannot be replicated as a finite linear combination of plain-vanilla options with a single underlying equity price, commodity price, exchange rate, bond price, credit default swap price or interest rate swap; (ii) instruments that are positions that are included in the ACTP referred to in Article 325(6); hedges that are included in that ACTP, as referred to in Article 325(8), shall not be considered.	**Article 325u(2)** 2. Instruments are considered to be exposed to residual risks where they meet any of the following conditions: (a) the instrument is an instrument bearing residual risks where the instrument references an exotic underlying, which, for the purposes of this Part, means a trading book instrument referencing an underlying exposure that is not in the scope of the delta, vega or curvature risk treatments under the sensitivities-based method laid down in Section 2 or the own funds requirements for the default risk set out in Section 5; (b) the instrument is an instrument bearing other residual risks, which, for the purposes of this Part, means any of the following instruments: (i) instruments that are subject to the own funds requirements for vega and curvature risk under the sensitivities-based method set out in Section 2 and that generate payoffs that cannot be replicated as a finite linear combination of plain-vanilla options with a single underlying equity price, commodity price, exchange rate, bond price, credit default swap price or interest rate swap; (ii) instruments that are positions that are included in the ACTP referred to in paragraph 6 of Market Risk: General Provisions (CRR) Part Article 325; but (iii) excluding hedges that are included in that ACTP, as referred to in paragraph 8 of Market Risk: General Provisions (CRR) Part Article 325

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