German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

on EBA's Consultation Paper "Draft Regulatory Technical Standards on the treatment of non-trading book positions subject to foreign-exchange risk or commodity risk under Article 325(9) of Regulation (EU) No 575/2013 (Capital Requirements Regulation 2 – CRR 2)"

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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Comments on EBA's CP Draft RTS on the treatment of non-trading book positions subject to FX risk or commodity risk (EBA/CP/2020/01)

Remarks

Question 1: *Do you agree with the approach in relation to the use of the accounting value and alternatively the fair value as a basis for computing the own funds requirements for foreign exchange risk, or do you think that institutions should be requested to use e.g. only the accounting value? Please elaborate.*

Analogous to and consistent with the provision in the old standardised approach (Art. 352, (3) CRR), the FRTB approaches should also offer such an option.

A strict interpretation of the use of book value in the sense of necessary extraction of the data from the accounting system should be avoided so as to allow banks flexibility concerning their technical equipment. Banks should be able to use sufficiently accurate book values, e.g. from the Front-Office system, in so far as this is reasonable from the risk and technical perspective.

Question 2: *Do you agree that institutions should be requested to update on a daily basis only the foreign-exchange risk component of banking book instruments? Please elaborate.*

The proposal of not requiring daily revaluation of the underlying asset is reasonable. Consistent daily revaluation of underlying assets to the necessary quality would not be possible at all or only with a great deal of effort; and it would be scarcely advantageous compared with the proposed approach due to the relatively low dynamics of the banking book.

It should be clarified that banks can update parts of their transactions faster than other exposures depending on their technical needs.

Question 3: *Could you please describe the current risk-management practices that institutions use for managing the foreign-exchange risk stemming from banking book positions, e.g. whether the accounting or the fair-value is used as a basis for determining the exposure in a currency, the frequency at which banking book positions are fully revalued, the frequency at which the foreign-exchange component is updated?*

No comment

Question 4: *Do you agree with the proposed methodology for capturing the foreign-exchange risk stemming from non-monetary items at historical cost under the standardised approach? Do you have any other proposal for capturing the foreign-exchange risk stemming from non-monetary items at historical cost that would be prudentially sound while fitting within the standardised approach framework? Please elaborate.*

The proposed linear methodology seems very conservative, as the probability of impairments comparatively is low especially for stable currencies. Here, individual modelling should also be possible for Standardised Approach banks (SA banks) as an alternative.
There is a risk that the proposed adjustments might create larger open FX risk exposures that are difficult for banks to hedge.

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In addition, Internal Models Approach banks (IMA banks) should in any cases be allowed to apply risk modelling for these exposures (see below Q9 / Q10) in the SA, so that the IMA and SA have the same underlying for risk exposures (equal treatment is necessary for fallback and output floor).

Question 5: *How are you currently treating, from a prudential perspective, non-monetary items at historical cost that may be subject to an impairment due to a sharp movement in the foreign-exchange rate? In which currency are those items treated from an accounting perspective?*

No comment

Question 6: *Could you please provide an estimate of the materiality of non-monetary items that are held at historical cost for your institution (e.g. size of the non-monetary items at historical cost with respect to the institution's balance sheet)? Please elaborate.*

No comment

Question 7: *Do you think there are any exceptional cases where institutions are not able to meet the requirement to daily fair-value commodity positions? Would these exceptional cases occur only for commodity positions held in the banking book or also for commodity positions held in the trading book?*

We assume that the daily fair-value of commodity positions will confront smaller banks with challenges and high costs (e.g. through higher fees for daily market data supply.)

Question 8: *Do you agree that, with respect to the valuation of foreign-exchange and commodity positions held in the banking book, the provisions applicable in the context of the alternative standardised approach (Article 1 paragraphs 1 and 2) should also apply in the context of the alternative internal model approach (Article 3 paragraphs 1 and 2)? Please elaborate.*

This seems reasonable.

Question 9: *Do you agree with the provision requiring institutions to model the risk that non-monetary items at historical cost are impaired due to changes in the relevant exchange rate or do you think that the RTS should be more prescribing in this respect? Please elaborate.*

IMA banks should be able to model this reasonably without further guidance.

Question 10: *How institutions would capture the risk of an impairment in their risk-measurement model? Would the definition of impairment used in the internal model be identical to the one proposed in the accounting standards? Please elaborate.*

We assume that the question relates to specific FX impairments for non-financial assets at acquisition costs and not to general credit-risk induced impairments.

Question 11: *Do you think that the requirement to capture the impairment risk in the risk-measurement model for institutions using the internal model approach is less or more conservative than the requirement proposed for institutions using the standardised approach? Please elaborate.*

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In general, a modelling right should be available to both IMA and also SA banks; modelling will lead to more appropriate risk metrics.

The impact on capital requirements depends on the other FX risk positioning.

Question 12: *Do you agree with the definitions of hypothetical and actual changes in the portfolio's value deriving from non-trading book positions that have been included in the proposed draft RTS?*

The proposed approach seems pragmatic.