



Template FSA080 - Pillar 2 Market Risk

- Column A - Legal Entity: in this column provide the legal entity in which each position is booked in; *e.g. xxx Plc, xxx Bank Group etc.* Each entry in this column will span more than one row if multiple risk factors are used in calculating the 'stress loss' or illiquidity add-on. Where this is the case the entry should be merged across the rows.
- Column B - Business Unit: in this column provides the business area or asset class each position belongs to; *e.g. Fixed Income, Currencies and Commodities, Equity, Wealth Management, Treasury etc.* Where illiquid risk spans multiple business units (e.g. 3M-6M tenor basis risk) this field may be populated with "All".
- Column C - Sub Business Unit: in this column provide the sub-business area each position belongs to; *e.g. Rates, Rates Exotic, Rates Vanilla etc.* Where illiquid risk spans multiple sub business units (e.g. 3M-6M tenor basis risk) this field may be populated with "All".
- Column D - Desk: in this column provide the name of the trading desk each position belongs to; *e.g. GBP Options Trading, GBP Flow Trading etc.* In practice, the desk should be the lowest hierarchical level which contains both the illiquid product and its hedges.
- Column E - Currency of Exposure: This should be the currency of the value generated by the booking system.
- Column F - Product Type: in this column provide a brief description for each position identified. This position can be a specific illiquid product or risk. The description should be of sufficient detail for a competent valuation/market risk specialist with no prior knowledge of the position to understand it. Provide referenced word or pdf document separately if needed; *e.g. Power Reverse Dual Currency (PRDC), complex hybrid derivative, detailed payoff, Rates 3M-6M basis etc.*
- Column G - Illiquidity Type: in this column provide the market dynamic of each position. Select from drop-down menu and include any other illiquidity type descriptor where the existing list is not sufficient.
- Column H - Scenario Description: in this column provide a description of the stress testing scenario used to calculate the illiquidity add-on (*e.g. for PRDCs, all risk factors are shocked and then individual spot/volatility shocks for the underlying rates and FX pair are subtracted giving an illiquidity loss for unhedgeable risks*). Note: the actual shocks will be in Column L - The scenario calculation should be full revaluation for products which contain significant non-linearity and should capture those risks not captured in Pillar 1.
- Column I - Notional Value: in this column provide the aggregated notional amount for each illiquid position, separating long and short positions; *e.g. Long JPY50Bn, Short JPY 500Bn etc.* This field may be left unpopulated for some non-product specific risks.
- Column J - Market Value: mid-level market valuation of the illiquid positions in the portfolio, excluding any fair value adjustments, separating long and short positions; *e.g. Long \$0.5Bn, Short \$5Bn etc.* This field may be left unpopulated for some non-product specific risks.
- Column K - Liquidity Horizon: in this column provide the estimated exit or immunisation period for each position, based on size of the position and average daily trading activity of the underlying product or exposure; select from drop-down menu.
- Column L - Stress Shifts: in this column provide quantifications of changes in parameters in stress testing; *e.g. USD/JPY depreciate 20%, USD rates up 100bp, JPY rates up 10bp, volatility up by 50% on a relative basis, correlation down by 10% etc.* Ensure all shifts are listed individually.
- Column M - Revaluation Method: in this column provide the method of calculating stress loss. Select from the drop-down menu which contains Full, Sensitivity or Grid based revaluation. Where an alternative method is used provide a suitable description.
- Column N - Calibration Date Range: in this column provide the date range during which the stress shifts are calibrated; *e.g. 6m month change in correlation in H1 2008 etc.*
- Column O - Stress Loss: in this column provide the amount of stress loss for each position under the stress scenario specified (Col G); *e.g. 50,000,000 etc.* Note that this stress loss should stem from a firm defined scenario which will generate a potential loss.
- Column P - Capital Mitigant: in this column provide the description of any mitigant type for the stress loss; *e.g. fair value reserve, prudent valuation adjustment etc.*
- Column Q - Capital Mitigant Value: in this column provide the amount of any mitigation for the stress loss, for each of the mitigants identified in Col O; *e.g. (fair value reserve) 20,000,000, (prudent valuation adjustment) 50,000,000 etc.*
- Column R - Regulatory Regime: in this column provide the method for which Pillar 1 regulatory capital is calculated. Select from drop-down menu.
- Column S - Trading Status: in this column provide the status of trading by the firm; *e.g. Active market marking, Legacy positions seeking exit, hold to maturity etc.*
- Column T - Position Count: for individual (rather than basis type positions) derivative products we would like to see a position count so that we can consider the average size deal using the notional value above.