Translation from Romanian into English

UE

D E C I S I O N
on the approval of the Regulation on the treatment of counterparty credit risk for banks and the amendment of certain normative acts of the National Bank of Moldova

No. 220 as of 25.09.2025
(in force as of 01.10.2026)

Official Journal of the Republic of Moldova No. 515–518, Art. 895 of 02.10.2025

* * *

Pursuant to Article 27 paragraph (1) letter c), Article 44 letter a) of Law No. 548/1995 on the National Bank of Moldova (republished in the Official Journal of the Republic of Moldova, 2015, No. 297-300, Art.544), Article 60 paragraph (4) and Article 73 paragraph (1) of Law No. 202/2017 on the activity of banks (Official Journal of the Republic of Moldova, 2017, No .434-439, Art.727), the Executive Board of the National Bank of Moldova

DECIDES:

1. The Regulation on the treatment of counterparty credit risk for banks (attached) shall be approved.

2. The Decision of the Executive Board of the National Bank of Moldova No. 102/2020 approving the Regulation on the treatment of counterparty credit risk for banks (Official Journal of the Republic of Moldova, 2020, No. 118–123, Art. 464), registered with the Ministry of Justice of the Republic of Moldova under No. 1563 of 8 May 2020, shall be repealed.

3. In paragraph 132 subparagraph 6) of the Regulation on own funds of banks and capital requirements, approved by the Decision of the Executive Board of the National Bank of Moldova No. 109/2018 (Official Journal of the Republic of Moldova, 2018, No. 183–194, Art. 899), the text ”approved by the Decision of the Executive Board of the National Bank of Moldova No. 102/2020” shall be excluded.

4. The Regulation on large exposures, approved by the Decision of the Executive Board of the National Bank of Moldova No. 109/2019 (Official Journal of the Republic of Moldova, 2019, No. 139–147, Art. 704), shall be amended as follows:

4.1. In paragraph 8:
4.1.1. The text ”paragraphs 67–76 of the Regulation on the treatment of counterparty credit risk for banks, approved by the Decision of the Executive Board of the National Bank of Moldova No. 102/2020 (hereinafter – Regulation No. 102/2020)” shall be replaced with the text ”Regulation on the treatment of counterparty credit risk for banks”;
4.1.2. In subparagraph 3), the text ”in paragraphs 67–76 of Regulation No. 102/2020” shall be replaced with the text “in the Regulation on the treatment of counterparty credit risk for banks.”

4.2. In paragraph 14[1], the text “Regulation No. 102/2020” shall be replaced with the text “Regulation on the treatment of counterparty credit risk for banks.”

5. In paragraph 60 of the Regulation on liquidity, approved by the Decision of the Executive Board of the National Bank of Moldova No. 329/2024 (Official Journal of the Republic of Moldova, 2024, No. 544–547, Art. 1018), the text ”in Section 1, Chapter VI of the Regulation on the treatment of counterparty credit risk for banks, approved by the Decision of the Executive Board of the National Bank of Moldova No. 102/2020” shall be replaced with the text “in the Regulation on the treatment of counterparty credit risk for banks.”

6. In paragraph 8[1] of the Regulation on the treatment of counterparty credit risk for banks under the Standardised Approach, approved by the Decision of the Executive Board of the National Bank of Moldova No. 111/2018 (Official Journal of the Republic of Moldova, 2018, No. 183–194, Art. 901), the text ”approved by the Decision of the Executive Board of the National Bank of Moldova No. 102/2020” shall be excluded.

7. The Regulation on disclosure requirements for banks, approved by the Decision of the Executive Board of the National Bank of Moldova No. 158/2020 (Official Journal of the Republic of Moldova, 2020, No. 188–192, Art. 667), shall be amended as follows:

7.1. In paragraph 61, the text ”approved by the Decision of the Executive Board of the National Bank of Moldova No. 102 of 16 April 2020 (hereinafter – *Regulation No. 102/2020*)” shall be excluded;

7.2. In Annex No. 12, Table 1 of the Instruction on the Standard Format, in the explanation for column No. 070, the text ”Regulation No. 102/2020” shall be replaced with the text ”Regulation on the treatment of counterparty credit risk for banks.”

8. This Decision shall be published in the Official Journal of the Republic of Moldova and shall enter into force on 1 October 2026.

CHAIRMAN
OF THE EXECUTIVE BOARD **Anca-Dana DRAGU**

No 220. Chişinău, September 25, 2025

Approved
by the Decision of the Executive Board
of the National Bank of Moldova
No 220 of 25 September 2025

REGULATION on the treatment of counterparty credit risk for banks

This Regulation transposes art.4 (1), para.34; art.271; art.272 (para. 1 - 9, 11 - 12, 12a, 17 - 22, 24 - 26); art.273 (1), (3) - (9); art.273a; art.273b; art.274; art.275; art.276; art.277 (1) – (4); art.277a; art.278; art.279; art.279a (1), letters (a), (c) and (2); art.279b; art.279c (1), letter (a) and (2); art.280; art.280a; art.280b; art.280c; art.280d; art.280e; art.280f; art.281 (1) and (2), letters (a) - (b), (d) – (m); art.282 (1) – (2), (3), letters (b) and (4); art.291 (1) – (2), (4) – (6); art.295, letter (a) and (b); art.296 (2) and (3) first sentence; art.297 (1) – (3); art.298; art.299 (2), letters (b) – (e), (g) – (h); art.300 (para. 1 – 5, para.7 – 11); art.301– 311 and Articles 301–311 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012, published in the Official Journal of the European Union L 176 of 27 June 2013, CELEX: 32013R0575, as last amended by Regulation (EU) 2023/2869 of the European Parliament and of the Council of 13 December 2023.

CHAPTER I
General Provisions

Section 1
Scope and Definitions

1. The Regulation on the treatment of counterparty credit risk for banks (hereinafter referred to as - the Regulation) sets out the methodologies for determining own funds requirements to cover counterparty credit risk, namely:

1.1. the rules on the treatment of counterparty credit risk in respect of derivative financial instruments and long settlement transactions;

1.2. the principles that banks shall observe in calculating risk-weighted exposure amounts for counterparty credit risk of items included in the trading book.

2. This Regulation shall apply to banks having their head office in the Republic of Moldova, as well as to branches in the Republic of Moldova of banks from other states, which are licensed by the National Bank of Moldova, hereinafter referred to as banks.

3. For the purposes of this Regulation, the following terms shall have the meanings set out below:

contractual cross-product netting agreement – a bilateral contractual agreement between a bank and a counterparty that creates a single legal obligation (by means of netting of the covered transactions) covering all bilateral master agreements and all transactions included in the agreement;

counterparty – any legal or natural person participating in a netting agreement and having the legal capacity to enter into such an agreement;

central counterparty (CCP) – a legal person that interposes itself between the counterparties to contracts traded on one or more financial markets, thereby becoming the buyer to every seller and the seller to every buyer;

qualifying central counterparty (QCCP) – a central counterparty that has been authorised by a competent authority of the EU Member State in which it is established or in a third country of the EU;

client – an undertaking with a contractual relationship with a clearing member of a CCP which enables that undertaking to clear its transactions with that CCP;

higher-level client – an entity providing clearing services to a lower-level client;

lower-level client – an entity accessing the services of a CCP through a higher-level client;

margin agreement –an agreement or provisions of an agreement under which one counterparty must supply collateral to a second counterparty when an exposure of that second counterparty to the first counterparty exceeds a specified level;

unfunded contribution to a default fund –a contribution that a bank that acts as a clearing member has contractually committed to provide to a CCP after the CCP has depleted its default fund to cover the losses it incurred following the default of one or more of its clearing members;

cross-product netting –the inclusion of transactions of different product categories within the same netting set pursuant to the cross-product netting rules set out in this Regulation;

trade exposure – a current exposure, including variation margin due to the clearing member but not yet received, and any potential future exposure of a clearing member or a client to a CCP arising from the contracts and transactions listed in point 125, as well as the initial margin;

bankruptcy remote – in relation to client assets, means that effective arrangements exist which ensure that those assets will not be available to the creditors of a CCP or of a clearing member in the event of the insolvency of that CCP or clearing member respectively, or that the assets will not be available to the clearing member to cover losses it incurred following the default of a client or clients other than those that provided those assets;

clearing member – an undertaking which participates in a CCP and which is responsible for discharging the financial obligations arising from that participation;

margin period of risk – means the time period from the most recent exchange of collateral covering a netting set of transactions with a defaulting counterparty until the transactions are closed out and the resulting market risk is re-hedged;

margin threshold – means the largest amount of an exposure that remains outstanding before one party has the right to call for collateral;

risk position – a risk number that is assigned to a transaction, based on a predetermined algorithm, within the Standardised Approach referred to in Chapter III;

counterparty credit risk (CCR) – the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows;

hedging set – means a group of transactions within a single netting set for which full or partial offsetting is allowed for determining the potential future exposure under the methods set out in Chapters III or IV;

netting set – a group of transactions between a bank and a single counterparty that is subject to a legally enforceable bilateral netting agreement that is recognised in accordance with Chapter VI and with Chapters III and VI of the Regulation on credit risk mitigation techniques used by banks, approved by Decision No. 112/2018 of the Executive Committee of the National Bank of Moldova (hereinafter Regulation No. 112/2018). Each transaction that is not subject to a legally enforceable and recognised bilateral netting agreement under Chapter VI of Regulation No. 112/2018 shall be treated as a netting set on its own;

payment leg – the payment agreed in an OTC derivative transaction with a linear risk profile which stipulates the exchange of a financial instrument for a payment. In the case of transactions that stipulate the exchange of payment against payment, those two payment legs shall consist of the contractually agreed gross payments, including the notional amount of the transaction;

multi-level client structure – means an indirect clearing arrangement under which clearing services are provided to a bank by an entity which is not a clearing member, but is itself a client of a clearing member or of a higher-level client;

net independent collateral amount (NICA) – the sum of the volatility-adjusted value of net collateral received or posted, as applicable, to the netting set other than variation margin;

long settlement transactions – means transactions where a counterparty undertakes to deliver a security, a commodity, or a foreign exchange amount against cash, other financial instruments, or commodities, or vice versa, at a settlement or delivery date specified by contract that is later than the market standard for this particular type of transaction or five business days after the date on which the bank enters into the transaction, whichever is earlier;

margin lending transactions – means transactions in which a bank extends credit in connection with the purchase, sale, carrying or trading of securities. Margin lending transactions do not include other loans that are secured by collateral in the form of securities;

fully guaranteed deposit lending or borrowing transaction – a fully collateralised money market transaction in which two counterparties exchange deposits and a CCP interposes itself between them to ensure the performance of those counterparties' payment obligations;

CCP-related transaction – a contract or transaction, listed in paragraph 125, between a client and a clearing member that is directly related to a contract or transaction listed in that paragraph between that clearing member and a CCP;

cash transaction – a transaction in cash, debt instruments or equities, a spot foreign exchange transaction or a spot commodities transaction; however, repurchase transactions, securities or commodities lending transactions, and securities or commodities borrowing transactions, are not cash transactions;

current market value (CMV)- the net market value of all the transactions within a netting set gross of any collateral held or posted where positive and negative market values are netted in computing the CMV;

Section 2
Determination of the exposure value

4. A bank may determine the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions, and margin lending transactions in accordance with the present Regulation, without applying the provisions of Regulation No. 112/2018.

5. For the purpose of assessing counterparty credit risk, the exposure value of derivative financial instruments shall be determined using one of the following calculation methods:

5.1. the Standardised approach for counterparty credit risk;

5.2. the Simplified standardised approach for counterparty credit risk;

5.3. the Original exposure method.

CHAPTER II
Methods for calculating the exposure value

Section 1
Calculation methods

6. The bank shall calculate the exposure value for the contracts listed in Annex No. 1 to the Regulation on the treatment of market risk under the Standardised Approach, approved by Decision No. 114/2018 of the Executive Committee of the National Bank of Moldova (hereinafter referred to as Regulation No. 114/2018), based on one of the methods provided in Chapters III–V and in accordance with this Chapter.

7. A bank which does not meet the conditions set out in point 20 shall not use the method set ut in Chapter IV. A bank that does not meet the conditions set out in point 21 shall not use the method referred to in Chapter V.

8. A bank shall not use, on a permanent basis, a combination of the methods referred to in Chapters III–V.

9. By way of derogation, banks may use a combination of the methods referred to in Chapters III–V on a permanent basis within a group, as defined in Law No. 250/2017 on the supplementary supervision of banks, insurance or reinsurance undertakings and investment firms belonging to a financial conglomerate.

10. Where a bank purchases protection through a credit derivative against a non-trading book exposure or against a counterparty risk exposure, it may calculate its own funds requirement for the hedged exposure in accordance with Chapter IX of Regulation No. 112/2018. The exposure value to counterparty credit risk for such credit derivative instruments shall be zero, unless the bank applies the approach provided for in paragraph 124, subparagraph 124.2.

11. Notwithstanding paragraph 10, a bank may choose consistently to include for the purposes of calculating own funds requirements for counterparty credit risk all credit derivatives not included in the trading book and purchased as protection against a non-trading book exposure or against a counterparty credit risk exposure where the credit protection is recognised under Regulation No. 112/2018.

12. Where credit default swaps sold by a bank are treated by a bank as credit protection provided by that bank and are subject to own funds requirement for credit risk of the underlying for the full notional amount, their exposure value for the purposes of CCR in the non-trading book shall be zero.

13. Under the methods set out in Chapters III–V, the exposure value for a given counterparty shall be equal to the sum of the exposure values calculated for each netting set with that counterparty.

13. By way of derogation from paragraph 13, where one margin agreement applies to multiple netting sets with that counterparty and the bank is using one of the methods set out in Chapters III–V to calculate the exposure value of those netting sets, the exposure value shall be calculated in accordance with the relevant Chapter.

15. For a given counterparty, the exposure value for a given netting set of over-the-counter (OTC) derivative instruments listed in Annex No. 1 to Regulation No. 114/2018, once calculated, shall be the greater of zero and the difference between the sum of exposure values across all netting sets with the counterparty and the sum of credit valuation adjustments for that counterparty being recognised by the bank as an incurred write-down. The credit valuation adjustments shall be calculated without taking into account any offsetting debit value adjustment attributed to the own credit risk of the firm that has been already excluded from own funds in accordance with paragraph 26 subparagraph 3) of the Regulation on own funds of banks and capital requirements, approved by Decision No. 109/2018 of the Executive Committee of the National Bank of Moldova (hereinafter referred to as Regulation No. 109/2018).

16. In calculating the exposure value in accordance with the methods set out in Chapters III–V, banks may treat two OTC derivative contracts included in the same netting agreement that are perfectly matching as if they were a single contract with a notional principal equal to zero.

17. For the purposes of paragraph 16, two OTC derivative contracts are perfectly matching when they meet all the following conditions:

17.1. their risk positions are opposite;

17.2. their features, with the exception of the trade date, are identical;

17.3. their cash flows fully offset each other (100%).

18. Banks shall determine the exposure value for exposures arising from long settlement transactions by any of the methods set out in Chapters III–V, regardless of which method the bank has chosen for treating OTC derivatives and repurchase transactions, securities or commodities lending or borrowing transactions, and margin lending transactions.

19. Banks shall report their exposures to counterparty credit risk in accordance with the requirements established by the Instruction on the submission of COREP reports by banks for

supervisory purposes, approved by Decision No. 117/2018 of the Executive Committee of the National Bank of Moldova.

Section 2

Conditions for using simplified methods for calculating the exposure value

20. The bank may calculate the exposure value for its derivative positions in accordance with the method set out in Chapter IV, provided that the volume of its on- and off-balance-sheet derivative business is equal to or less than each of the following thresholds, based on an assessment carried out on a monthly basis using the data as of the last day of the month:

20.1. 10 % of the bank's total assets;

20.2. the equivalent in Moldovan lei of EUR 300 million.

21. The bank may calculate the exposure value for its derivative positions in accordance with the method set out in Chapter V, provided that the volume of its on- and off-balance-sheet derivative business is equal to or less than each of the following thresholds, based on an assessment carried out on a monthly basis using the data as of the last day of the month:

21.1. 5 % of the bank's total assets;

21.2. the equivalent in Moldovan lei of EUR 100 million.

22. For the purposes of paragraphs 20 and 21, banks shall calculate the volume of their on- and off-balance-sheet derivative business based on the data as of the last day of each month, in accordance with the following requirements:

22.1. Derivative positions shall be valued at their market value as of the valuation date; where the market value of a position is not available on that date, banks shall use the fair value of the position when available; where neither market value nor fair value is available, banks shall use the most recent market or fair value for that position;

22.2. the absolute value of the aggregated long positions shall be added to the absolute value of the aggregated short positions;

22.3. all derivative positions shall be included, except credit derivatives recognised as internal hedges against credit risk exposures outside the trading book.

23. For the purposes of paragraph 22, long and short positions shall have the same meaning as in paragraph 136 of Regulation No 109/2018. The aggregated long (short) position value shall equal the sum of the individual long (short) position values included in the calculation in accordance with sub-paragraph 22.3.

24. By way of derogation from paragraphs 20 or 21, where the bank exceeds the limits referred to at those points on an individual basis but remains within those limits on a consolidated basis, the bank may, with the prior approval of the National Bank of Moldova, apply one of the methods set out in Chapters III or IV.

25. For the purpose of obtaining prior approval, the bank shall submit to the National Bank of Moldova an application accompanied by the documents and information substantiating the request and/or confirming whether the requirements set out in paragraphs 24 and 34, as applicable, have been met.

26. The application, as well as the documents and information specified in the annex to this Regulation, shall be submitted to the National Bank of Moldova in the Romanian language and signed by the person authorised by the bank.

27. Where the documents or information referred to in paragraph 25 do not comply with paragraphs 25 and 26, the National Bank of Moldova shall notify the bank in writing within five (5) working days from the date of submission of the application. The bank shall, within ten (10) working days from the date of receipt of the letter from the National Bank of Moldova, complete and submit to the latter the missing documents and/or information.

28. Where the bank fails to complete the set of documents and information within the term referred to in paragraph 27, the National Bank of Moldova shall inform the bank, within three (3)

working days from the expiry of the given term, about the termination of the administrative procedure.

29. Within sixty (60) working days from the date of receipt of the complete set of documents and information in accordance with this Chapter, the National Bank of Moldova shall issue the corresponding prior approval or reject the application, informing the bank in writing of its decision. Where additional examination or processing time is required, the term may be extended by up to thirty (30) working days, with written notification to the bank.

30. Where the documents and information submitted under this Chapter are insufficient to take a decision on the request for prior approval referred to in paragraph 24 or 34, as applicable, the National Bank of Moldova may request additional documents and information.

31. The bank shall provide the additional documents and information within the deadline indicated by the National Bank of Moldova, during which period the term provided for in paragraph 29 shall be suspended.

32. In case of rejection of the application for prior approval, the grounds for rejection shall be specified. The following shall constitute grounds for rejection of the request for prior approval by the National Bank of Moldova:

32.1. failure to comply with the requirements set out in paragraph 24 or 34, as applicable, for obtaining the respective prior approval;

32.2. submission to the National Bank of Moldova of erroneous, false, and/or contradictory information;

32.3. failure to submit documents and information demonstrating that the bank meets the requirements set out in paragraph 24 or 34, as applicable, for obtaining the respective prior approval.

33. The bank shall have the right to apply one of the methods set out in Chapters III or IV, in the context of paragraph 24, from the date of issuance of the prior approval.

34. Subject to the prior approval of the National Bank of Moldova, banks shall apply the methods set out in Chapters IV or V that they use or cease to use, as applicable, to calculate the exposure value for their derivative positions.

35. Banks shall not enter into derivative transactions or buy or sell derivative instruments for the sole purpose of complying with any of the conditions set out in paragraphs 20 and 21 during the monthly assessment.

Section 3

Non-compliance with the conditions for using simplified methods for calculating the exposure value of derivatives and the simplified approach for calculating the own funds requirements for CVA risk

36. A bank that no longer meets one or more of the conditions set out in paragraphs 20 or 21 shall immediately, but no later than two (2) working days, notify the National Bank of Moldova thereof.

37. The bank shall cease to calculate the exposure values of its derivative positions in accordance with Chapters IV or V and the own funds requirements for CVA risk in accordance with the simplified approach laid down in the Regulation on the treatment of the credit valuation adjustment risk for banks, as applicable, within three (3) months of the occurrence of any of the following situations:

37.1. the bank does not meet the conditions set out in paragraph 20 sub-paragraph 20.1 or paragraph 21 sub-paragraph 21.1, as applicable, or the conditions set out in paragraph 20 sub-paragraph 20.2 or paragraph 21 sub-paragraph 21.2, as applicable, for three consecutive months;

37.2. the bank does not meet the conditions set out in paragraph 20 sub-paragraph 20.1 or paragraph 21 sub-paragraph 21.1, as applicable, or the conditions set out in paragraph 20 sub-paragraph 20.2 or paragraph 21 sub-paragraph 21.2, as applicable, for more than six (6) of the preceding twelve (12) months.

38. Where a bank has ceased to calculate the exposure values of its derivative positions in accordance with Chapters IV or V, as applicable, it shall be permitted to resume calculating the exposure value of its derivative positions as set out in Chapters IV or V and the own funds requirements for CVA risk in accordance with the simplified approach under the Regulation on the treatment of the credit valuation adjustment risk for banks, only where it demonstrates to the National Bank of Moldova that all the conditions set out in paragraphs 20 or 21 have been met for an uninterrupted period of one (1) year.

Chapter III
Standardised approach for counterparty credit risk

Section 1
Exposure value

39. A bank may calculate a single exposure value at netting set level for all transactions covered by a contractual netting agreement where all the following conditions are met:

39.1. the netting agreement belongs to one of the types of contractual netting agreements referred to in paragraph 106 and paragraph 107;

39.2. the netting agreement has been recognised by the National Bank of Moldova in accordance with paragraphs 108–111;

39.3. the bank has met its obligations set out in paragraphs 112–116 concerning the netting agreement.

40. Where any of the conditions referred to in paragraph 39 are not met, the bank shall treat each transaction as if it was its own netting set.

41. Banks shall calculate the exposure value of a netting set under the standardised approach for counterparty credit risk as follows:

$$\text{Exposure value} = \alpha \times (RC + PFE)$$

where:

RC = the replacement cost, calculated in accordance with paragraphs 49–51;

PFE = the potential future exposure, calculated in accordance with paragraphs 66–68;

$\alpha = 1.4$.

42. The exposure value of a netting set is subject to a contractual margin agreement shall be capped at the exposure value of the same netting set not subject to any form of margin agreement.

43. Where multiple margin agreements apply to the same netting set, or where the netting set includes both transactions subject to a margin agreement and transactions not subject to such an agreement, the bank shall calculate its exposure value as follows:

43.1. the bank shall calculate the replacement cost of the netting set in accordance with paragraph 50, taking into account all transactions within the netting set, whether or not subject to a margin agreement, and shall apply all of the following requirements:

43.1.1. the current market value (CMV) shall be calculated for all transactions within a netting set gross of any collateral held or posted where positive and negative market values are netted in computing the CMV;

43.1.2. NICA, VM, TH, and MTA, where applicable, shall be calculated separately as the sum across the same inputs data applicable to each individual margin agreement of the netting set;

43.2. the bank shall calculate the potential future exposure (PFE) of the netting set referred to in paragraphs 66–68 by applying all requirements related to the multiplier specified in paragraph

66, based on the input data CMV, NICA and VM, as applicable, in accordance with subparagraph 43.1.

44. Banks may set to zero the exposure value of a netting set that satisfies all the following conditions:

44.1. the netting set is solely composed of sold options;

44.2. the current market value of the netting set is at all times negative;

44.3. the premium of all options included in the netting set has been received upfront by the bank to guarantee the performance of the contracts;

44.4. the netting set is not subject to any margin agreement.

45. In a netting set, banks shall replace a transaction which is a finite linear combination of bought or sold call or put options with all the single options that form that linear combination, taken as an individual transaction, for the purpose of calculating the exposure value of the netting set in accordance with this Section. Each such combination of options shall be treated as an individual transaction in the netting set in which the combination is included for the purpose of calculating the exposure value..

46. By way of derogation from paragraph 45, banks shall replace a vanilla digital option the strike of which equals K with the relevant collar combination of two sold and bought vanilla call or put options that meet the following requirements:

46.1. the two options of the collar combination have:

46.1.1. the same maturity date and the same spot or forward price of the underlying instrument as the vanilla digital option;

46.1.2. strike prices equal to 0,95•K and1,05•K, respectively;

46.2. the collar combination replicates exactly the the vanilla digital option payoff outside the range between the two strike prices referred to in subparagraph 46.1.

47. The risk position of the two options of the collar combination referred to in paragraph 46 shall be calculated separately in accordance with paragraph 69.

48. The exposure value of a credit derivative transaction representing a long position in the underlying may be capped to the amount of the outstanding unpaid premium provided it is treated as its own netting set that is not subject to any margin agreement.

Section 2

Replacement cost

49. The banks shall calculate the replacement cost (RC) for netting sets that are not subject to a margin agreement in accordance with the following formula:

$$RC = \max \{CMV – NICA, 0\}$$

50. The banks shall calculate the replacement cost (RC) for single netting sets that are subject to a margin agreement in accordance with the following formula:

$$RC = \max \{CMV – VM – NICA, TH + MTA – NICA, 0\}$$

where:

RC = replacement cost;

VM = the volatility-adjusted value of the net variation margin received or posted, as applicable, to the netting set on a regular basis to mitigate changes in the netting set's CMV;

TH = the margin threshold applicable to the netting set under the margin agreement, below which the bank cannot call for collateral; and

MTA = the minimum transfer amount applicable to the netting set under the margin agreement.

51. The banks shall calculate the replacement cost (RC) for multiple netting sets that are subject to the same margin agreement in accordance with the following formula:

$$RC = \max\left\{\sum_i \max\{CMV_i, 0\} - \max\{VM_{MA} + NICA_{MA}, 0\}, 0\right\} + \max\left\{\sum_i \min\{CMV_i, 0\} - \min\{VM_{MA} + NICA_{MA}, 0\}, 0\right\}$$

where:

RC = the replacement cost;

i = the index denoting the netting sets subject to the single margin agreement;

CMV_i = the current market value of netting set i;

VM_{MA} = the sum of the volatility-adjusted value of collateral received or posted, as applicable, to multiple netting sets on a regular basis to mitigate changes in their CMV; and

$NICA_{MA}$ = the sum of the volatility-adjusted value of collateral received or posted, as applicable, to multiple netting sets other than VM_{MA}.

For the purposes of this paragraph, $NICA_{MA}$ may be calculated at trade level, at netting set level, or at the level of all netting sets to which the margin agreement applies depending on the level at which that agreement is applied.

Section 3

Recognition and treatment of collateral

52. For the purposes of this Section, banks shall calculate the collateral of VM, VM_{MA}, NICA, and $NICA_{MA}$ by applying all of the following requirements:

52.1. where all the transactions included in a netting set belong to the trading book, only the collateral that is eligible under paragraph 25 of Regulation No. 112/2018 and in paragraphs 118–124 shall be recognised;

52.2. where a netting set contains at least one transaction that belongs to the non-trading book, only collateral that is eligible under the paragraph 25 of Regulation No. 112/2018 shall be recognised;

52.3. collateral received from a counterparty shall be recognised with a positive sign, while collateral posted to a counterparty shall be recognised with a negative sign;

52.4. the volatility-adjusted value of any type of collateral received or posted shall be calculated in accordance with paragraphs 84–94 of Regulation No. 112/2018;

52.5. the same collateral item shall not be included simultaneously in both VM and NICA;

52.6. the same collateral item shall not be included simultaneously in both VM_{MA} and $NICA_{MA}$;

52.7. any collateral posted to the counterparty that is segregated from the assets of that counterparty and, as a result of that segregation, is bankruptcy remote in the event of the default or insolvency of that counterparty shall not be recognised in the calculation of NICA and $NICA_{MA}$.

53. For the purpose of calculating the volatility-adjusted value of collateral posted referred to in paragraph 52, subparagraph 52.4, banks shall replace the formula set out in paragraphs 87 and 88 of Regulation No. 112/2018 with the following formula:

$$C_{VA} = C \cdot (1 + H_c + H_{fx})$$

where:

C_{VA} = the volatility-adjusted value of collateral posted;

C = the collateral;

H_c and H_{fx} are defined in accordance with paragraph 87 of Regulation No. 112/2018.

54. For the purposes of paragraph 52, subparagraph 52.4, banks shall set the liquidation period relevant for the calculation of the volatility-adjusted value of any collateral received or posted at one year for the netting sets referred to in paragraph 49.

Section 4

Mapping of transactions to risk categories

55. Banks shall map each transaction of a netting set to one of the following risk categories in order to determine the potential future exposure of the netting set referred to in paragraphs 66–68:

55.1. interest rate risk;

55.2. foreign exchange risk;

55.3. credit risk;

55.4. equity risk;

55.5. commodity risk;

55.6. other risks.

56. Banks shall conduct the mapping referred to in paragraph 55 on the basis of the primary risk driver of a derivative transaction. The primary risk driver shall be the only material risk driver of a derivative transaction.

57. By way of derogation from paragraph 56, banks shall shall map derivative transactions that have more than one material risk driver to more than one risk category. Where all the material risk drivers of one of those transactions belong to the same risk category, banks shall only be required to map that transaction once to that risk category on the basis of the most material of those risk drivers. Where the material risk drivers of one of those transactions belong to different risk categories, banks shall map that transaction once to each risk category for which the transaction has at least one material risk driver, on the basis of the most material of the risk drivers in that risk category.

58. By way of derogation from paragraphs 55–57, when mapping transactions to the risk categories listed in paragraph 55, banks shall apply the following requirements:

58.1. where the primary risk driver of a transaction, or the most material risk driver within a particular risk category for transactions referred to in paragraph 57, is a variable related to inflation, banks shall assign that transaction to the interest rate risk category;

58.2. where the primary risk driver of a transaction, or the most material risk driver within a particular risk category for transactions referred to in paragraph 57, is a variable related to weather conditions, banks shall map that transaction to the interest rate risk category.

Section 5

Determination of hedging sets

59. Banks shall establish the relevant hedging sets for each risk category of a netting set and shall assign each transaction to those hedging sets as follows:

59.1. transactions mapped to the interest rate risk category shall be assigned to the same hedging set only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in paragraph 57 is denominated in the same currency;

59.2. transactions mapped to the foreign exchange risk category shall be assigned to the same hedging set only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in paragraph 57 is denominated in the same currency;

59.3. all the transactions mapped to the credit risk category shall be assigned to the same hedging set;

59.4. all the transactions mapped to the equity risk category shall be assigned to the same hedging set;

59.5. transactions mapped to the commodity risk category shall be assigned to one of the following hedging sets on the basis of the nature of their primary risk driver or the most material risk driver in the given risk category for transactions referred to in paragraph 57:

59.5.1. energy;

59.5.2. metals;

59.5.3. agricultural products;

59.5.4. other commodities;

59.5.5. weather conditions;

59.6. transactions mapped to the other risks category shall be assigned to the same hedging set only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in paragraph 57 is identical.

60. For the purposes of paragraph 59, subparagraph 59.1, transactions mapped to the interest rate risk category that have an inflation variable as the primary risk driver shall be assigned to separate hedging sets, other than the hedging sets established for transactions mapped to the interest rate risk category that do not have an inflation variable as the primary risk driver. Those transactions shall be assigned to the same hedging set only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in paragraph 57 is denominated in the same currency.

61. By way of derogation from paragraphs 59 and 60, banks shall establish separate hedging sets in each risk category for the following transactions:

61.1. transactions for which the primary risk driver, or the most material risk driver in the given risk category for transactions referred to in paragraph 57 is either the market implied volatility or the realised volatility of a risk driver or the correlation between two risk drivers;

61.2. transactions for which the primary risk driver, or the most material risk driver in the given risk category for transactions referred to in paragraph 57 is the difference between two risk drivers mapped to the same risk category or transactions that consist of two payment legs denominated in the same currency and for which a risk driver from the same risk category of the primary risk driver is contained in the other payment leg than the one containing the primary risk driver.

62. For the purposes of paragraph 61, subparagraph 61.1, banks shall assign transactions to the same hedging set of the relevant risk category only where their primary risk driver, or the most material risk driver in the given risk category for transactions referred to in paragraph 57 is identical.

63. For the purposes of paragraph 61, subparagraph 61.2, banks shall assign transactions to the same hedging set of the relevant risk category only where the pair of risk drivers in those transactions as referred to in paragraph 61, subparagraph 61.2, is identical and there is a positive correlation between the two risk drivers in that pair. Otherwise, banks shall assign the transactions referred to in paragraph 61, subparagraph 61.2, to one of the hedging sets established in accordance with paragraph 59, based solely on one of the two risk drivers referred to in paragraph 61, subparagraph 61.2.

64. For the purposes of paragraph 61, subparagraph 61.1, banks shall assign transactions to a separate hedging set of the relevant risk category, following the same hedging set construction as provided in paragraph 59.

65. Banks shall provide, at the request of the National Bank of Moldova, information regarding the number of hedging sets established in accordance with paragraphs 61–64 for each risk category, together with the primary risk driver or the most material risk driver within a particular risk category for transactions referred to in paragraph 57, or the pair of risk drivers corresponding to each of those hedging sets, and the number of transactions included in each hedging set.

Section 6

Potential future exposure and calculation of risk positions

66. Banks shall calculate the potential future exposure (PFE) of a netting set as follows:

$$\text{PFE} = \text{multiplicator} \cdot \sum_{a} \text{AddOn}^{(a)}$$

where:

PFE = the potential future exposure;

a = the index that denotes the risk categories included in the calculation of the potential future exposure of the netting set;

$\text{AddOn}^{(a)}$ = the add-on for the risk category calculated in accordance with paragraphs 78–98, as applicable; and

multiplier = the multiplication factor calculated in accordance with the formula set out in paragraph 68.

For the purposes of this calculation, banks shall include the add-on of a given risk category in the calculation of the potential future exposure of a netting set where at least one transaction of the netting set has been mapped to that risk category.

67. The potential future exposure of multiple netting sets that are subject to a single margin agreement, as referred to in paragraph 51, shall be calculated as the sum of the potential future exposures of all the individual netting sets as if they were not subject to any form of a margin agreement.

68. For the purposes of paragraph 66, the multiplier shall be calculated as follows:

$$\text{multiplicator} \begin{cases} 1 & \text{dacă } z \geq 0 \\ \min\left\{1, \text{Prag}_m + (1 - \text{Prag}_m) \cdot \exp\left(\frac{z}{y}\right)\right\} & \text{dacă } z < 0 \end{cases}$$

where:

$\text{floor}_{(m)} = 5\%$;

$y = 2 \times (1 - \text{Floor}_m) \times \Sigma_a \text{AddOn}^{(a)}$;

$$Z \equiv \begin{cases} CMV - NICA, & \text{for netting sets referred to in paragraph 49} \\ CMV - VM - NICA, & \text{for netting sets referred to in paragraph 50} \\ CMV_i - NICA_i, & \text{for netting sets referred to in paragraph 51} \end{cases}$$

NICA_i = the net independent collateral amount calculated only for transactions that are included in netting set i. NICA_i shall be calculated at trade level or at netting set level depending on the margin agreement.

69. To calculate the risk category add-ons referred to in paragraphs 78–98, banks shall calculate the risk position of each transaction within a netting set as follows:

$$\text{RiskPosition} = \delta \times \text{AdjNot} \times \text{MF}$$

where:

– δ = supervisory delta of the transaction calculated in accordance with the formula set out in paragraphs 70 and 71;

– AdjNot = adjusted notional amount of the transaction, calculated in accordance with paragraphs 72–74; and

– MF = maturity factor of the transaction, calculated in accordance with the formula set out in paragraphs 75–76.

Section 7
Supervisory delta

70. Banks shall calculate the supervisory delta (δ) as follows:

70.1. For call and put options that entitle the option buyer to purchase or sell an underlying instrument at a positive price on a single or multiple dates in the future, except where those options are mapped to the interest rate risk or commodity risk category, banks shall use the following formula:

$$\delta = \text{sign} \cdot N\left(\text{type} \cdot \frac{\ln(P/K) + 0{,}5 \cdot \sigma^2 \cdot T}{\sigma \cdot \sqrt{T}}\right)$$

where:
δ = the supervisory data
sign = −1 where the transaction is a sold call option or a bought put option;
sign = +1 where the transaction is a bought call option or a sold put option;
type = −1 where the transaction is a put option;
type = +1 where the transaction is a call option;
N(x) = the cumulative distribution function for a standard normal random variable meaning the probability that a normal random variable with mean zero and variance of one is less than or equal to x;
P = the spot or forward price of the underlying instrument of the option; for options the cash flows of which depend on an average value of the price of the underlying instrument, P shall be equal to the average value at the calculation date;
K = the strike price of the option;
T = the period between the expiry date of the option (T_{exp}) and the reporting date; for options which can be exercised at one future date only, T_{exp} is equal to that date; for options which can be exercised at multiple future dates, T_{exp} is equal to the latest of those dates; T shall be expressed in years using the relevant business day convention; and;
σ = the supervisory volatility of the option determined in accordance with Table 1 on the basis of the risk category of the transaction and the nature of the underlying instrument of the option.

Table 1

Risk category	**Underlying instrument**	**Supervisory volatility**
Foreign exchange	All	15 %
Credit	Single-name instrument	100 %
	Multiple-names instrument	80 %
Equity	Single-name instrument	120 %
	Multiple-names instrument	75 %
Commodity	Electricity	150 %

	Other commodities (excluding electricity)	70 %
Others	All	150 %

70. Banks using the forward price of the underlying instrument of an option shall ensure that:

70.1.1. the forward price is consistent with the characteristics of the option;
70.1.2. the forward price is calculated using an appropriate interest rate prevailing on the reporting date; and
70.1.3. the forward price reflects the expected cash flows of the underlying instrument prior to the option's expiry.

70.2. For tranches of a synthetic securitisations and for nth-to-default credit derivatives, banks shall use the following formula:

$$\delta = \text{semn} \cdot \frac{15}{(1 + 14 \cdot A) \cdot (1 + 14 \cdot D)}$$

where:

$$\text{sign} = \begin{cases} +1 \text{ where credit protection has been obtained through the transaction} \\ -1 \text{ where credit protection has been provided through the transaction} \end{cases}$$

A = attachment point of the tranche; for an nth-to-default credit derivative transaction based on k reference entities, A = (n − 1)/k; and
D = detachment point of the tranche; for an nth-to-default credit derivative transaction based on k reference entities, D = n/k.

70.3. For transactions not referred to in subparagraphs 70.1 or 70.2, banks shall use the following supervisory delta:

$$\delta = \begin{cases} +1 \text{ if the transaction is a long position in the primary risk driver or in the most material risk driver in the given risk category} \\ -1 \text{ if the transaction is a short position in the primary risk driver or in the most material risk driver in the given risk category} \end{cases}$$

71. For the purposes of this Section, a long position in the primary risk driver or in the most material risk driver in the given risk category for transactions referred to in paragraph 57 means that the market value of the transaction increases when the value of that risk driver increases and a short position in the primary risk driver or in the most material risk driver in the given risk category for transactions referred to in paragraph 57 means that the market value of the transaction decreases when the value of that risk driver increases.

Section 8
Adjusted notional amount

72. Banks shall calculate the adjusted notional amount as follows:

72.1. For transactions mapped to the interest rate risk category or the credit risk category, banks shall calculate the adjusted notional amount as the product of the notional amount of the derivative contract and the supervisory duration factor established by the National Bank of Moldova, which shall be calculated as follows:

$$\text{Duration factor established by the NBM} = \max\left\{\frac{e^{-R\times S} - e^{-R\times E}}{R}, \frac{1}{10 \text{ financial year}}\right\}$$

where:

R = the supervisory discount rate; R = 5 %;

S = the period between the start date of a transaction and the reporting date, which shall be expressed in years using the relevant business day convention;

E = the period between the end date of a transaction and the reporting date, which shall be expressed in years using the relevant business day convention;

and OneBusinessYear = one year expressed in business days using the relevant business day convention.

The start date of a transaction is the earliest date at which at least a contractual payment under the transaction, to or from the bank, is either fixed or exchanged, other than payments related to the exchange of collateral in a margin agreement. Where the transaction has already been fixing or making payments at the reporting date, the start date of a transaction shall be equal to 0.

Where a transaction involves one or more contractual future dates on which the bank or the counterparty may decide to terminate the transaction prior to its contractual maturity, the start date of a transaction shall be equal to the earliest of the following:

72.1.1. the date or the earliest of the multiple future dates at which the bank or the counterparty may decide to terminate the transaction earlier than its contractual maturity;

72.1.2. the date at which a transaction starts fixing or making payments, other than payments related to the exchange of collateral in a margin agreement.

Where a transaction has a financial instrument as the underlying instrument that may give rise to contractual obligations additional to those of the transaction, the start date of a transaction shall be determined on the basis of the earliest date at which the underlying instrument starts fixing or making payments.

The end date of a transaction is the latest date at which a contractual payment under the transaction, to or from the bank, is or may be exchanged.

Where a transaction has a financial instrument as an underlying instrument that may give rise to contractual obligations additional to those of the transaction, the end date of a transaction shall be determined on the basis of the last contractual payment of the underlying instrument of the transaction.

Where a transaction is structured to settle an outstanding exposure following specified payment dates and where the terms are reset so that the market value of the transaction is zero on those specified dates, the settlement of the outstanding exposure at those specified dates is considered a contractual payment under the same transaction;

72.2. for transactions mapped to the foreign exchange risk category, banks shall calculate the adjusted notional amount as follows:

72.2.1. where the transaction consists of one payment leg, the adjusted notional amount shall be the notional amount of the derivative contract;

72.2.2. where the transaction consists of two payment legs and the notional amount of one payment leg is denominated in the bank's reporting currency, the adjusted notional amount shall be the notional amount of the other payment leg;

72.2.3. where the transaction consists of two payment legs and the notional amount of each payment leg is denominated in a currency other than the bank's reporting currency, the adjusted notional amount shall be the largest of the notional amounts of the two payment legs after those amounts have been converted into the bank's reporting currency at the prevailing spot exchange rate;

72.3. for transactions mapped to the equity risk category or commodity risk category, banks shall calculate the adjusted notional amount as the product of the market price of one unit of the underlying instrument of the transaction and the number of units in the underlying instrument referenced by the transaction.

Where a transaction mapped to the equity risk category or commodity risk category is contractually expressed as a notional amount, banks shall use the notional amount of the transaction rather than the number of units in the underlying instrument as the adjusted notional amount;

72.4. for transactions mapped to the other risks category, banks shall calculate the adjusted notional amount on the basis of the most appropriate method among the methods set out in subparagraphs 72.1. – 72.3., depending on the nature and characteristics of the underlying instrument of the transaction.

73. Banks shall determine the notional amount or number of units of the underlying instrument for the purpose of calculating the adjusted notional amount of a transaction referred to in paragraph 72 as follows:

73.1. where the notional amount or the number of units of the underlying instrument of a transaction is not fixed until its contractual maturity:

73.1.1. for deterministic notional amounts and numbers of units of the underlying instrument, the notional amount shall be the weighted average of all the deterministic values of notional amounts or number of units of the underlying instrument, as applicable, until the contractual maturity of the transaction, where the weights are the proportion of the time period during which each value of notional amount applies;

73.1.2. for stochastic notional amounts and numbers of units of the underlying instrument, the notional amount shall be the amount determined by fixing current market values within the formula for calculating the future market values;

73.2. for contracts with multiple exchanges of the notional amount, the notional amount shall be multiplied by the number of remaining payments still to be made in accordance with the contracts;

73.3. for contracts that provide for a multiplication of the cash-flow payments or a multiplication of the underlying of the derivative contract, the notional amount shall be adjusted by a bank to take into account the effects of the multiplication on the risk structure of those contracts.

74. Banks shall convert the adjusted notional amount of a transaction into their reporting currency at the prevailing spot exchange rate where the adjusted notional amount is calculated from a contractual notional amount or a market price of the number of units of the underlying instrument denominated in another currency.

Section 9

Maturity factor and supervisory coefficient assigned by the National Bank of Moldova to the hedging set

75. For transactions included in the netting sets referred to in paragraph 49, banks shall calculate the maturity factor (MF) according to the following formula:

$$MF = \sqrt{\min\{\max\{M,\ 10/\text{OneBusinessYear}\},\ 1\}}$$

where:

MF = the maturity factor;

M = the remaining maturity of the transaction which is equal to the period of time needed for the termination of all contractual obligations of the transaction; for that purpose, any optionality of a derivative contract shall be considered to be a contractual obligation; the remaining maturity shall be expressed in years using the relevant business day convention; where a transaction has another derivative contract as underlying instrument that may give rise to additional contractual obligations beyond the contractual obligations of the transaction, the remaining maturity of the transaction shall be equal to the period of time needed for the termination of all contractual obligations of the underlying instrument; where a transaction is structured to settle outstanding exposure following specified payment dates and where the terms are reset so that the market value of the transaction is zero on those specified dates, the remaining maturity of the transaction shall be equal to the time until the next reset date; and

OneBusinessYear = one year expressed in business days using the relevant business day convention;

76. For the purposes of paragraph 75, the residual maturity shall be equal to the remaining period until the next reset date of transactions that are structured in such a way that the remaining exposures are settled on certain specified payment dates and whose terms are reset so that the market value of the contract is zero on those specified dates.

77. For the calculation of the add-on for a hedging set, as referred to in paragraphs 78–98, the supervisory factor coefficient assigned by the National Bank of Moldova to the hedging set (denoted as "ϵ") shall be as follows:

$$\varepsilon = \begin{cases} 1 & \text{for hedging sets established in accordance with paragraphs 59 and 60;} \\ 5 & \text{for hedging sets established in accordance with paragraph 61, subparagraph 61.1.;} \\ 0.5 & \text{for hedging sets established in accordance with paragraph 61, subparagraph 61.2.} \end{cases}$$

Section 10

Interest rate risk category add-on

78. For the purposes of paragraphs 66–68, banks shall calculate the interest rate risk category add-on for a given netting set as follows:

$$\text{AddOn}^{\text{IR}} = \sum_{j} \text{AddOn}_{j}^{\text{IR}}$$

where:

AddOn^{IR} = the interest rate risk category add-on;

j = the index that denotes all the interest rate risk hedging sets established in accordance with paragraph 59(1) and with paragraphs 61–64 for the netting set; and

$\text{AddOn}_{j}^{\text{IR}}$ = the interest rate risk category add-on for hedging set j, calculated in accordance with paragraph 79.

79. Banks shall calculate the add-on for hedging set j under the interest rate risk category as follows:

$$\text{AddOn}_j^{IR} = {}_j \cdot SF^{IR} \cdot \text{EffNot}_j^{IR}$$

where:

ε_j = the hedging set supervisory factor coefficient assigned by the National Bank of Moldova to hedging set j, determined in accordance with the applicable value specified in paragraph 77;

SF^{IR} = the supervisory factor for the interest rate risk category, with a value equal to 0.5%; and

$EffNot_j^{IR}$ = the effective notional amount of hedging set j, calculated in accordance with paragraph 80.

80. For the purpose of calculating the effective notional amount of hedging set j, banks shall first map each transaction in the hedging set to the corresponding bucket in Table 2. This mapping shall be based on the end date of each transaction, determined in accordance with paragraph 72(1).

Table 2

Bucket	End date (in years)
1	>0 and <=1
2	>1 and <= 5
3	> 5

Banks shall then calculate the effective notional amount of hedging set *j* in accordance with the following formula:

$$\text{EffNot}_j^{IR} = \sqrt{\left[(D_{j,1})^2 + (D_{j,2})^2 + (D_{j,3})^2 + 1{,}4 \cdot D_{j,1} \cdot D_{j,2} + 1{,}4 \cdot D_{j,2} \cdot D_{j,3} + 0{,}6 \cdot D_{j,1} \cdot D_{j,3}\right]}$$

where:

$EffNot_j^{IR}$ = the effective notional amount of hedging set j;

and Dj,k = the effective notional amount of bucket k of hedging set j calculated as follows:

$$D_{j,k} = \sum_{\text{l banda k}} \text{Poziia de risc}_l$$

where:

l = the index that denotes the risk position.

Section 11

Foreign exchange risk category add-on

81. For the purposes of Article 278, banks shall calculate the foreign exchange (FX) risk category add-on for a given netting set as follows:

$$\mathbf{AddOn^{FX}} = \sum_{j} \mathbf{AddOn_j^{FX}}$$

where:

$AddOn^{FX}$ = the foreign exchange risk category add on;

j = the index that denotes the foreign exchange risk hedging sets established in accordance with paragraph 59 subparagraph 59.2. şi cu paragraph 61-64 for the netting set; and

$AddOn_j^{FX}$ = the foreign exchange risk category add-on for hedging set j calculated in accordance with paragraph 82.

82. Banks shall calculate the foreign exchange risk category add-on for hedging set j as follows:

$$\mathbf{AddOn_j^{FX}} = {}_j \cdot \mathbf{SF^{FX}} \cdot \left|\mathbf{EffNot_j^{FX}}\right|$$

єj = the hedging set supervisory factor coefficient of hedging set j determined in accordance with Article 280;

SF^{FX} = the supervisory factor for the foreign exchange risk category with a value equal to 4 %;

$EffNot_j^{FX}$ = the effective notional amount of hedging set j calculated as follows:

$$\mathbf{EffNot_j^{FX}} = \sum_{l \in \text{Hedging set j}} \mathbf{RiskPosition_l}$$

where: l = the index that denotes the risk position.

Section 12

Credit risk category add-on

83. For the purposes of paragraph 84, banks shall establish the relevant credit reference entities of the netting set in accordance with the following:

83.1. here shall be one credit reference entity for each issuer of a reference debt instrument that underlies a single-name transaction allocated to the credit risk category; single-name transactions shall be assigned to the same credit reference entity only where the underlying reference debt instrument of those transactions is issued by the same issuer;

83.2. there shall be one credit reference entity for each group of reference debt instruments or single-name credit derivatives that underlie a multi-name transaction allocated to the credit risk category; multi-names transactions shall be assigned to the same credit reference entity only where the group of underlying reference debt instruments or single-name credit derivatives of those transactions have the same constituents.

84. For the purposes of paragraphs 66-68, banks shall calculate the credit risk category add-on for a given netting set as follows:

$$\mathrm{AddOn}^{\mathrm{Credit}} = \sum_{j} \mathrm{AddOn}_{j}^{\mathrm{Credit}}$$

$\mathrm{AddOn}^{\mathrm{Credit}}$= the add-on for the credit risk category;
j = the index designating all hedging sets established in accordance with paragraph 59 subparagraph 59.3 and paragraphs 61–64 for the netting set; and
$\mathrm{AddOn}_{j}^{\mathrm{Credit}}$ = the add-on for the credit risk category for hedging set *j*, calculated in accordance with paragraph 85.

85. Banks shall calculate the add-on for the credit risk category for hedging set *j* as follows:

$$\mathrm{AddOn}_{j}^{\mathrm{Credit}} = \epsilon_{j} \cdot \sqrt{\left(\sum_{k} \rho_{k}^{\mathrm{Credit}} \cdot \mathrm{AddOn}(\mathrm{Entitate}_{k})\right)^{2} + \sum_{k} \left(1 - \left(\rho_{k}^{\mathrm{Credit}}\right)^{2}\right) \cdot \left(\mathrm{AddOn}(\mathrm{Entitate}_{k})\right)^{2}}$$

where:

$\mathrm{AddOn}_{j}^{\mathrm{Credit}}$ = the credit risk category add-on for hedging set *j*;
ϵj = the hedging set supervisory factor coefficient of hedging set *j* determined in accordance with paragraph 77;
k = the index that denotes the credit reference entities of the netting set established in accordance with paragraph 83;
ρk^{Credit} = the correlation factor of the credit reference entity *k*, where the credit reference entity *k* has been established in accordance with paragraph 83, subparagraph 83.1.;

$$\rho k^{\mathrm{Credit}} = 50\%$$

where the credit reference entity *k* has been established in accordance with paragraph 83, subparagraph 83.2;

$$\rho k^{\mathrm{Credit}} = 80\%; \text{ and}$$

$\mathrm{AddOn}(\mathrm{Entity}_{k})$ = the add-on for the credit reference entity *k* determined in accordance with paragraph 86.

86. Banks shall calculate the add-on for the credit reference entity *k* as follows:

$$\mathrm{AddOn}(\mathrm{Entity}_{k}) = \mathrm{EffNot}_{k}^{\mathrm{Credit}}$$

where:

$\mathrm{EffNot}_{k}^{\mathrm{Credit}}$ = the effective notional amount of the credit reference entity *k* calculated as follows:

$$\mathrm{EffNot}_{k}^{\mathrm{Credit}} = \sum_{l \in \text{Credit reference entity k}} \mathrm{SF}_{k,l}^{\mathrm{Credit}} \cdot \mathrm{RiskPosition}_{l}$$

where:

l = the index that denotes the risk position; and
$\mathrm{SF}_{k,l}^{\mathrm{Credit}}$ = the factor established by National Bank of Moldova applicable to the credit reference entity k calculated in accordance with paragraph 87.

87. Banks shall calculate the factor established by National Bank of Moldova applicable to the credit reference entity *k* as follows:

87.1. for the credit reference entity *k* established in accordance with paragraph 83, subparagraph 83.1.

$SF_{k,l}^{Credit}$

shall be mapped to one of the six factors established by National Bank of Moldova set out in Table 3 on the basis of an external credit assessment by a nominated ECAI of the corresponding individual issuer;

For an individual issuer for which a credit assessment by a nominated ECAI is not available, a bank using the Standardised Approach in accordance with the provisions of Regulation No.111/2018 shall map

$$SF_{k,l}^{Credit} = 0.54\%$$

to the respective credit reference entity. However, where the bank applies the counterparty credit risk treatment applicable to subordinated debt exposures in order to risk-weight the counterparty credit risk exposures to that individual issuer, it shall assign $SF_{k,l}^{Credit} = 1,6\%$ to the respective credit reference entity.

Table 3

Credit quality step	**The factor established by the National Bank of Moldova for single-name transactions**
1	0,38 %
2	0,42 %
3	0,54 %
4	1,06 %
5	1,6 %
6	6,0 %

87.2. For credit reference entities *k* established in accordance with paragraph 83 subparagraph 83.2:

87.2.1. Where a risk position *l* assigned to the credit reference entity *k* is a credit index traded on a recognised exchange, $SF_{k,l}^{Credit}$ shall be mapped to one of the two factors set out in Table 4, based on the credit quality of the majority of its individual constituents.

87.2.2. Where a risk position *l* assigned to the credit reference entity *k* is not referred to in subparagraph 87.2.1, $SF_{k,l}^{Credit}$ shall be the weighted average of the factors established by the National Bank of Moldova corresponding to each component in accordance with the method provided in subparagraph 87.1, the weights being given by the proportion of the notional value of the components included in that position.

Table 4

Dominant credit quality	**Factor established by the National Bank of Moldova for quoted indices**
Investment grade	0,38 %
Non-investment grade	1,06 %

Section 13

Equity risk category add-on

88. For the purposes of paragraph 89, banks shall establish the relevant equity reference entities of the netting set in accordance with the following:

88.1. there shall be one equity reference entity for each issuer of a reference equity instrument that underlies a single-name transaction allocated to the equity risk category; single-name transactions shall be assigned to the same equity reference entity only where the underlying reference equity instrument of those transactions is issued by the same issuer;

88.2. there shall be one equity reference entity for each group of reference equity instruments or single-name equity derivatives that underlie a multi-name transaction allocated to the equity risk category; multi-names transactions shall be assigned to the same equity reference entity only where the group of underlying reference equity instruments or single-name equity derivatives of those transactions, as applicable, has the same constituents.

89. For the purposes of paragraphs 66-68, banks shall calculate the equity risk category add-on for a given netting set as follows:

$$\text{AddOn}^{\text{Equity}} = \sum_{j} \text{AddOn}_{j}^{\text{Equity}}$$

where:
$\text{AddOn}^{\text{Equity}}$ = the equity risk category add-on;
j = the index that denotes all the equity risk hedging sets established in accordance with paragraph 59, subparagraph 59.4. and paragraphs 61-64 for the netting set; and
$\text{AddOn}_{j}^{\text{Equity}}$ = the equity risk category add-on for hedging set j calculated in accordance with paragraph 90.

90. Banks shall calculate the equity risk category add-on for hedging set j as follows:

$$\text{AddOn}_{j}^{\text{Equity}} = \epsilon_{j} \sqrt{\left(\sum_{k} \rho_{k}^{\text{Equity}} \cdot \text{AddOn}(\text{Entity}_{k})\right)^{2} + \sum_{k} \left(1 - \left(\rho_{k}^{\text{Equity}}\right)^{2}\right) \cdot \left(\text{AddOn}(\text{Entity}_{k})\right)^{2}}$$

where:
$\text{AddOn}_{j}^{\text{Equity}}$ = the equity risk category add-on for hedging set *j*;
ϵ_{j} = the coefficient of the factor established by National Bank of Moldova for the hedging set for the credit risk category for hedging j determined in accordance with paragraph 77;
k = the index that denotes the equity reference entities of the netting set established in accordance with paragraph 88;
ρ_{k}^{Equity} = the correlation factor of the equity reference entity k; where the equity reference entity k has been established in accordance with paragraph 88, subparagraph 88.1.,

$\rho_{k}^{\text{Equity}} = 50\%$;

Where the equity reference entity k has been established in accordance with point (b) of paragraph 1,

$\rho_{k}^{\text{Equity}} = 80\%$; and

$\text{AddOn}(\text{Entity}_{k})$ = the add-on for the equity reference entity k determined in accordance with paragraph 91.

91. Banks shall calculate the add-on for the equity reference entity *k* as follows:

$$\text{AddOn}(\text{Entity}_k) = \text{SF}_k^{\text{Equity}} \cdot \text{EffNot}_k^{\text{Equity}}$$

$\text{AddOn}(\text{Equity}_k)$ = the add-on for equity reference entity *k*;
$\text{SF}_k^{\text{Equity}}$= the factor established by the National Bank of Moldova applicable to equity reference entity *k*. Where the equity reference entity *k* has been established in accordance with paragraph 88 subparagraph 88.1, $\text{SF}_k^{\text{Equity}} = 32\%$. Where the equity reference entity *k* has been established in accordance with paragraph 88 subparagraph 88.2, $\text{SF}_k^{\text{Equity}} = 20\%$; and
$\text{EffNot}_k^{\text{Equity}}$= the effective notional value of equity reference entity *k*, calculated as follows:

$$\text{EffNot}_k^{\text{Equity}} = \sum_{l \in \text{Equity reference entity k}} \text{RiskPosition}_l$$

where:
l = the index that denotes the risk position

Section 14
Commodity risk category add-on

92. For the purposes of paragraphs 66–68, banks shall calculate the add-on for the commodity risk category for a given netting set as follows:

$$\text{AddOn}^{\text{Com}} = \sum_j \text{AddOn}_j^{\text{Com}}$$

where:
$\text{AddOn}^{\text{Commodity}}$= the commodity risk category add-on;
j = the index designating the hedging sets for the commodity risk category established in accordance with paragraph 59 subparagraph 59.5 and paragraphs 61–64 for the netting set; and
$\text{AddOn}_j^{\text{Commodity}}$ = the commodity risk add-on category for hedging set *j*, calculated in accordance with paragraph 95.

93. For the purpose of calculating the add-on for a commodity hedging set of a given netting set in accordance with paragraph 95, banks shall establish the relevant commodity reference types of each hedging set. Commodity derivative transactions shall be assigned to the same commodity reference type only where the underlying commodity instrument of those transactions has the same nature, irrespective of the delivery location and quality of the commodity instrument.

94. By way of derogation from paragraph 93, National Bank of Moldova may require a bank which is significantly exposed to the basis risk of different positions sharing the same nature as referred to in paragraph 93 to establish the commodity reference types for those positions using more characteristics than just the nature of the underlying commodity instrument. In such a situation, commodity derivative transactions shall be assigned the same commodity reference type only where they share those characteristics.

95. Banks shall calculate the commodity risk category add-on for hedging set j as follows:

$$\mathrm{AddOn}_j^{\mathrm{Com}} = \epsilon_j \sqrt{\left(\rho^{\mathrm{Com}} \cdot \sum_k \mathrm{AddOn}\left(\mathrm{Type}_k^j\right)\right)^2 + \left(1 - (\rho^{\mathrm{Com}})^2\right) \cdot \sum_k \left(\mathrm{AddOn}\left(\mathrm{Type}_k^j\right)\right)^2}$$

where:

$\mathrm{AddOn}_j^{\mathrm{Com}}$ = the commodity risk category add-on for hedging set *j*;

ϵj = the hedging set supervisory factor coefficient established by National Bank of Moldova of hedging set *j* determined in accordance with paragraph 77;

ρ^{Com} = the correlation factor of the commodity risk category with a value equal to 40 %;

k = the index that denotes the commodity reference types of the netting set established in accordance with paragraph 93; and

$\mathrm{AddOn}(\mathrm{Tip}_k^j)$ = the add-on for the commodity reference type *k* calculated in accordance with paragraph 96.

96. Baks shall calculate the add-on for the commodity reference type *k* as follows:

$$\mathrm{AddOn}\left(\mathrm{Type}_k^j\right) = \mathrm{SF}_k^{\mathrm{Com}} \cdot \mathrm{EffNot}_k^{\mathrm{Com}}$$

where:

$\mathrm{AddOn}(\mathrm{Type}^j_k)$ = the add-on for the commodity reference type *k*;

$\mathrm{SF}_k^{\mathrm{Com}}$ = the factor established by National Bank of Moldova applicable to the commodity reference type k; where the commodity reference type k corresponds to transactions allocated to the hedging set referred to in paragraph 59, subparagraph 59.5., excluding transactions concerning electricity $\mathrm{SF}_k^{\mathrm{Com}}$ =18%. For transactions concerning electricity $\mathrm{SF}_k^{\mathrm{Com}}$ =40%. ; and

$\mathrm{EffNot}_k^{\mathrm{Com}}$= the effective notional amount of the commodity reference type *k* calculated as follows:

$$\mathrm{EffNot}_k^{\mathrm{Com}} = \sum_{l \in \text{Commodity reference type k}} \mathrm{RiskPosition}_l$$

where:

l = the index that denotes the risk position

Section 15

Add-on for the other risk category

97. For the purposes of paragraphs 66–68, banks shall calculate the add-on for the other risk category for a given netting set as follows:

$$\mathrm{AddOn}^{\mathrm{Other}} = \sum_j \mathrm{AddOn}_j^{\mathrm{Other}}$$

where:

$\mathrm{AddOn}^{\mathrm{Other}}$= the other risk category add-on;

j = the index designating the other risk hedging sets established in accordance with paragraph 59 subparagraph 59.6 and paragraphs 61–64 for the netting set; and

$\mathrm{AddOn}_j^{\mathrm{Other}}$= the other risk category add-on for hedging set *j*, calculated in accordance with paragraph 98.

98. Banks shall calculate the add-on for the other risk category for hedging set *j* as follows:

$$\text{AddOn}_j^{\text{Other}} = \epsilon_j \cdot \text{SF}^{\text{Other}} \cdot \left|\text{EffNot}_j^{\text{Other}}\right|$$

where:

$\text{AddOn}_j^{\text{Other}}$ = the other risks category add-on for hedging set j;

ϵj = the hedging set factor coefficient established by National Bank of Moldova of hedging set *j* determined in accordance with Article 280; and

SF^{Other} = the factor established by National Bank of Moldova for the other risk category with a value equal to 8 %;

$\text{EffNot}_j^{\text{Other}}$ = the effective notional amount of hedging set j calculated as follows:

$$\text{EffNot}_j^{\text{Other}} = \sum_{l \in \text{Hedging set j}} \text{RiskPosition}_l$$

where:

l = the index that denotes the risk position.

Chapter IV
Simplified standardised approach for counterparty credit risk

99. Banks shall calculate a single exposure value at the level of a netting set in accordance with Chapter III, subject to paragraph 100.

100. The exposure value of a netting set shall be calculated in accordance with the following requirements:

100.1. Banks shall not apply the treatment referred to in paragraphs 45–47;

100.2. By way of derogation from paragraph 49, for netting sets not referred to in paragraph 50, banks shall calculate the replacement cost in accordance with the following formula:

$$RC = \max\{CMV, 0\}$$

where:

RC = the replacement cost; and

CMV = the current market value.

100.3. by way of derogation from paragraph 50 of this Regulation, for netting sets of transactions: that are traded on a recognised exchange; that are centrally cleared by a central counterparty authorised in the European Union or recognised in a third country; or for which collateral is exchanged bilaterally with the counterparty take places, banks shall calculate the replacement cost in accordance with the following formula:

$$RC = TH + MTA$$

where:

RC = the replacement cost;

TH = the margin threshold applicable to the netting set under the margin agreement below which the bank cannot call for collateral; and

MTA = the minimum transfer amount applicable to the netting set under the margin agreement;

100.4. by way of derogation from paragraph 51, for multiple netting sets that are subject to a margin agreement, banks shall calculate the replacement cost as the sum of the replacement cost of each individual netting set, calculated in accordance with paragraph 99 as if they were not margined;

100.5. all hedging sets shall be established in accordance with paragraphs 59 and 60;

100.6. banks shall set to 1 the multiplier in the formula that is used to calculate the potential future exposure in paragraph 66, as follows:

$$\mathrm{PFE} = \sum_{a} \mathrm{AddOn}^{(a)}$$

where:

PFE = the potential future exposure; and

$\mathrm{AddOn}^{(a)}$ = the add-on for risk category ”a”;

100.7. by way of derogation from paragraph 70, for all transactions, banks shall calculate the supervisory delta as follows:

$$\delta = \begin{cases} +1 \text{ where the transaction is a long position in the primary risk driver} \\ -1 \text{ where the transaction is a short position in the primary risk driver} \end{cases}$$

100.8. the formula referred to in paragraph 72, subparagraphs 72.1. that is used to compute the supervisory duration factor shall read as follows:

$$\text{supervisory duration factor} = E - S$$

where:

E = the period between the end date of a transaction and the reporting date; and

S = the period between the start date of a transaction and the reporting date;

100.9. the maturity factor referred to in paragraph 75 shall be calculated as follows:

100.9.1. for transactions included in netting sets referred to in paragraph 49, MF = 1;

100.9.2. for transactions included in netting sets referred to in paragraphs 50 and 51, MF = 0,42;

100.10. The formula referred to in paragraph 80, which is used to calculate the effective notional value of the hedging set “j”, shall read as follows:

$$\mathrm{EffNot}_j^{IR} = |D_{j,1}| + |D_{j,2}| + |D_{j,3}|$$

where:

EffNot_j^{IR} = the effective notional amount of hedging set *j*; and

Dj_k = the effective notional amount of bucket *k* of hedging set *j*;

100.11. the formula referred to in paragraph 85 that is used to calculate the credit risk category add-on for hedging set *j* shall read as follows:

$$\text{AddOn}_j^{\text{Credit}} = \sum_k |\text{AddOn}(\text{Entity}_k)|$$

where:

$\text{AddOn}_j^{\text{Credit}}$ = the credit risk category add-on for hedging set *j*; and

$\text{AddOn}(\text{Entity}_k)$ = the add-on for the credit reference entity *k;*

100.12. the formula referred to in paragraph 90 that is used to calculate the equity risk category add-on for hedging set *j* shall read as follows:

$$\text{AddOn}_j^{\text{Equity}} = \sum_k |\text{AddOn}(\text{Entity}_k)|$$

where:

$\text{AddOn}_j^{\text{Equity}}$= the equity risk category add-on for hedging set j; and

$\text{AddOn}(\text{Entity}_k)$ = the add-on for the credit reference entity k;

100.13. the formula referred to in paragraph 95 that is used to calculate the commodity risk category add-on for hedging set *j* shall read as follows:

$$\text{AddOn}_j^{\text{Com}} = \sum_k |\text{AddOn}(\text{Type}_k^j)|$$

where:

$\text{AddOn}_j^{\text{Com}}$ = the commodity risk category add-on for hedging set j; and

$\text{AddOn}(\text{Type}^j_k)$ = the add-on for the commodity reference type k

Chapter V
Original of the exposure method

101. Banks may calculate a single exposure value for all the transactions within a contractual netting agreement where all the conditions set out in paragraphs 39 and 40 are met. Otherwise, banks shall calculate an exposure value separately for each transaction, which shall be treated as its own netting set.

102. The exposure value of a netting set or a transaction shall be the product of 1,4 times the sum of the current replacement cost and the potential future exposure.

103. The current replacement cost referred to in paragraph 102 shall be calculated as follows:

103.1. for netting sets of transactions that are traded on a recognised exchange or centrally cleared by a central counterparty authorised in accordance with European Union Directives, or recognised in a third party, or for which collateral is exchanged bilaterally with the counterparty, banks shall use the following formula:

$$RC = TH + MTA$$

where:

RC = the replacement cost;

TH = the margin threshold applicable to the netting set under the margin agreement below which the bank cannot call for collateral; and

MTA = the minimum transfer amount applicable to the netting set under the margin agreement;

103.2. for all other netting sets or individual transactions, banks shall use the following formula:

$$RC = \max\{CMV, 0\}$$

where:

RC = the replacement cost; and

CMV = the current market value.

In order to calculate the current replacement cost, banks shall update current market values at least monthly.

104. Banks shall calculate the potential future exposure referred to in paragraph 102 as follows:

104.1. the potential future exposure of a netting set is the sum of the potential future exposure of all the transactions included in the netting set, calculated in accordance with paragraph 104.2.;

104.2.the potential future exposure of a single transaction is its notional amount multiplied by:

104.2.1. the product of 0,5 % and the residual maturity of the transaction expressed in years for interest-rate derivative contracts;

104.2.2. the product of 6 % and the residual maturity of the transaction expressed in years for credit derivative contracts;

104.2.3. 4 % for foreign-exchange derivatives;

104.2.4. 18 % for gold and commodity derivatives other than electricity derivatives;

104.2.5. 40 % for electricity derivatives;

104.2.6. 32 % for equity derivatives;

104.3. the notional amount referred to in subparagraph 104.2. shall be determined in accordance with paragraphs 73 and 74 for all derivatives listed in that point; in addition, the notional amount of the derivatives referred to subparagraphs 104.2.3.-104.2.6. shall be determined in accordance with paragraphs 72, subparagraphs 72.2. and 72.3.;

104.4. the potential future exposure of netting sets referred to in paragraph 103, subparagraphs 103.1 and shall be multiplied by 0,42.

105. For calculating the potential exposure of interest-rate derivatives and credit derivatives in accordance with subparagraphs 104.2.1. and 104.2.2., a bank may choose to use the original maturity instead of the residual maturity of the contracts.

Chapter VI
Contractual Netting

Section 1

Recognition of contractual netting as risk-reducing

106. Banks may treat as risk reducing in accordance with paragraph 117 only the following types of contractual netting agreements where the netting agreement has been recognised by the National Bank of Moldova in accordance with paragraphs 108-111 and where the bank meets the requirements set out in paragraphs 112-116:

106.1. bilateral contracts for novation between a bank and its counterparty under which mutual claims and obligations are automatically amalgamated in such a way that the novation fixes one single net amount each time it applies so as to create a single new contract that replaces all former contracts and all obligations between parties pursuant to those contracts and is binding on the parties;

106.2.2 other bilateral agreements (than those indicated in subparagraph 106.1.) between a bank and its counterparty;

107. Netting across transactions entered into by different legal entities of a group shall not be recognised for the purposes of calculating the own funds requirements

Section 2

Recognition of contractual netting agreements

108. The National Bank of Moldova shall recognise a contractual netting agreement only where the conditions in paragraphs 109 and 110 and, where relevant, 111 are fulfilled.

109. The following conditions shall be fulfilled by all contractual netting agreements used by a bank for the purposes of determining exposure value in this Part:

109.1.1 the bank has concluded a contractual netting agreement with its counterparty which creates a single legal obligation, covering all included transactions, such that, in the event of default by the counterparty it would be entitled to receive or obliged to pay only the net sum of the positive and negative mark-to-market values of included individual transactions;

109.2. the bank has made available to the competent authorities written and reasoned legal opinions to the effect that, in the event of a legal challenge of the netting agreement, the bank's claims and obligations would not exceed those referred to in subparagraph 109.1. The legal opinion shall refer to the applicable law:

109.2.1. the jurisdiction in which the counterparty is incorporated;

109.2.2. if a branch of an undertaking is involved, which is located in a country other than that where the undertaking is incorporated, the jurisdiction in which the branch is located;

109.2.3. the jurisdiction whose law governs the individual transactions included in the netting agreement;

109.2.4. the jurisdiction whose law governs any contract or agreement necessary to effect the contractual netting;

109.3. credit risk to each counterparty is aggregated to arrive at a single legal exposure across transactions with each counterparty. This aggregation shall be factored into credit limit purposes and internal capital purposes;

109.4. the contract shall not contain any clause which, in the event of default of a counterparty, permits a non-defaulting counterparty to make limited payments only, or no payments at all, to the estate of the defaulting party, even if the defaulting party is a net creditor

110. If the National Bank of Moldova is not satisfied that the contractual netting is legally valid and enforceable under the law of each of the jurisdictions referred to in paragraph 109, sub-paragraph 109.2. the contractual netting agreement shall not be recognised as risk-reducing for either of the counterparties.

111. The legal opinions referred to in paragraph 109, sub-paragraph 109.2. may be drawn up by reference to types of contractual netting. The following additional conditions shall be fulfilled by contractual cross-product netting agreements:

111.1. the net sum referred to in paragraph 109, sub-paragraph 109.1. is the net sum of the positive and negative close out values of any included individual bilateral master agreement and of the positive and negative mark-to-market value of the individual transactions (the ‘crossproduct net amount’);

111.2. the legal opinions referred to in paragraph 109, sub-paragraph 109.2. shall address the validity and enforceability of the entire contractual cross-product netting agreement under its terms and the impact of the netting arrangement on the material provisions of any included individual bilateral master agreement.

Section 3

Obligations of banks and effects of recognition of netting as risk-reducing

112. A bank shall establish and maintain procedures to ensure that the legal validity and enforceability of its contractual netting is reviewed in the light of changes in the law of relevant jurisdictions referred to in paragraph 109 subparagraph 109.2.

113. The bank shall maintain all required documentation relating to its contractual netting in its files.

114. The bank shall factor the effects of netting into its measurement of each counterparty's aggregate credit risk exposure and the bank shall manage its CCR on the basis of those effects of that measurement.

115. In the case of contractual cross-product netting agreements referred to in paragraph 106, the bank shall maintain procedures under paragraph 109 subparagraph 109.3 to verify that any transaction which is to be included in a netting set is covered by a legal opinion referred to in paragraph 109 subparagraph 109.2.

116. Taking into account the contractual cross-product netting agreement, the bank shall continue to comply with the requirements for the recognition of bilateral netting and the requirements for the recognition of credit risk mitigation, as set out in Regulation No. 112/2018 of the National Bank of Moldova, as applicable, in respect of each individual bilateral master agreement and each transaction included therein.

117. Netting, for the purposes of Chapters III–V, shall be recognised as provided in the respective Chapters.

Chapter VII
Items in the trading book

118. When calculating risk-weighted exposure amounts for counterparty risk of items in the trading book, banks shall comply with the principles indicates in paragraphs 119-124.

119. For the recognition of the effects of a financial collateral, banks shall not apply the simple method of financial collateral set out in Chapter VIII, Section 4 of Regulation No. 112/2018.

120. In the case of repurchase transactions and securities or commodities lending or borrowing transactions booked in the trading book, banks may recognise as eligible collateral all financial instruments and commodities that are eligible to be included in the trading book;

121. For exposures arising from OTC derivative instruments booked in the trading book, banks may recognise commodities that are eligible to be included in the trading book as eligible collateral.

122. For the purpose of calculating volatility adjustments, where financial instruments or commodities that are not eligible in accordance with Regulation No. 112/2018 are lent, sold, or provided, or borrowed, purchased, or received as collateral, or otherwise involved in such a transaction, and the bank applies, in accordance with Chapter VIII of the aforementioned Regulation, the supervisory volatility adjustments approach, such instruments and commodities shall be treated in the same manner as equities not included in a main index and listed on a recognised exchange.

123. In relation to the recognition of master netting agreements covering repurchase transactions, securities or commodities lending or borrowing transactions, or other capital market-driven transactions, banks shall only recognise netting across positions in the trading book and the non-trading book when the netted transactions fulfil the following conditions:

123.1. all transactions are marked to market daily;

123.2. any items borrowed, purchased or received under such transactions may be recognised as eligible financial collateral in accordance with point 25 of Regulation No. 112/2018 of the National Bank of Moldova, without applying paragraphs 120–122 thereof;

124. Where a credit derivative included in the trading book forms part of an internal hedge of credit risk, and the credit protection is recognised under Chapter V of Regulation No. 112/2018 of the National Bank of Moldova, banks shall apply one of the following approaches:

124.1. treat the credit derivative as if there were no counterparty risk arising from the position in that instrument; or

124.2. consistently include for the purpose of calculating the own funds requirements for counterparty credit risk all credit derivatives in the trading book forming part of internal hedges or

purchased as protection against a CCR exposure where the credit protection is recognised as eligible in accordance with Regulation No. 112/2018.

Chapter VIII
Own funds requirements for exposures to a central counterparty

Section 1
Material Scope

125. This Section applies to the following contracts and transactions, for as long as they are outstanding with a CCP:

125.1. the derivative contracts listed in Annex I to Regulation no.114/2018 and credit derivatives;

125.2. securities financing transactions and fully guaranteed deposit lending or borrowing transactions; and

125.3. long settlement transactions.

126. This Section does not apply to exposures arising from the settlement of cash transactions. Banks shall apply the treatment laid down Regulation on the treatment of settlement/delivery risk for banks, approved by Decision of the Executive Board of the National Bank of Moldova No. 115/2018, to trade exposures arising from those transactions and a 0 % risk weight to default fund contributions covering only those transactions. Banks shall apply the treatment set out in paragraph 149 to default fund contributions that cover any of the contracts listed in Annex 1 to Regulation no.114/2018, in addition to cash transactions.

127. For the purposes of this Section, the following requirements shall apply: 127.1. the initial margin shall not include contributions to a CCP for mutualised loss sharing arrangements;

127.2. the initial margin shall include collateral deposited by a bank acting as a clearing member or by a client in excess of the minimum amount required respectively by the CCP or by the bank acting as a clearing member, provided the CCP or the bank acting as a clearing member may, in appropriate cases, prevent the bank acting as a clearing member or the client from withdrawing such excess collateral;

127.3. where a CCP uses the initial margin to mutualise losses among its clearing members, banks that act as clearing members shall treat that initial margin as a default fund contribution.

Section 2
Monitoring of exposures to CCPs

128. Banks shall monitor all their exposures to CCPs and shall lay down procedures for the regular reporting of information on those exposures to senior management and appropriate committee of the management body.

129. Banks shall assess, through appropriate scenario analysis and stress testing, whether the level of own funds held against exposures to a CCP, including potential future or contingent credit exposures, exposures from default fund contributions and, where the bank is acting as a clearing member, exposures resulting from contractual arrangements as laid down in paragraphs 132-139, adequately relates to the inherent risks of those exposures.

Section 3
Treatment of clearing members' exposures to CCPs

130. A bank that acts as a clearing member, either for its own purposes or as a financial intermediary between a client and a CCP, shall calculate the own funds requirements for its exposures to a CCP as follows:

130.1. it shall apply the treatment set out in paragraphs 145-148 to its trade exposures with the CCP;

130.2. it shall apply the treatment set out in paragraph 149 to its default fund contributions to the CCP.

131. For the purposes of paragraph 130, the sum of a bank's own funds requirements for its exposures to a QCCP due to trade exposures and default fund contributions shall be subject to a cap equal to the sum of own funds requirements that would be applied to those same exposures if the CCP were a non-qualifying CCP.

Section 4

Treatment of clearing members' exposures to clients

132. A bank that acts as a clearing member and, in that capacity, acts as a financial intermediary between a client and a CCP shall calculate the own funds requirements for its CCP-related transactions with that client in accordance with Chapters I to VII, with the provisions of Regulation No. 112/2018 and Regulation No. 103/2020, as applicable.

133. Where a bank acting as a clearing member enters into a contractual arrangement with a client of another clearing member that facilitates, the transfer of positions and collateral referred to in paragraph 141, subparagraph 141.2. for that client, and that contractual agreement gives rise to a contingent obligation for that bank, that bank may attribute an exposure value of zero to that contingent obligation.

134. Where a bank that acts as a clearing member uses the methods set out in Chapter III to calculate the own funds requirement for its exposures, the following provisions shall apply:

134.1. the bank may use a margin period of risk of at least five business days for its exposures to a client;

134.2. the bank shall apply a margin period of risk of at least 10 business days for its exposures to a CCP;

134.3. where a netting set included in the calculation meets the condition set out in subparagraph 134.1, the bank may disregard the limit set out in that point, provided that the netting set does not meet the condition set out in subparagraph 134.2 and does not contain disputed trades or exotic options;

134.4. where a CCP retains variation margin against a transaction, and the bank's collateral is not protected against the insolvency of the CCP, the bank shall apply a margin period of risk that is the lower of one year and the remaining maturity of the transaction, with a floor of 10 business days.

135. By way of derogation from paragraph 100, subparagraph 100.9., where a bank that acts as a clearing member uses the method set out in Chapter IV to calculate the own funds requirement for its exposures to a client, the bank may use a maturity factor of 0,21 for its calculation.

136. By way of derogation from paragraph 104, subparagraph 104.4., where a bank that acts as a clearing member uses the method set out in Chapter V to calculate the own funds requirement for its exposures to a client, that bank may use a maturity factor of 0,21 in that calculation

137. A bank that acts as a clearing member may use the reduced exposure at default resulting from the calculations set out in paragraphs 134-136 for the purposes of calculating its own funds requirements for CVA risk in accordance with Regulation no.103/2020.

138. A bank that acts as a clearing member that collects collateral from a client for a CCP-related transaction and passes the collateral on to the CCP may recognise that collateral to reduce its exposure to the client for that CCP-related transaction.

139. In the case of a multi-level client structure, the treatment set out in the first subparagraph may be applied at each level of that structure.

Section 5

Treatment of clients' exposure

140. A bank that is a client shall calculate the own funds requirements for its CCP-related transactions with its clearing member in accordance with Chapters I-VII, in accordance with the provisions of Regulation No. 112/2018 and Regulation No. 103/2020, as applicable.

141. Without prejudice to the approach specified in paragraph 140, where a bank is a client, it may calculate the own funds requirements for its trade exposures for CCP-related transactions with its clearing member in accordance with paragraphs 145-148, provided that all the following conditions are met:

141.1. the positions and assets of that bank related to those transactions are distinguished and segregated, at the level of both the clearing member and the CCP, from the positions and assets of both the clearing member and the other clients of that clearing member and as a result of that distinction and segregation those positions and assets are bankruptcy remote in the event of the default or insolvency of the clearing member or one or more of its other clients;

141.2. laws, regulations, rules and contractual arrangements applicable to or binding that bank or the CCP facilitate the transfer of the client's positions relating to those contracts and transactions and of the corresponding collateral to another clearing member within the applicable margin period of risk in the event of default or insolvency of the original clearing member. In such circumstance, the client's positions and the collateral shall be transferred at market value unless the client requests to close out the position at market value;

141.3. the client has conducted a sufficiently thorough legal review, which it has kept up to date, that substantiates that the arrangements that ensure that the condition set out in subparagraph 141.2. is met are legal, valid, binding and enforceable under the relevant laws of the relevant jurisdiction or jurisdictions;

141.4 CPC is a QCCP.

142. When assessing its compliance with the condition set out in paragraph 141, subparagraph 141.2., a bank may take into account any clear precedents of transfers of client positions and of corresponding collateral at a CCP, and any industry intent to continue with that practice.

143. By way of derogation from paragraph 141 and 142, where a bank that is a client fails to meet the condition set out in paragraph 141, subparagraph 141.1 because that bank is not protected from losses in case the clearing member and another client of the clearing member jointly default, provided that all the other conditions set out in paragraph 141, subparagraph 141.1- 141.4. are met, the bank may calculate the own funds requirements for its trade exposures for CCP-related transactions with its clearing member in accordance with paragraphs 145-148, subject to replacing the 2 % risk weight set out in paragraph 145, subparagraph 145.1. with a 4 % risk weight.

144. In the case of a multi-level client structure, a bank that is a lower-level client accessing the services of a CCP through a higher-level client may apply the treatment set out in paragraph 141 or 143 only where the conditions set out therein are met at every level of that structure.

Section 6

Own funds requirements for trade exposures and own funds requirements for contributions to default fund of a CCP

145. A bank shall apply the following treatment to its trade exposures with CCPs:

145.1. it shall apply a risk weight of 2 % to the exposure values of all its trade exposures with QCCPs;

145.2. it shall apply the risk weight used for the Standardised Approach to credit risk as set out in Regulation no.111/2018 to all its trade exposures with non-qualifying CCPs;

145.3. where a bank acts as a financial intermediary between a client and a CCP, and the terms of the CCP-related transaction stipulate that the bank is not required to reimburse the client for any losses suffered due to changes in the value of that transaction in the event that the CCP defaults, that bank may set the exposure value of the trade exposure with the CCP that corresponds to that CCP-related transaction to zero;

145.4. where a bank acts as a financial intermediary between a client and a CCP, and the terms of the CCP-related transaction stipulate that the bank is required to reimburse the client for any losses suffered due to changes in the value of that transaction in the event that the CCP defaults, that bank shall apply the treatment in subparagraphs 145.1. or 145.2., as applicable, to the trade exposure with the CCP that corresponds to that CCP-related transaction.

146. By way of derogation from paragraph 145, where assets posted as collateral to a CCP or a clearing member are bankruptcy remote in the event that the CCP, the clearing member or one or more of the other clients of the clearing member become insolvent, a bank may attribute an exposure value of zero to the counterparty credit risk exposures for those assets.

147. A bank shall calculate exposure values of its trade exposures with a CCP in accordance with Chapter I-VII and with provisions of Regulation No. 112/2018 and Regulation No. 103/2020, as applicable.

148. A bank shall calculate the risk-weighted exposure amounts for its trade exposures with CCPs in accordance of the provisions of Regulation no.109/2018 as the sum of the exposure values of its trade exposures with CCPs, calculated in accordance with paragraphs 146 and 147, multiplied by the risk weight determined in accordance with paragraph 145.

149. A bank that acts as a clearing member shall apply the following treatment to its exposures arising from its contributions to the default fund of a CCP:

149.1. it shall calculate the own funds requirement for its pre-funded contributions to the default fund of a QCCP in accordance with the approach set out in paragraphs 150-152;

149.2. it shall calculate the own funds requirement for its pre-funded and unfunded contributions to the default fund of a non-qualifying CCP in accordance with the approach set out in paragraphs 153 and 154;

149.3. it shall calculate the own funds requirement for its unfunded contributions to the default fund of a QCCP in accordance with the treatment set out in paragraph 155.

Section 7

Own funds requirements for pre-funded contributions to the default fund of a QCCP

150. The exposure value for a bank's pre-funded contribution to the default fund of a QCCP (DFi) shall be the amount paid in or the market value of the assets delivered by that bank reduced by any amount of that contribution that the QCCP has already used to absorb its losses following the default of one or more of its clearing members.

151. A bank shall calculate the own funds requirement to cover the exposure arising from its pre-funded contribution as follows:

$$K_i = \max\left\{K_{CCP} \cdot \frac{DF_i}{DF_{CCP} + DF_{CM}}, 8\% \cdot 2\% \cdot DF_i\right\}$$

where:

K_i = the own funds requirement;

i = the index denoting the clearing member;

K_{CCP} = the hypothetical capital of the QCCP communicated to the bank by the QCCP;

DF_i = the pre-funded contribution;

DF_{CCP} = the pre-funded financial resources of the CCP communicated to the bank by the CCP; and

DF_{CM} = the sum of pre-funded contributions of all clearing members of the QCCP communicated to the bank by the QCCP.

152. A bank shall calculate the risk-weighted exposure amounts for exposures arising from that bank's pre-funded contribution to the default fund of a QCCP in accordance with the

provisions of Regulation No. 109/2018, by multiplying by 10 the own funds requirement calculated in accordance with paragraph 151.

Section 8

Own funds requirements for pre-funded contributions to the default fund of a non-qualifying CCP and for unfunded contributions to a non-qualifying CCP and own funds requirements for unfunded contributions to the default fund of a QCCP

153. A bank shall apply the following formula to calculate the own funds requirement for the exposures arising from its pre-funded contributions to the default fund of a non-qualifying CCP and from unfunded contributions to such CCP:

$$K = DF + UC$$

where:

K = the own funds requirement;

DF = the pre-funded contributions to the default fund of a non-qualifying CCP; and

UC = the unfunded contributions to the default fund of a non-qualifying CCP.

154. A bank shall calculate the risk-weighted exposure amounts for exposures arising from that bank's contribution to the default fund of a non-qualifying CCP in accordance with the provisions of Regulation No. 109/2018 by multiplying by 10 the own funds requirement calculated in accordance with paragraph 153;

155. The bank shall apply a risk weight of 0 % to its unfunded contributions to the default fund of a QCCP.

Section 9

Own funds requirements for exposures to CCPs that cease to meet certain conditions

156. Banks shall apply the treatment set out in this Article where it has become known to them, following a public announcement or notification from the National Bank of Moldova of a CCP used by those banks or from that CCP itself, that the CCP will no longer comply with the conditions for authorisation or recognition, as applicable.

157. Where the condition set out in paragraph 156 is met, bank shall, within three months of becoming aware of the circumstance referred to therein, or at an earlier time if the National Bank of Moldova of those banks so require, do the following with respect to their exposures to that CCP:

157.1. apply the treatment set out in paragraph 145, subparagraph 145.2. to their trade exposures to that CCP;

157.2. apply the treatment set out in paragraph 153 and 154 to their pre-funded contributions to the default fund of that CCP and to its unfunded contributions to that CCP;

157.3. treat their exposures to that CCP, other than the exposures listed in subparagraphs 157.1. and 157.2., as exposures to a corporate in accordance with the Standardised Approach for credit risk set out in Regulation No.111/2018.

Annex
to the Regulation on the treatment
of counterparty credit risk for banks

List of documents
to be attached to the application for prior approval to use
exposure value calculation methods

1. A document signed by the person authorised by the bank, which shall:
1.1. describe the process of applying the exposure value calculation method and present the conclusions thereof, confirming the bank's compliance with the requirements set out in paragraph 24 or 34 for the application of the selected method;
1.2. communicate the structure of the group to which the bank belongs, the competent authorities responsible for supervising its members, as well as the calculation method applied by them – in the cases specified in paragraph 24 or 34 of this Regulation.

2. The internal audit report assessing the adequacy of the counterparty credit risk management system and the process of applying the exposure value calculation method, ensuring compliance with the requirements set out in paragraph 24 or 34.

3. Documents establishing the procedures designed to ensure compliance with the provisions of Chapters III–V.

4. Form C 34.00 - Counterparty Credit Risk, in accordance with the Instruction for banks on COREP reporting, accompanied by an explanation of how the relevant business line indicators are determined.