EBA/RTS/2022/01

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FINAL draft Regulatory Technical Standards

on emerging markets and advanced economies under Article 325ap(3) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

Contents

1. Executive summary

Regulation (EU) No 575/2013 (the Capital Requirements Regulation – CRR) as amended by Regulation (EU) 2019/876 implements in EU legislation, inter alia, the BCBS revised framework to compute own funds requirements for market risk, i.e. the Basel Fundamental Review of the Trading Book (FRTB). One component of these requirements is the sensitivities-based method under the alternative standardised approach for market risk (FRTB-SA).

In order for institutions to be able to calculate own funds requirements under the sensitivities-based method, Article 325ap(3) of the CRR requests the EBA to specify the economies that should attract lower risk weights for equity risk under the FRTB-SA (so called ‘advanced economies’). Other economies are subject to higher risk weights for equity risk exposures.

The FRTB provides a list of countries that are considered to be ‘advanced’ for the purpose of the FRTB-SA. In the absence of clear criteria in the Basel framework, which only specifies a pre-defined list, the EBA specifically sought criteria to assess whether an economy qualifies as advanced or not. This to ensure that the risk is captured with a risk-sensitive framework.

Following the publication of the consultation paper, the EBA performed a quantitative analysis on equity names from several countries. In particular, the EBA assessed whether equity names related to EU countries not included in the FRTB list were less risky compared to (EU and non-EU) countries belonging to the FRTB list. The ‘riskiness’ was assessed using common market risk metrics (e.g. historical volatility measure). Using historical equity market data, it cannot be concluded that equity names related to EU countries not included in the FRTB list are riskier than equity names related to countries in the list.

The absence of quantitative evidence supporting the exclusion of some EU countries from the list, along with several qualitative arguments supporting their inclusion – in particular the fact that the EU has a single internal market, and as such the systematic component of the risk associated with an equity name can be EU based (as opposed to country based) – constitute a sufficient basis to conclude that all EU countries should be treated as advanced for the purpose of identifying the equity risk in the FRTB-SA.

Furthermore, considering the EEA relevance of this draft regulation, and considering that the same arguments presented above could be replicated at EEA level, EEA countries not belonging to the Union should be recognised as advanced too.

2. Background and rationale

1. Regulation (EU) No 575/2013 (the Capital Requirements Regulation – CRR) as amended by Regulation (EU) 2019/876 implements in EU legislation, inter alia, the revised framework to compute own funds requirements for market risk i.e. the Basel Fundamental Review of the Trading Book (FRTB). One component of these requirements is the sensitivities-based method under the alternative standardised approach for market risk (FRTB-SA).

2. To calculate own funds requirements under the sensitivities-based method, institutions need to multiply net sensitivities to each risk factor within a bucket by the corresponding risk weights. The risk weights to be applied for sensitivities to equity and equity repo rate risk factors are specified in Table 8 of Article 325ap of the CRR, pursuant to the Commission delegated act[1] referred to in Article 461a of Regulation (EU) No 575/2013.

3. Article 325ap(3) of the CRR requests the EBA to specify the economies that should attract a lower risk weight for equity risk under the FRTB-SA (so called 'advanced economies'). Other economies are subject to a higher risk weight. The distinction is not used anywhere else in the prudential framework. More specifically, the EBA is mandated to develop draft RTS to specify what constitutes an emerging market and what constitutes an advanced economy for the purpose of determining the risk weights for equity risk that should be applied.

4. It appears that buckets for sensitivities to equity risk in Table 8 of Article 325ap are defined based on criteria of liquidity (large vs. small market capitalisation) and volatility (taking into account the sector and the economy relevant for the equity).

5. The distinction between small and large market capitalisation is common to the FRTB-SA[2] and the alternative internal model approach (FRTB-IMA) and was specified in the final draft RTS on Liquidity Horizons for the IMA published on 27 March 2020[3]. As for the criteria of volatility, the FRTB-SA applies[4] the risk weight corresponding to the relevant sector, with risk weights for a given sector being lower for advanced economies than for emerging markets. Unlike the distinction between small and large market capitalisation, this approach is specific to the FRTB-SA. Indeed, institutions using the IMA will directly capture the real historical volatility based on historical data, without the need for any distinction between advanced economies and emerging markets.

6. The FRTB provides a list of countries that are 'advanced' for the purpose of the FRTB-SA. According to MAR 21.75, the advanced economies are Canada, the United States, Mexico, the euro area, the non-euro area western European countries (the United Kingdom, Norway, Sweden, Denmark and Switzerland), Japan, Oceania (Australia and New Zealand), Singapore and Hong Kong SAR.

[1] https://ec.europa.eu/finance/docs/level-2-measures/crr-delegated-act-2019-9068_en.pdf

[2] Article 325ap(2) refers to the RTS on LH referred to in Article 325bd(7).

[3] https://www.eba.europa.eu/regulation-and-policy/market-risk/draft-technical-standards-on-the-ima-under-the-frtb

[4] See Delegated Act Article 1(11) p. 20-21.

7. The FRTB list was published without the underlying criteria used to get such list being provided and has not been reviewed since the first version of the list published on 14 January 2016. In order to ensure a risk-based framework, in particular in relation to EU equity names, the EBA performed a quantitative analysis on equity names from different countries. The 'riskiness' was assessed using common market risk metrics (e.g. historical volatility measure). Using historical data, equities belonging to EU countries that are not included in the FRTB list are not found to be riskier than equities related to countries included in the original FRTB list.

8. The absence of quantitative evidence supporting the exclusion of some EU countries from the list, along with several qualitative arguments supporting their inclusion – in particular the fact that the EU has a single internal market, and as such the systematic component of the risk associated with an equity name can be EU based (as opposed to country based) – constitute a sufficient basis to conclude that all EU countries should be treated as advanced for the purpose of identifying the equity risk in the FRTB-SA.

9. Furthermore, considering the EEA relevance of this draft regulation, and considering that the same arguments presented above could be replicated at EEA level, EEA countries not belonging to the Union should be recognised as advanced. Specificities with respect to overseas territories of some EU Member States are also reflected.

3. Final draft regulatory technical standards on emerging markets and advanced economies under Article 325ap(3) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

EUROPEAN
COMMISSION

Brussels, XXX
[…](2021) XXX draft

COMMISSION DELEGATED REGULATION (EU) …/...

of XXX

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards on emerging markets and advanced economies under Article 325ap(3) of Regulation (EU) No 575/2013

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012[5], and in particular the fourth subparagraph of Article 325ap(3) thereof,

Whereas:

(1) The market risk own funds requirements under the alternative standardised approach set out in Part Three, Title IV, Chapter 1a of Regulation (EU) No 575/2013 require, for the calculation of the own funds requirement under the sensitivities-based method set out in Section 2 of that Chapter, the application of the risk weights for equity risk specified in Table 8 of Article 325ap pursuant to the delegated act referred to in Article 461a. Since advanced economies and emerging markets are mutually exclusive categories, it should be clarified in this Regulation that markets not constituting advanced economies should be regarded as emerging markets for the purpose of the application of Article 325ap of Regulation (EU) No 575/2013.

(2) When determining which markets constitute advanced and emerging markets economies, this Regulation should, on the one hand, ensure a level playing field and, on the other hand, establish a risk-based approach. To that end, while applicable international standards should be taken into consideration, markets of the Member States that are less volatile than the markets recognised as advanced markets economies in accordance with these international standards, should nonetheless be set out in this Regulation as constituting advanced rather than emerging market economies. Furthermore, the determination of advanced and emerging market economies in this Regulation should take due regard of the establishment of a single internal market in the Union, the presence of the European Economic Area, and the specificities related to overseas territories of some Member States.

(3) This Regulation is based on the draft regulatory technical standards submitted by the European Banking Authority to the Commission.

(4) EBA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits, and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010[6],

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[5] [5] OJ L 176, 27.6.2013, p. 1.

[6] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2020, p. 12).

HAS ADOPTED THIS REGULATION:

Article 1

Advanced economies and emerging markets for the purpose of Article 325ap

1. For the purpose of applying risk weights for equity risk in accordance with Article 325ap of Regulation (EU) No 575/2013, the Member States of the European Union, including the overseas countries and territories which have special relations with Denmark, France or the Netherlands, and the States, other than the Member States, which are parties to the Agreement on the European Economic Area, shall constitute advanced economies.

2. For the purpose of applying risk weights for equity risk in accordance with Article 325ap of Regulation (EU) No 575/2013, the following third countries shall constitute advanced economies:

(a) Australia;

(b) Canada;

(c) Hong Kong SAR;

(d) Japan;

(e) Mexico;

(f) New Zealand;

(g) Singapore;

(h) Switzerland;

(i) The United Kingdom;

(j) The United States.

3. For the purpose of applying risk weights for equity risk under Article 325ap, third countries not included in paragraph 1 nor in paragraph 2 shall constitute emerging markets.

Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

[For the Commission
On behalf of the President]

4. Accompanying documents

4.1 Draft cost-benefit analysis / impact assessment

Article 325ap(3) of the CRR requests the EBA to specify what constitutes an emerging market and an advanced economy for the purposes of risk weighting equity and equity repo rate risk factors under the sensitivities-based method.

Article 10(1) of Regulation (EU) No 1093/2010 (EBA Regulation) provides that any RTS developed by the EBA should be accompanied by an analysis of 'the potential related costs and benefits'. This analysis should provide an overview of the findings regarding the problem to be dealt with, the options proposed and the potential impact of these options.

This section presents the cost-benefit analysis of the main policy options included in the draft RTS. The analysis is high level and of a qualitative nature.

A. Problem identification

The alternative standardised approach for market risk (FRTB-SA) comprises three parts: a) the sensitivities-based method (SbM) for calculating the own funds requirement for market risk; b) the residual risk add-on (RRAO); c) the own funds requirements for the default risk (DRC).

Under the sensitivities-based method, institutions need to multiply net sensitivities to each risk factor within a bucket by the corresponding risk weights to calculate own funds requirements. Buckets for sensitivities to equity and equity repo rate risk factors are defined based on criteria of liquidity (large vs. small market capitalisation) and volatility (taking into account the sector and the economy relevant for the equity).

In particular, for the criteria of volatility, the FRTB-SA distinguishes between advanced economies and emerging markets, and assigns lower risk weights to a given sector if it belongs to an advanced economy rather than an emerging market. This approach is specific to the FRTB-SA, whereas institutions using the IMA are required to directly capture the real historical volatility based on historical data, without the need for any distinction between advanced economies and emerging markets.

The FRTB provides a list of countries that are considered to be 'advanced' for the purpose of the FRTB-SA. However, the CRR leaves this specification to the EBA. The lack of a common specification would result in an inconsistent implementation of the simplified standardised approach for market risk across banks.

B. Policy objectives

The specific objective of the RTS is to establish a common specification of what constitutes an emerging market and an advanced economy for the purpose of assigning risk weights for the sensitivities to equity and equity repo rate risk factors under the simplified standardised approach.

Generally, the RTS aim to create a level playing field, promote the convergence of institution practices and enhance comparability of own funds requirements across the EU. Overall, the RTS are expected to promote the effective and efficient functioning of the EU banking sector.

C. Baseline scenario

The baseline scenario aims to describe the regulatory environment and regulatory developments, as well as institutions' practices.

In terms of regulatory environment, the baseline assumes the entry into force of the CRR, which does not provide any specification for what constitutes an emerging market and an advanced economy. In terms of institutions' practices, the baseline scenario assumes that no common approach exists regarding the distinction between an emerging market and an advanced economy, given that such a specification is not present in the current CRR.

D. Options considered, cost-benefit analysis, preferred option

The FRTB provides a list of countries that are 'advanced' for the purpose of the FRTB-SA. According to MAR 21.75, the advanced economies are Canada, the United States, Mexico, the euro area, the non-euro area western European countries (the United Kingdom, Norway, Sweden, Denmark and Switzerland), Japan, Oceania (Australia and New Zealand), Singapore and Hong Kong SAR. The FRTB list was published without the underlying criteria used to get such list being provided.

The EBA has considered the following options when allocating a market or a country to the advanced economy category:

Option 1a: Use the list of advanced economies set out in the FRTB standards

Option 1b: Create a European-specific list of advanced economies, which covers the EU Member States and third countries included in the FRTB list, as well as additional EU/EEA Member States.

Option 1c: Develop a set of criteria or a methodology for distinguishing advanced economies

Option 1a ensures full alignment with international standards and enhances a level playing field across jurisdictions. In addition, it will be straightforward to update in case new markets or countries become advanced economies in the future. However, it does not explain the underlying criteria used to get such list, providing little transparency to the market on how the list was determined.

Moreover, under this option, six EU Member States (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania) and two EEA states (Liechtenstein, Iceland) would not be considered advanced economies despite being part of the EU or EEA, respectively, and despite some of them being recognised as advanced by other international bodies.

Option 1b considers adding to the Basel list further EU/EEA Member States as advanced economies. EU/EEA Member States are part of the single market, i.e. one territory without any internal borders or other regulatory obstacles to the free movement of goods and services (with some exceptions for EEA states). In addition, as mentioned, some EU/EEA Member States not currently included in the Basel list are explicitly recognised as advanced economies by the IMF[7]. Establishing this list requires assessing six additional EU Member States (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania) and two additional EEA states (Liechtenstein, Iceland), which were not part of the FRTB list, but are all expected to comply with the EU-level CRR requirements. Similar to Option 1a, this list can be easily updated. De-facto this option would represent a deviation from international standards and should be pursued only if it is risk-based.

Option 1c can potentially increase transparency towards external stakeholders regarding the methodology for the determination of advanced economies, depending on the methodology and associated disclosure. Moreover, it can avoid being reliant on a pre-defined list produced by other organisations (e.g. BCBS) or benchmarks. However, it may result in a list that is significantly different from international standards, creating excessive distortion compared to the international standards. Moreover, it can be more complex to update such a list and may need to collect data on a continuous basis.

Given that the immediate purpose of this list is to allow for a harmonised computation of equity risk own funds requirements by institutions for the immediate purpose of the FRTB-SA reporting requirement, the policy choice relating to Option 1c is discarded on the basis that the resulting list could significantly deviate from the international standards.

To take a risk-based decision on the selection of the option to implement between 1a and 1b, the EBA calculated common market risk metrics from the historical prices observed for a large amount of equity names. The EBA grouped those names by country, sector, and size, so as to be able to observe whether deviations in the risk measures were present when moving in the country dimension (e.g. ‘large cap in the financial sector of country X’ against ‘large cap in the financial sector of country Y’). On the basis of the market risk metrics calibrated on a stress period[8], it cannot be concluded that the EU countries that were not included in the list are riskier than countries that were included in the FRTB list. The same arguments hold at EEA level. Hence, in light of this, and considering the qualitative considerations made above (i.e. the presence of a single market), Option 1b is preferred to 1a. Accordingly, Option 1b is included in the final draft RTS.

[7] Advanced economies in the October 2020 IMF World Economic Outlook.

[8] The covid-19 period, instead of the global financial crisis period, was taken as a stress period to ensure sufficient data quality.

4.2 Feedback on the public consultation

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for three months and ended on 2 July 2021.[9] Seven responses were received, of which four were non-confidential and published on the EBA website. The EBA also held a public hearing on the consultation paper on the draft RTS on emerging markets and advanced economies on 29 April 2021.

This section presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

In a number of cases, some industry bodies made similar comments or the same body repeated its comments in response to different questions. These comments and the EBA's analysis of them are included in the section of the feedback table that the EBA considers most appropriate. Changes to the draft RTS have been incorporated as a result of the responses received during the public consultation.

Summary of key issues and the EBA's response

Respondents generally highlighted that there are no simple econometric methodologies that can be applied in order to achieve a precise definition of an advanced economy and that the rules for inclusion in the list should be based on criteria that are specific for the equity business, rather than based on measures such as the general economic development of the country (e.g. GDP) or its creditworthiness (e.g. sovereign credit rating). In this regard, respondents suggested both qualitative and quantitative criteria, focusing essentially on the equity market (see feedback table).

Respondents also generally pointed out the issues of the current Basel list:

- One respondent commented that the BCBS list excludes major equities markets such as South Korea, Israel and Taiwan and European countries such as the Czech Republic and Iceland, which are all included in the IMF's list of advanced economies.

- Some other respondents commented that the draft RTS should better factor in other EU objectives of strategic importance, such as the Capital Markets Union (CMU) – which encompasses the whole EU and not just the eurozone – and that, in general, EU/EEA Member States are part of the single market (i.e. one territory without any internal borders or other regulatory obstacles to the free movement of goods and services), that the list should not create an unlevel playing field in this respect but rather foster the integration of EU capital markets, thus enhancing the competitiveness of the EU as a whole.

[9] https://www.eba.europa.eu/regulation-and-policy/market-risk/regulatory-technical-standards-emerging-markets-and-advanced-economies

Finally, one respondent commented: “With regard to the EU/EEA markets, the economic integration, advanced common investor protections and disclosure requirements, cross-border access and access to a wide range of financial services providers have effectively resulted in a system that can be defined as an advanced economy.”

Based on the feedback received and considering the lack of evidence that would justify distinct treatments between EU/EEA and the countries included in the FRTB list, the EBA has decided to:

- Consider the whole EU/EEA as advanced, including overseas countries and territories of Denmark, France and the Netherlands;
- For non-EU/EEA countries, consider as advanced economies the economies considered as advanced in the Basel list.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
Flexibility to introduce changes to the list of advanced economies.	One respondent stated that the list of advanced economies should be open to changes. In this regard it was commented that given that any legislation (EU or otherwise) passed now could be relatively slow and challenging to change in future, while the Basel process could in principle deliver additions to the list relatively quickly and easily, it could be important to build in flexibility.	Flexibility could be introduced by leaving supervisory discretion on what constitutes an advanced economy. Doing so would however lead, for example, two EU credit institutions to capitalise the risk in the same equity name differently. Hence, such option should be rejected. Flexibility in the adoption process linked to these RTS, in order to amend them quicky, if needed, goes beyond the scope of what can be decided in these RTS. Hence, no amendments were made to reflect this comment.	No amendment
Overall approach to determine the list of advanced economies for equity risk.	One respondent stated that it would support an approach that takes into account economic evolution as well as development of markets instead of relying on the static BCBS list. According to that respondent, there are no simple econometric methodologies that can be applied in order to achieve a precise definition of an advanced economy. Broad factors such as economic integration, rule of law and advanced financial system, combined with more detailed factors such as transparency of disclosures, quality of insolvency laws and availability of hedging products, are all important factors that banks consider when	See EBA analysis for Question 1.	Amendments to Article 1

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	offering their clients investment products in a specific market. Some respondents state that the rules for inclusion in the list should be based on criteria that are specific for the equity business, rather than be based on tangential measures such as the general economic development of the country (e.g. GDP) or its creditworthiness (e.g. sovereign credit rating). In this regard, some respondents stated that the list should be based on clear risk-based criteria.		
Responses to questions in Consultation Paper EBA/CP/2021/14			
Question 1. Do you agree with the list provided in Article 1 or do you think that the EBA should propose an alternative list? In particular, do you think that there is a case for additional – or potentially all – EU/EEA countries to be added to the list? Please elaborate by providing technical evidence focusing on similarities and differences in risk across markets.	Some respondents object to the list and argue that their domestic markets should be classified as advanced economies. Some respondents propose a similar treatment for groups of countries: • One respondent states that all EU Member States, regardless of being part of the eurozone, should get the same status. • One respondent states that all EU/EEA countries should be classified as advanced. In this context, respondents provide several reasons supporting these proposals, such as: - EU/EEA Member States are part of the single market i.e. one territory without any internal	Following the consultation process, the EBA performed a quantitative analysis on equity names from different countries. In particular, the EBA assessed whether equity names related to EU countries not in the FRTB list were less risky compared to (EU and non-EU) countries belonging to the FRTB list. The ‘riskiness’ was assessed using common market risk metrics (e.g. historical volatility measure). Using historical data, it cannot be concluded that equity names related to EU countries not included in the FRTB list are riskier than equity names related to countries in the list. In addition, also in light of the comments presented by some respondents, other qualitative criteria were	Amendments to Article 1

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	borders or other regulatory obstacles to the free movement of goods and services, so the list should not create an unlevel playing field. - Economic indicators of some non-eurozone countries are not worse than those of some eurozone countries (or could be even better, such as comparing Czech Republic and Slovakia). - With regard to the EU/EEA markets, the economic integration, advanced common investor protections and disclosure requirements, cross-border access and access to a wide range of financial services providers have effectively resulted in a system that can be defined as an advanced economy. One respondent commented that the BCBS list excludes major equities markets such as South Korea, Israel and Taiwan and European countries such as the Czech Republic and Iceland, which are all included in the IMF's list of advanced economies.	considered: for example, the presence of a single market in the EU. The EBA also acknowledges that some EU/EEA countries not included in the FRTB are included in the IMF list of advanced economies. With respect to non-EU/EEA countries, it is the view of the EBA that global alignment should be sought on the list at the Basel table. Therefore, no enlargement to non-EU/EEA countries of the list of advanced economies included in these draft RTS was considered at this stage. On the basis of the consideration above, the RTS were amended so as to recognise the EU/EEA as advanced. Furthermore, specificities related to the overseas territories of some EU countries were reflected.	
Question 2. What are the metrics, sources, and other criteria that should be used for potentially defining alternative criteria on which a list of advanced economies could be based? Please elaborate considering the context in which this definition will be	**Qualitative criteria** Arguing for inclusion in the list, some respondents claimed that global institutions (e.g. World Bank, International Monetary Fund) classify their countries as high-income economies, or as advanced economies. One respondent while commenting that there are no simple econometric methodologies that can be	While acknowledging the relevance of the quantitative metrics, it is noted that there is no common understanding of which metric should be used to determine what constitutes an advanced economy – in particular, in the context in which this regulation applies. Hence, the EBA used the following approach:	Amendments to Article 1

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
applied, i.e. assigning a lower/higher risk weight for equity risk.	applied in order to achieve a precise definition of an advanced economy, notes that broad factors such as economic integration, rule of law and advanced financial system, combined with more detailed factors such as transparency of disclosures, quality of insolvency laws and availability of hedging products, are all important factors that banks consider when offering their clients investment products in a specific market. Furthermore, with regard to the assessment of equity capital markets and exchanges, it proposes considering the following criteria: • The sophistication of the exchange (that should consider i) the percentage of the market accessible through electronic trading, ii) the settlement mechanism, and iii) the ability of the exchange to perform daily margining). • The number of exchanges (i.e. are there competing exchanges to the main exchange) • Degree of oversight of the exchanges by the national regulator • Level of the country's compliance with Basel regulations. **Quantitative metrics** One respondent proposed considering the economic evolution and trend in terms of GDP, and income measured by GDP per capita in PPS. In	(i) It considered the FRTB list as a starting point to be potentially complemented on the basis of risk-based consideration. (ii) Using historical data, it assessed whether equity names related to EU countries were less risky or not. And concluded that there was no quantitative evidence supporting the exclusion of some EU countries from the list of advanced economies. Furthermore, qualitative criteria, in particular, the existence of a single market, and more broadly, of a European Economic Area, constituted the basis for amending the RTS proposed for consultation, so as to consider the EU/EEA as advanced economies.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	addition, they mentioned the development and soundness of the financial sector as a further criteria for the assessment, and showed statistics of banks' prudential metrics for their countries. Furthermore, some respondents proposed a comparison of credit ratings of sovereign debt of countries, and the level of e.g. 5Y CDS spreads on government bonds. In contrast to this, other respondents commented that the list should be based on criteria that are relevant to the asset class (i.e. equity) and not on tangential measures such as the general economic development of the country (e.g. GDP, and debt to GDP, or inflation) or its creditworthiness (e.g. sovereign credit rating). In this regard, these respondents advocated that the classification should be based on whether the equity capital markets of a country can be classified as advanced versus emerging. Possible metrics mentioned for this purpose were: • Outright volatility of the equity market. • Daily turnover of the equity market as a percentage of market capitalisation. • Correlation of the market with G10 countries during time of stress. • Availability of listed hedging and risk management products.		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	• Number of regulated local market makers. • The ratio of foreign to local participants. • Quoted spreads – the difference between the bid and ask prices, divided by the mid-point. • Effective spreads – the difference between the trade price and the prevailing mid-point price, divided by the mid-point price. • Quoted depth – notional available at-touch. • Volatility – intraday volatility: calculated from intraday snapshots with a bin size of 5 minutes, and interday volatility: calculated from historical close prices. • Capitalisation of the stock exchange. One respondent suggested that liquidity and volatility could be compared to an international benchmark, such as a global stock index, to determine the classification of the equity market.		
Question 3. Do you think that there are markets of other countries that are characterised by a higher liquidity and lower volatility if compared to those included in Article 1, which as such should not trigger a higher	Some respondents object to the list and argue that their domestic markets should be classified as an advanced economy on the basis of the criteria analysed in their responses and the comparison with countries included in the list.	See EBA analysis for Question 1 and the quantitative analysis described therein.	Amendments to Article 1

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
risk weight if compared to those of the countries listed in Article 1? Please elaborate providing evidence.	One respondent argues that the BCBS list of countries outside the EU/EEA has omitted a few advanced economies, such as South Korea and Taiwan, and it recommends to add these countries from the IMF list to the EU framework and continue reviewing the list periodically. This is to ensure that economic advancements are reflected appropriately in the risk weights and economic development is not hampered by higher capital/investment costs.		