

EBA/ITS/2020/02

05 March 2020

Final Report

Draft Implementing Technical Standards amending Commission
Implementing Regulation (EU) 2016/2070 with regard to
benchmarking of internal models

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1. Executive summary

Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal approaches used for the calculation of own funds requirements. To assist competent authorities in this assessment, the EBA calculates and distributes benchmark values against which individual institutions' risk parameters can be compared. These benchmark values are based on data submitted by institutions as laid out in EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates and definitions to be used as part of the annual benchmarking exercises.

For the 2021 benchmarking exercise, changes to the reporting templates and instructions are necessary in particular to integrate the sub-set of templates dedicated to the benchmarking of the international financial reporting standards (IFRS 9). The link with prudential requirements reinforces the need for scrutiny from regulators and supervisors to achieve high-quality implementation of this new accounting standard. The concept of a benchmarking exercise for IFRS 9 modelling builds on the reasoning that regulators and supervisors can leverage on their expertise on the prudential models and on the benchmarking of these models. One of the main goals would be to identify the most important sources of variability and their respective consequences in terms of prudential ratios.

The EBA supervisory benchmarking already served three major objectives, the first one being the abovementioned supervisory assessment of the quality of internal approaches. It also provides a powerful tool to explain and monitor RWA variability over time and the resulting implications for prudential ratios. In this role, it triggered among other things the development of the EBA Guidelines on PD and LGD estimation and the treatment of defaulted assets, published on 17 November 2017. Lastly, the benchmarking results also provide the banks with valuable information on their risk assessments compared with other banks' assessments of comparable portfolios. These three objectives are better achieved with the integration of IFRS 9 benchmarking templates, where the most relevant sources of variability arising from the implementation of the new accounting standard and their respective consequences in terms of prudential ratios could be identified and monitored.

It is important to note that this exercise is focused on the quality of parameters and modelling choices and not on the risk appetite of banks' management bodies. Accordingly, the templates introduced serve mainly to assess the non-risk-based variability. In the first stage of the exercise, the focus is mainly on three different aspects of the accounting framework:

- a) the analysis of the variability of the 12-month– Probability of default (PD) parameters;
- b) the analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curve and the macroeconomic scenarios;

- c) the analysis of variability of practices in the significant increase in credit risk (SICR) assessment.

However, the template for the data collection leaves aside other risk parameters and other potential areas of interest. These include in particular the loss given default (LGD) and the outstanding amount, which may be included in the analysis in the medium term.

Implementation

Given the type of changes introduced by these draft implementing technical standard (ITS) to the benchmarking portfolios, as well as to the reporting instructions and templates, the relevant annexes are replaced in their entirety with those set out in these draft ITS to create a consolidated version of the updated draft ITS package.

These revised benchmarking portfolios and reporting requirements are expected to be applicable to the submission of IMV data in Q3 2020 and of other market and credit risk data in 2021 (i.e. with a reference date of 31 December 2020).

Next steps

The draft ITS will be submitted to the Commission for endorsement before being published in the *Official Journal of the European Union*. The technical standards will apply 20 days after publication in the *Official Journal*.

The supporting technical package consisting of the data point model (DPM), the validation rules and the taxonomy are being prepared simultaneously and will be published at a later stage.

2. Background and rationale

1. Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal approaches used for the calculation of own funds requirements. The same article requires the EBA to produce a report to assist competent authorities in this assessment.
2. The EBA's report is based on data submitted by institutions in accordance with EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions that should be used as part of the annual benchmarking exercises by institutions using internal approaches for market and credit risk.
3. With the first application of IFRS 9 (the new accounting standard applicable to financial instruments) in January 2018, one of the most recent challenges for regulators and supervisors is to ensure high-quality and consistent implementation of this standard, since the outcome of the expected credit loss (ECL) calculation will directly impact the amount of own funds and regulatory ratios. With this in mind, the EBA launched a number of initiatives¹ to monitor and promote the consistent application of IFRS 9, working on its interaction with prudential requirements as well.
4. The link with prudential requirements reinforces the need for scrutiny from regulators and supervisors to achieve high-quality implementation of this new accounting standard. The concept of a benchmarking exercise for IFRS 9 modelling builds on the reasoning that regulators and supervisors can leverage on their expertise in the prudential models and in the benchmarking of these models. One of the main goals would be to identify the most relevant sources of variability and their respective consequences in terms of prudential ratios. It is important to note that this exercise is focused on the quality of parameters and modelling choices and not on the risk appetite of banks' management bodies.
5. Given the commonalities between internal rating based (IRB) models for credit risk and IFRS 9 models, it is deemed appropriate to use the current benchmarking tool and therefore to build on the existing ITS on supervisory benchmarking in conducting the IFRS 9 benchmarking exercise. For this reason, changes are suggested to Regulation 2016/2070 in order to incorporate in the current set of templates additional templates dedicated to IFRS 9, collecting information in terms of parameters to measure ECL and other relevant information. The changes are described separately in the following sections.
6. As indicated in the published IFRS 9 Roadmap, the EBA launched a temporary ad hoc quantitative data collection, accompanied by a qualitative questionnaire on modelling aspects. This approach allowed the testing of the parameters to be collected before proposing its incorporation in the ITS,

¹ Please see IFRS 9 Roadmap published in July 2019 (<https://eba.europa.eu/eba-publishes-its-roadmap-on-ifrs-9-deliverables-and-launches-ifrs-9-benchmarking-exercise>).

creating an opportunity to reflect on the appropriate calibration of the data collection specified in the ITS for IFRS 9 purposes.

7. The preliminary analysis already gives confidence about the type of data to be collected and the relevance of the analyses that can be performed. While only the quantitative templates would be incorporated into the ITS as per the current format of the ITS, the EBA will reflect further how to associate the qualitative templates to the submission of the data when the time comes.
8. As also indicated in the roadmap, the EBA will continue working on the integration of more parameters into the ITS, based on a staggered approach. Close discussions with all stakeholders will continue in this regard.

2.1 Credit risk IRB templates

9. No major changes are introduced in the credit risk templates to the supervisory benchmarking ITS, with updates limited to three areas:
 - a. Some marginal changes have been applied to Annex 1, in order to collect the counterparties treated under the standardised approach for the IFRS 9 template. This list of counterparties should not be reported in Annex 3 and has therefore no impact on the IRB template.
 - b. The temporary exemption from reporting the risk-weighted exposure amounts (RWA) calculated under the standardised approach has been deleted. As background information, this data point has already been collected for the high default portfolio (HDP, template C103) since the 2019 exercise, and the majority of institutions did not use the exemption for the low-default portfolio (LDP) (only 16 institutions did not report the RWA under the standardised approach in template C102).
 - c. The hypothetical RWA collected in template C103 (data points 250 – RWA–, 260 – RWA+, 270 – RWA—, 280 – RWA++) are now also collected at the rating split level.

2.2 Market risk templates

10. No significant changes are proposed in the market risk templates to the supervisory benchmarking ITS.
11. Two issues were raised in the consultation paper (CP) for these ITS: (1) where it would be beneficial to set reference dates for the market risk exercise in a more general manner and (2) if the ITS should be updated in the IBOR references.
12. The feedback received suggested that there was a strong preference for leaving the reference dates as specified in the previous exercises. Therefore, the drafting was reverted to the previous version. On the second issue, the reference rates, the respondents agree that the fallback rate would not affect the forthcoming exercise (2021). The EBA concluded that the change suggested in the instruction would not hurt the following benchmarking exercise, and would already prepare the text for the exercises following that.

13. Furthermore, an additional instruction was introduced in order to clarify the treatment of the FX risk in the portfolios. Now the instructions specify that the FX risk has to be considered only when intrinsically included in the instruments.
14. Finally, some other minor amendments have been introduced to a series of instruments: 17, 18, 24, 34, 38, 39 and 47. The changes generally reflect the suggestions received as feedback in the consultation or fix some minor typos detected in the descriptions of the instruments in the instruction text.
15. Annexes 6 and 7 were not substantially changed. Nonetheless, some marginal changes have been applied in Annex 6 to improve the quality of the wording in the legal text. Finally, some technical changes were introduced in the instruction: the three-digit references of the row and column are now replaced by four-digit references (e.g. '010' is now '0010') and the 'yes/no' answer to some question has been updated to 'true/false'. The same changes have been reflected in the template of Annex 7.

2.3 IFRS 9 templates

16. The IFRS 9 templates are based solely on low-default portfolios (LDPs). The IFRS 9 benchmarking exercise will follow a staggered approach and it was considered appropriate to consider as a starting point the list of common counterparties previously defined for the purpose of the credit risk benchmarking exercise.
17. The main objective of the current set of templates is to collect quantitative data on the IFRS 9 ECL parameters and other relevant information that, combined with a qualitative questionnaire to be filled in by the institutions separately, would make it possible to have a good understanding of the different methodologies, models, inputs and scenarios that could lead to material inconsistencies in ECL outcomes, affecting own funds and regulatory ratios.
18. The initial focus on LDP is expected to allow an analysis of ECL without undue variability. It should create insights into the value of IFRS 9 parameters to which institutions have common exposures. Some additional IFRS 9 parameters will be collected for this purpose (e.g. probability of default (PD) under IFRS 9 by counterparty and by economic scenario/facility). In the first stage of the exercise, these new parameters will focus on PD, in three different aspects of the accounting framework:
 - a. the analysis of the variability of the 12-month PD parameters;
 - b. the analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curve and the macroeconomic scenarios;
 - c. the analysis of variability of practices in the SICR assessment.
19. However, the template for the data collection leaves aside other risk parameters and other potential areas of interest. These include in particular the LGD and the outstanding amount, which may be included in the analysis in the medium term.

2.3.1 Analysis of the variability of the 12-month PD

20. During the conception of the template, the EBA made itself aware of differences in PD philosophies behind regulatory and accounting modelling. Given that previous reports² have shown that most of the institutions leverage on their existing IRB models, the following concepts have been discussed in an attempt to work out the relationship between the regulatory (IRB) PD and the accounting (IFRS 9) PD:

- a. **PD IRB:** The PD IRB is the probability of default estimated in accordance with Article 180 of the CRR. Regulatory (IRB) PD estimates should be derived from long-run averages of 1-year default rates. Furthermore, regulatory PD parameters are subject to floors and margins of conservatism.
- b. **PD TTC:** The PD through-the-cycle (TTC) reflects the risk of default occurring over the economic cycle. TTC parameters respond smoothly to economic fluctuations and are less sensitive to short-run changes of the cycle. Although PD TTC is not defined in any regulatory text (the CRR does not clearly set a requirement for the IRB PDs to be TTC), the requirement to estimate PDs from long-run averages implies a certain regulatory objective towards TTC parameters³. In this sense, the definition builds on the PD IRB, for example defining it as PD IRB without conservative adjustment (such as input floors or supervisory add-ons).
- c. **PD PIT:** The PD point-in-time (PIT) reflects the risk of default occurring considering the current macroeconomic situation. PIT parameters are more volatile than TTC parameters as they move (up and down) with the economic cycle. Although PD PIT is not defined in any regulatory text, the definition builds on the PD IFRS 9, for example defining it as PD IFRS 9 without forward-looking adjustment.
- d. **PD IFRS 9 (PD forward-looking information (FLI)):** The PD is IFRS 9 an unbiased and probability-weighted estimate that is determined by evaluating a range of possible outcomes, and reflects the risk of default considering reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. In this sense, the IFRS 9 PD is neither TTC nor PIT. The PD IFRS 9 should incorporate expected changes in macroeconomic conditions and as such may be described as a PIT PD plus an adjustment for forward-looking information/macroeconomic forecasts. However, banks' approaches to the application of FLI adjustments to the PIT PD may be different.

21. The EBA was also aware of the difficulties in fully decomposing the changes in variability between the IRB and IFRS 9 models, in particular due to the lack of definitions related to these intermediate steps. As a consequence, the data collection of the 12-month PD is limited to key IFRS 9 data points,

² As mentioned in the EBA's second impact assessment on IFRS9 (https://eba.europa.eu/sites/default/documents/files/documents/10180/1720738/8a333737-98a0-40bc-8418-c896edabd414/EBA_Report_on_results_from_the_2nd_EBA_IFRS9_IA.pdf?retry=1), p. 25.

³ However, in practice regulatory PDs may be not truly TTC but rather of a hybrid nature, i.e. with characteristics of both TTC and PIT. Some banks may even see their regulatory PDs as PIT on the grounds of regulatory expectations to consider all relevant information in the PD calibration. Similar conclusions have been reached in the EBA Report on the comparability of supervisory rules and practices from December 2013, pp. 27–28. Against this background, it is important to keep in mind that banks may have different starting points in terms of rating philosophy and this will have implications on the way they derive IFRS 9 PDs from regulatory PDs. In particular, banks may not be using the parameter TTC PD as an input in their IFRS 9 models if they do not regard their regulatory PDs as TTC.

with only one intermediate step ('PD – IRB without conservative adjustments'). Based on the feedback received during the consultation period, the instructions do not allow any flexibility in the reporting in case this data point is not available.

2.3.2 Analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curve and the macroeconomic scenarios

22. With respect to the analysis of the lifetime PDs, the EBA considered splitting the analysis into two separate steps:

- a. First, in template 114.00, the variability of the economic scenario is assessed through the variability of one macroeconomic variable forecast, namely the gross domestic product (GDP).
- b. Second, in template 112.00, the variability of the PD curve is measured for each economic scenario defined in the previous step.

23. On the variability of the economic scenario, one of the key challenges is to balance simplicity and accuracy. While it is clear that forward-looking information cannot be captured by only one macroeconomic variable, the need for a manageable template size and the necessity to ensure a sufficient number of institutions forecasting the macroeconomic variables in question prompted the collection of only one macroeconomic forecast per country of the counterparties used in the benchmarking exercise. If the institutions are not using a discrete number of macroeconomic scenarios (for instance, because they are using Monte Carlo simulation for the PD), template 114.00 should not be populated.

24. Based on the feedback received, the template and the instructions have been amended to account for GDP estimates at a higher level than for a single country (e.g. euro area, world). This possibility appears to be especially relevant in the context of large counterparties with international activities. Furthermore, the instructions now allow the reporting of a single average macroeconomic scenario in case individual scenarios are not developed (e.g. for less material jurisdictions).

25. With respect to the PD curves, the EBA decided to collect not only the baseline PD curves but also the PD curves for each of the economic scenarios reported in template 114.00.

26. The definition of the different concepts of PDs is particularly important when performing a benchmarking analysis, as unclear definitions create the risk of calculating biased benchmarks on values with different economic meanings. In particular, two sets of data points will be heavily analysed: the 12-month PD collected in template 111.00, and the PD curves related to economic scenario 1 (baseline scenario) and economic scenario 0 (which is used to collect the PD considered in the application of the impairment requirement under IFRS 9). It is therefore very important to specify how these data points should be reported depending on the type of modelling approach used by the institutions, in order to ensure that any benchmarking analysis is based on comparable data. In this regard, on the basis of the evidence collected about the practices adopted by banks, three main approaches can be identified:

- a. **Approach 1:** The ECL amount is calculated as a probability-weighted ECL of each scenario via the intermediate step of calculating all risk parameters for each scenario. One additional relevant distinction is between models that use a low number of scenario (i.e. below five) and those that use Monte-Carlo-like simulation. In this approach, a weighted average PD is requested.
- b. **Approach 2:** The PDs are developed only for a single forward-looking economic scenario (i.e. the baseline scenario), and this number is not adjusted to take into account non-linearity effects in any further step. This is the case when the non-linearity effects are considered to have a non-material impact on ECL⁴.
- c. **Approach 3:** This approach differs from Approaches 1 and 2. The estimate of ECL is based on a forward-looking economic scenario (i.e. the baseline scenario) but, differently from Approach 2, an adjustment is applied to reflect the non-linearity effects. The EBA noted that different practices are applied by banks using such an approach. In particular, the EBA understands that in some cases the adjustment is applied at PD level, in order to include non-linear effects in the assessment of significant increase in credit risk. However, other banks envisage the application of an adjustment only at the ECL level and it is not possible to allocate the ECL adjustments to the PDs without any assumptions and/or simplifications (for example, due to the link with the LGD parameter). For those banks, the EBA considered, on the basis of the feedback received from the public consultation, the approach to follow in reporting the data requested below, with the aim of ensuring that the data are collected on a consistent basis.

27. Based on these considerations, the EBA is proposing the following reporting of the data points, depending on the approach used by the institutions:

⁴ As for instance in the case where there is a linear relationship between the range of forward-looking economic scenarios and the resulting ECLs.

	Approach 1		Approach 2	Approach 3
	<i>Non-linearity in ECL</i>		<i>No non-linearity in ECL</i>	<i>Non-linearity in ECL</i>
PD variables:	<i>Low number of scenarios</i>	<i>High number of scenarios*</i>	<i>PD for one scenario available</i>	<i>PD for one scenario available</i>
PD sce 1–5 (template 112.00)	Reported	Reported	Reported <i>Only PD (scenario 1)</i>	Reported <i>Only PD (scenario 1)</i>
PD sce 0 (template 112.00)	Reported = <i>probability-weighted average PD</i>	Reported = <i>probability-weighted average PD</i>	Reported = <i>PD (scenario 1)</i>	Reported = <i>PD used for SICR assessment</i>
PD 12M (template 111.00)	Reported = <i>PD (scenario 0)</i>	Reported = <i>PD (scenario 0)</i>	Reported = <i>PD (scenario 0)</i> (= <i>PD (scenario 1)</i>)	Reported = <i>PD used for SICR assessment</i>

* If a mapping is possible. If no relevant mapping can be done between a bank's internal scenario and the five prescribed scenarios, only scenario 0 should be populated.

28. The above categorisation is aimed at ensuring that the data reported by those banks in the scope of the ITS can be considered comparable, regardless of the approach used in incorporating forward-looking information for the purpose of the ECL measurement. It is not the intention of the EBA to create sub-categories for the benchmarking that could reduce the meaningfulness of the exercise.

2.3.3 Analysis of variability of practices in the SICR assessment

29. The analysis of the variability in SICR assessment requires information to be collected at facility level, so template 113.00 is significantly expanded compared with 111.00. In order to simplify the data collection, the number of facilities to be reported is limited to a maximum of five per counterparty.

30. The SICR assessment is derived from a combination of quantitative and qualitative triggers. While the set of qualitative triggers are collected via one data field, which concentrates on the (assumed) three main triggers (30 days past due, watch list, forbearance), the quantitative trigger is assessed by means of four data points (annualised originated PD, annualised PD at reporting date, quantitative Stage 2 trigger (in annualised PD) and low credit risk exemption threshold (if

applicable)). The EBA believes this way of proceeding keeps a correct balance between the reporting burden and the granularity necessary to produce a relevant analysis.

3. Draft implementing standards amending Commission Implementing Regulation (EU) 2016/2070 on benchmarking of internal models



COMMISSION IMPLEMENTING REGULATION (EU) No .../...

of [date]

amending Implementing Regulation (EU) 2016/2070 as regards benchmarking portfolios, reporting templates and reporting instructions

THE EUROPEAN COMMISSION,

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

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC¹, and in particular the third subparagraph of Article 78(8) thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) 2016/2070² specifies the reporting requirements for institutions to the European Banking Authority (EBA) and to competent authorities in order to enable the EBA and the competent authorities to carry out their assessments of internal approaches for calculating own funds requirements in accordance with Article 78 of Directive 2013/36/EU ('benchmarking exercise'). Given that institutions have to submit the results of their annual calculations at least annually and that the focuses of the competent authorities' assessments and of the EBA's reports have changed, exposures or positions that are included in the benchmark portfolios, and therefore also reporting requirements, need to be adapted to such changes. It is therefore appropriate to amend Annexes I, II, III, IV, V, VI and VII to Implementing Regulation (EU) 2016/2070.
- (2) Further, recently a new international accounting standard was adopted in the Union, known as International Financial Reporting Standard 9 (IFRS 9) via Commission Regulation (EU) 2016/2016³. This introduced new rules for the measurement of credit losses, and, as a result, directly impacts on the amount of own funds and regulatory ratios reported. It is therefore necessary to reflect such impact also on the reporting requirements under Regulation (EU) No 2016/2070 by adding two new Annexes, one with the templates for reporting the IFRS 9 impact and the other with the instructions for completing those templates.
- (3) This Regulation is based on the draft implementing technical standards submitted by the EBA to the Commission.

¹ OJ L 176, 27.6.2013, p. 338–436.

² Commission Implementing Regulation (EU) 2016/2070 of 14 September 2016 laying down implementing technical standards for templates, definitions and IT-solutions to be used by institutions when reporting to the European Banking Authority and to competent authorities in accordance with Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council (OJ L 328, 2.12.2016, p. 1).

³ COMMISSION REGULATION (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (OJ L 323, 29.11.2016, p. 1–164).

- (4) The EBA has conducted open public consultations on the draft implementing 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 1093/2010¹⁷.
- (5) Implementing Regulation (EU) 2016/2070 should be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Implementing Regulation (EU) 2016/2070 is amended as follows:

- (1) The following points (f), (g), (h) are added to Article 2:
- ‘(f) the information specified in template 111.00 of Annex VIII, for the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C111.00 of Annex II and Annex IX respectively;
 - (g) the information specified in template 112.00 of Annex VIII, for the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C112.00 of Annex II and Annex IX respectively;
 - (h) the information specified in template 113.00 of Annex VIII, for the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C113.00 of Annex II and Annex IX respectively;
 - (i) the information specified in template 104.00 of Annex VIII, for all the geographical areas of the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C114.00 of Annex II and Annex IX respectively’;
- (2) Annex I is replaced by the text set out in Annex I to this Regulation;
- (3) Annex II is replaced by the text set out in Annex II to this Regulation;
- (4) Annex III is replaced by the text set out in Annex III to this Regulation;
- (5) Annex IV is replaced by the text set out in Annex IV to this Regulation;
- (6) Annex V is amended by the amending Annex V to this Regulation;
- (7) Annex VI is replaced by the text set out in Annex VI to this Regulation;
- (8) Annex VII is replaced by the text set out in Annex VII to this Regulation;
- (9) Annex VIII to this Regulation is added as Annex VIII;
- (10) Annex IX to this Regulation is added as Annex IX.



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

On behalf of the President

[Position]

ANNEX

Annex I (Credit Risk Benchmarking)
Annex II (Credit Risk Benchmarking)
Annex III (Credit Risk Benchmarking)
Annex IV (Credit Risk Benchmarking)
Annex V (Market Risk Benchmarking)
Annex VI (Market Risk Benchmarking)
Annex VII (Market Risk Benchmarking)
Annex VIII (IFRS 9 Benchmarking)
Annex IX (IFRS 9 Benchmarking)

4. Accompanying documents

4.1 Draft cost-benefit analysis/impact assessment

31. With the first application of IFRS 9 (the new accounting standard applicable to financial instruments) in January 2018, one of the most recent challenges for regulators and supervisors is to ensure high-quality and consistent implementation of this standard, since the outcome of the ECL calculation will directly impact the amount of own funds and regulatory ratios. This link to prudential requirements reinforces the need for scrutiny from regulators and supervisors to achieve high-quality implementation of this new accounting standard.
32. Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal model approaches, used for the calculation of own funds requirements, and requires the EBA to produce a report to assist them in this assessment. The report of the EBA relies on data submitted by institutions in accordance with EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions to be used by the institutions as part of the annual benchmarking exercise, when using internal model approaches for market and credit risk.
33. Given the commonalities between IRB models for credit risk and IFRS 9 models, it is deemed appropriate to use the current benchmarking tool and therefore to build on the existing ITS on supervisory benchmarking in conducting the IFRS 9 benchmarking exercise. For this reason, changes are suggested to Regulation 2016/2070 in order to integrate into the current set of templates additional templates dedicated to IFRS 9, collecting information in terms of parameters to measure ECL and other relevant information.
34. Article 15(1) of the EBA Regulation provides that, when any draft implementing technical standards developed by the EBA are submitted to the Commission for adoption, they 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 solutions proposed and the potential impact of these options
35. The EBA prepared the IA included in this consultation paper by analysing the policy options considered when developing the guidelines. Given the nature of the study, the IA is qualitative in nature.

A. Problem identification

36. The existing ITS on supervisory benchmarking currently includes templates to monitor risk parameters for credit and market risk. IFRS 9 parameters are currently not included in these templates.



37. In order to conduct the IFRS 9 benchmarking exercise, additional templates are needed to collect information about parameters to measure ECL and other relevant information. For this reason a modification to Regulation 2016/2070 is deemed necessary.

B. Policy objectives

38. Bearing in mind the impact of accounting ECL measurement in the regulatory capital, it is of the utmost importance to develop tools that would allow the identification of the main sources of variability when assessing the quality of parameters and modelling choices performed by the Institutions.

C. Baseline scenario

39. The baseline scenario is the existing Regulation 2016/2070, in which only the collection of credit and market risk parameters is envisaged. If there are no changes applied to this regulation, any additional data collection on IFRS 9 information should be done on an ad hoc basis.

D. Options considered

40. When drafting the present guidelines, the EBA considered several policy options under two main areas:

1) Scope of the IFRS 9 benchmarking

When assessing the scope of the IFRS 9 benchmarking and which parts of the current ITS would also be covered for this purpose, two options were considered:

Option 1: All the counterparties currently covered for the purpose of the ITS would also be considered for the IFRS 9 benchmarking.

Option 2: Only the counterparties of the LDPs would be considered for the IFRS 9 benchmarking at this stage and the exercise would follow a staggered approach.

2) IFRS 9 parameters to be collected

Option 1: to collect all the relevant parameters considered for ECL measurement purposes under IFRS 9.

Option 2: to focus on PD, which would already allow the collection of relevant information on Institutions' practices and choices made regarding the ECL measurement, in particular on the staging assessment required by IFRS 9.

E. Cost-benefit analysis

41. To proceed with due regard to proportionality aspects and the complexity of the exercise, it was assessed whether in the first stages only some parts of the ITS would be used for the IFRS 9 benchmarking. In particular, it was analysed whether collecting data only for LDPs would provide enough information to perform a first assessment on the main potential reasons that could explain variability on the ECL measurement. The main limitation identified with this approach is the representativeness of the common sample in relation to the actual portfolio of each institution.
42. Ultimately, it would be more meaningful to focus on high-default portfolios (HDPs), in particular in relation to loans to small and medium-sized enterprises. However, collecting data on HDP involves a comparison of the model outputs not for common counterparties but instead for commonly defined portfolios. This approach requires in-depth reflection and an appropriate time for implementation due to its greater complexity.
43. Moreover, in the light of complexity and time for proper implementation, it was concluded that at this stage a focus on one of the parameters (PD) would already provide a good basis for the benchmarking analysis. The relevant information on other parameters (e.g. exposure at default (EAD) and LGD) would be separately collected in qualitative terms and be used for their future integration.

F. Preferred option

44. It is suggested that in the first stage of the IFRS 9 benchmarking exercise only some parts of the ITS are used. For this reason, only LDP would be considered for this purpose. Given that risk parameters on the same counterparties are collected (i.e. the risk is the same), the outcomes from the banks' models should give a direct insight into the non-risk-based variability.
45. In addition, it is suggested that the new parameters focus solely on PD. The integration of additional parameters (LGD and EAD) will follow in due course, also making use of the qualitative information collected separately.



4.2 Feedback on the public consultation

The EBA undertook a public consultation on the draft proposal contained in this paper.

The consultation period lasted for 2 months and ended on 13 February 2019. Overall, nine responses were received (of which three were classified as confidential). However, only six respondents provided comments on those issues dealing with the implementation of the IFRS 9 templates.

This paper 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 some cases, several industry bodies made similar comments or the same body repeated its comments in response to different questions. In such cases, the comments and the EBA's analysis are included in the section of this paper where the EBA considers them most appropriate. In particular, comments related to the approaches used to estimate PD under IFRS 9 and the link with the scenarios have been grouped in the answers to question 11.

Changes to the draft ITS have been incorporated as a result of the responses received during the public consultation.

Summary of key issues and the EBA's response

On the market risk part of the consultation, the feedback received expresses a clear preference for leaving the references dates as specified in the past. The IBOR update seems not to be an issue for the 2021 exercise, but the text was updated so that it reflects the forthcoming regulatory changes for the future exercises. Some minor changes were also suggested, and reflected in the current final draft, as reported in the final table.



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

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
Scope and objective of the IFRS 9 exercise	Three respondents asked for further clarification on the next steps of the exercise. In particular, the EBA was urged to confirm that there is 'no intention to influence the accounting treatment as it related to IFRS 9 and harmonise related bank practices'. In particular, one respondent stated that the requirements on 'impairment' of IFRS 9 are formulated on general principles and are open to broad interpretation, while the prudential requirements are formulated in great detail. It believed that the EBA could not question these two essentially different logics. It also added that there are already several backstops against the variability of ECL levels, such as the calculation of the shortfall under the IRB framework.	<p>The scope of the exercise has been clarified in the IFRS 9 roadmap published on 23 July 2019⁸:</p> <p>'The objective of this benchmarking exercise is to understand to what extent the use of different methodologies, models, inputs and scenarios could lead to material inconsistencies in ECL outcomes, affecting own funds and regulatory ratios. [...]</p> <p>'This is a medium- to long-term objective due to the inherent complexity and the time needed to understand the different implementation practices being followed by the EU institutions across different portfolios.'</p>	No
Legal ground of the IFRS 9 exercise	Some respondents went further and questioned the legal ground of the extension of the benchmarking exercise to IFRS 9 models. In particular, one	The need for the exercise and its link with the credit risk have been clarified in the IFRS 9 roadmap published on 23 July 2019:	No

⁸ <https://eba.europa.eu/eba-publishes-its-roadmap-on-ifs-9-deliverables-and-launches-ifs-9-benchmarking-exercise>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	respondent argued that the benchmarking should relate solely to internal approaches for the calculation of risk-weighted assets or own fund requirements. It pointed out the fact that IFRS 9 benchmarking, on the other hand, is only relevant to IFRS users and not to nGAAP users. Last, it highlighted that this extension would contradict the current efforts and intention of the European Commission to implement measures to reduce the costs of supervisory reporting systems.	‘The concept of a benchmarking exercise for IFRS 9 modelling builds on the reasoning that regulators and supervisors can leverage on their expertise on prudential models and on benchmarking these models to at least tackle some of the accounting models’ sources of variability and the consequences in terms of prudential ratios.’	
Timeline of the IFRS 9 exercise	One respondent stressed the need for a careful and timely integration of the IFRS 9 template, in accordance with the IFRS 9 roadmap, and generally agreed with the staggered approach followed by the EBA.	The timeline for the future exercises has been clarified in the IFRS 9 roadmap published on 23 July 2019.	No
Benchmarking of the LGD and ECL in the IFRS 9 exercise	Two respondents recalled that the ECL and the LGD cannot be easily benchmarked, in particular given the different level of collateralisation affecting the level of loss risk, or given the different types of exposures (e.g. bonds versus loans). Furthermore, the approach used for regulatory purposes could affect the LGD used and further impede the comparison of the ECL. This impact of the regulatory approach may also be	The EBA agrees with the limits of the comparison between institutions of the LGD and therefore the ECL. Therefore, it is intended not to benchmark the values of these estimates, but instead to use them to assess the materiality of the PD deviations. The benchmarking of LGD and ECL will be done in a future exercise, through the collection of further data points.	No



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>observed in the time, when the final Basel III framework will have some exposure classes to migrate from the advanced IRB (AIRB) or the foundation IRB (FIRB) approach. Against this backdrop, it would be recommended to include an additional 'Regulatory approach' column to identify which approach has been used in the supervisory framework to risk-weight the exposures.</p> <p>In addition, one respondent mentioned the difficulties in comparing the expected loss under the IFRS 9 framework and the expected loss under the IRB framework due to conceptual differences, the latter incorporating conservative adjustments.</p>	<p>On the need to identify the regulatory approach used, this is already done in the current form of the exercise, as the counterparties are duplicated according to the regulatory approach used (with the last four digits of the counterparty code used to identify the regulatory approach).</p> <p>The EBA acknowledges the conceptual differences between the IRB and IFRS 9 expected losses.</p>	
Definition of the LDPs for the IFRS 9 exercise	Two respondents asked for clarification of which definition of LDP was used.	While a definition is needed in the IRB part of the exercise, this notion is irrelevant in the IFRS 9 part, since the data points are collected only for the list of counterparties given in Annex 1.	No
Treatment of exposures related to counterparty credit risk in the IFRS 9 exercise	One respondent believed that some differences in the perimeter of IFRS 9 exposures should be considered in the treatment of counterparty credit risk.	While the merit of such a split may be acknowledged for in-depth analysis, it is, however, considered premature for this ITS and the exercise to be run in 2021, given the focus on the PD parameters. Indeed, the type of credit risk does not appear as essential as other risk drivers (such	No



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		as the counterparty in question) for the assessment of the default risk.	
Q1. Do you agree with the necessity to complement the quantitative data collection with qualitative templates?			
Use of qualitative template	Some respondents acknowledged the need to complement the quantitative analysis by qualitative insights. However, it was argued that it 'may be best achieved through direct engagement and feedback on the qualitative information between banks and regulators/supervisors, as is the case in the current benchmarking exercise.' On the other hand, two respondents were opposed to including a qualitative part of the exercise. They argued they struggled to see the value added of a mere observation of different modelling and parametrisation practices. In their view, this analysis could be misleading, given that even within a group heterogeneous practices are observed.	While this qualitative questionnaire is not part of the ITS per se, the feedback received is a useful input to reflect on the best manner to collect the qualitative information necessary to understand the variability in practices. While there is no consensus on the best way to collect this information, it was acknowledged that this type of insight is useful to understand and interpret the quantitative figures collected.	No
Q2. In your view, which aspects, from a LDP perspective, are relevant to investigate from a qualitative perspective, where there might be different practices leading to different impacts across institutions?			
Possible topics to be investigated	One respondent believed the most important topics to be investigated from a qualitative perspective	While this qualitative questionnaire is not part of the ITS per se, the feedback received is a useful	No



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>were SICR and FLI. For SICR, it was noted that this topic may be especially relevant to LDP, where the collective assessment of SICR is not particularly relevant. Respondents taking the view in question 1 that this qualitative part of the exercise was of limited benefit did not formulate a particular view in question 2.</p>	<p>input to reflect on which qualitative information is necessary to understand the variability in practices.</p>	
<p>Q3. Do you have any concerns on the three changes applied to the credit risk IRB templates? In particular, do you believe the extension of the data collection for hypothetical RWA will add a significant burden to the exercise?</p>			
<p>Collection of RWA under SA for the LDP</p>	<p>Two respondents expressed disagreement on the collection of RWA under SA for the LDP (paragraph 9(b)). The other respondents did not mention this point specifically. The reasons given are:</p> <ul style="list-style-type: none"> The obligation to calculate RWA under the standardised approach for all IRB exposures will enter into force in the final Basel III framework, i.e. after the year of the exercise (hence, the collection of this data point for the 2021 was seen as premature). It was further underlined that the Basel I output floor was no longer mandatory. 	<p>The EBA agrees about the link highlighted with the final Basel III framework: there will be no obligation to calculate RWA under the new standardised approach by the end of 2021. However, the EBA believes the current standardised approach is already sufficiently risk sensitive to be used by supervisors in the benchmarking exercise. Furthermore, aligning the timelines of the data collection with those of the implementation of the final Basel III framework does not meet the supervisory needs, as it would imply a delay in the data collection of several years.</p>	<p>No</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<ul style="list-style-type: none"> • The enhanced standardised approach would enter into force in the coming years. Hence, reporting the RWA under the current standardised approach could have limited benefit, due to both the short amount of time for the implementation and the shortcomings of the current standardised approach. • One of the respondents argued the collection of RWA calculated under the standardised approach was not in line with Article 78 of the CRD, which requires benchmarking of internal approaches used for calculating own funds requirements. This extension would contradict the current efforts and intention of the European Commission to implement measures to reduce the costs of supervisory reporting systems. 	<p>The EBA disagrees with the respondent about the legal impediments raised. In fact, the RWA calculated under the standardised approach is already collected under the current ITS published in the <i>Official Journal</i>, with the option not to report the metric limited to the LDPs (the metric is already collected for HDPs). The removal of this option does not appear to go against Article 78 of the CRD.</p> <p>The EBA is mindful of the efforts of the European Commission to reduce the costs of supervisory reporting systems. However, the flexibility left to institutions when developing internal models should be met with adequate supervisory tools, including sufficient information and benchmarks. Given this, the EBA believes the costs incurred by this additional data collection are balanced with sufficient benefits for the supervision of internal models. Furthermore, the EBA reduced the cost of reporting this data point by a staggered approach, as the data point is already collected for the HDP since the 2019 exercise.</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Collection of RWA-/+ at the rating grade level	One respondent expressed support for the collection of RWA-/+ at the rating grade level (paragraph 9(c)), but saw little added value in the data collection, since there is no benchmarking possible on data points collected according to the own rating split of each institution. The rest of the respondents did not express an opinion on the matter.	The EBA agrees with the comment made on the impossibility of benchmarking the new data points directly at the rating grade level. However, data collection at the rating grade level allows further analysis based on a comparison with other data points before the aggregation at the portfolio level. In addition, it allows a further data quality check to improve the data quality.	No
Q4. Stakeholders are invited to express their view on the new reference date specification with respect to the precedent method to specify the reference dates for the exercise.			
Reference dates	All the respondents expressed a preference to keep the format of it as adopted in the past, to avoid any misunderstanding. Some respondents confirmed that the cost of adoption of a more general notation should be minimal, including if additional information would be submitted. Nonetheless the possibility of misalignment cannot be excluded.	Assuming only the reference dates will change for submission of the future ITS, EBA will submit only the dates update to the European Commission.	Revert to previous notation adopted.
Q5. Stakeholders are invited to express their view on the implementation of the Benchmarks Regulation, in terms of which rate to apply in the instruments in the market risk exercise.			



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Reference rate	The applicable reference rate should be the one with the highest liquidity in the market at the date of contracting the operations. As the benchmarks reform is due to be delivered in 2021, the reference rates should be maintained based on EURIBOR and LIBOR for now.	It seems clear to the majority of respondents that the benchmark regulation will not have an impact for the future exercise, but the changes would be beneficial for the future exercises, when the Benchmark Regulation would enter into force.	Draft suggestion in the CP slightly modified to reflect the suggestion.
Q6. Do you see any issues or lack of clarity in the definition of the data points of template 111.00?			
Q7. Do you see the need to adjust or add any variable for the intended outcome? Please specify.			
Treatment of guarantees	Two respondents asked for clarification in the instructions that only the pre-credit risk mitigation (CRM) PDs are to be reported, in line with the assumptions of the IRB credit risk templates.	The EBA agrees on the need for clarifications and amended the instructions.	Yes
Exposures with a maturity lower than 1 year	One respondent asked for clarification that this template is to be filled in with the information on ECL and PD determined on a 12-month basis including in cases of exposures with a maturity lower than 1 year. The same respondent suggested amending the instructions related to the definition of LGD in order to refer only to the 12-month PD and the 12-month ECL used in the baseline scenario.	The EBA agrees on the need for clarifications and amended the instructions.	Yes



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Instructions for PD 12-month (column 100)	One respondent asked for further clarifications on the approach to be used to aggregate transaction specific PDs at a counterparty level (e.g. an exposure-weighted approach).	This clarification is already mentioned in the instructions for the ITS.	No
Expected loss over lifetime (ELL) and residual term of the facility	One respondent considers the ELL and the residual term of the facility further important parameters that should be included in the IFRS 9 benchmarking exercise.	The EBA will consider the addition of any further benchmarking parameters in future versions of the ITS, as explained in the IFRS 9 roadmap published on 23 July 2019.	No
Instructions for LGD 12-month (column 200)	In addition, the respondent proposed clarifying the instruction for the data-points-weighted LGD by referring directly to the 'PD – 12-month IFRS 9 as defined in column 100' and 'Exposure value – IFRS 9 as defined in column 300'.	The EBA agrees with this proposed change.	Yes
General instructions related to LGD	Finally, the respondent requested that the general instructions be amended: while Annex IX, Part I, Article 5 requests PDs and LGDs to be expressed as values between 0 and 1, it could be possible under specific conditions for the LGDs to be greater than 1.	The EBA agrees with this proposed change.	Yes
Q8. Would you see any particular problem in filling in some of the data requested? For what reasons? Please give your comments related to the PD 12-month and the economic scenario in question 7.			
Collection of PD IRB without adjustment	As a general remark, three respondents pointed out that decomposing the different changes in PD (i.e.	The EBA acknowledges the potential difficulties in reporting this data point, and introduced an	Yes



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	from IRB PD to IFRS 9 PD) could be burdensome. Moreover, the information on IRB PD without regulatory adjustments could be not available or comparable, since the harmonisation of the requirements on the margin of conservatism (MoC) and the downturn estimation is required by the end of 2021. In addition, one respondent recalled the existence of intermediate parameters, such as the EAD-weighted average default rate for calibration, case-weighted average default rate for calibration and long-run PD, which would provide information to the EBA in relation to the intermediate steps for AIRB models. Therefore, the respondent argued in favour of a deletion of the data point PD IRB.	optionality in case the institution is not able to isolate the conservative adjustments embedded in its PD estimates.	
Q9. Do you see any issues or lack of clarity in the definition of the data points of template 112.00? Please explain.			
Reporting of PD curve for macroeconomic scenarios	In the view of several respondents, reporting one macroeconomic scenario for each country code represents one of the main challenges of this template, since, in most cases, an average macroeconomic scenario is developed for those countries where banks' exposures are non-material or the number of counterparties is limited. Against this backdrop, respondents asked for some flexibility	The EBA acknowledges the possibility of developing simplified options in the IFRS 9 framework, and introduced the possibility of reporting a single average macroeconomic scenario	Yes



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	in the reporting requirements, such as by introducing some materiality thresholds, or requiring to report only the weighted average PD (or, as an alternative, the data related to scenario 0) which is the one used for benchmarking purposes.		
<p>Q10. Do the categorisations reported above reflect the approach applied by your bank, in incorporating forward-looking information? If not, please explain what are the main differences.</p> <p>Q11. For banks applying Approach 3, what will be, in your view, an appropriate approach for reporting the data related to the PD in scenario 0 (i.e. the PD considered in the application of the impairment requirements under IFRS 9)? Do you think that (if available) a probability-weighted average PD represents an appropriate proxy? Do you think that the PD used for the SICR assessment represents an appropriate proxy? If not, what other approach do you suggest to report this data?</p>			
Definition of the approach	It was noted that the three approaches described for the purpose of incorporating forward-looking information in the ECL estimates are those most commonly used in practice. However, some respondents argued that there could be certain elements of peculiarity in their implementation by banks. Thus, according to the respondents, some flexibility in the interpretation should be granted. One respondent mentioned in particular the possibility of having a hybrid approach (for instance, use of Approach 2 conditional on the fact that there is no material deviation from Approach 1).	As already mentioned in the consultation paper, this categorisation is only aimed at ensuring that the data collected can be considered comparable, regardless of the approach used by the different institutions for incorporating forward-looking information for the purpose of the ECL measurement. By contrast, this categorisation is not aimed at mapping all the possible approaches implemented by banks in incorporating forward-looking information.	No



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		<p>That said, in the specific case of the hybrid approach mentioned by the respondent, if the data on probability-weighted average PD are available, the institution must follow the reporting criteria provided for banks applying Approach 1. Otherwise, it must report in accordance with the guidelines provided for banks applying Approach 2.</p>	
Reporting in 111.00	<p>One respondent asked for clarification that the instruction ‘where a single scenario is used, without any add on at the PD level to consider the non-linearity effect, but with an add on at the ECL level, the PD values shall be reported under economic scenario 1 only’ should be understood as requiring the PD 12-month under scenario 1 to be reported in template 111.00. As matter of fact, the exact definition of this data point was left open during the consultation to collect views from the industry on the best approach to follow.</p> <p>Second, the respondent proposed either applying the scenario consistently to all the tabs or removing any reference to them in template C111.00, so that only the baseline scenario is applied.</p>	<p>These clarifications have been provided in the instructions for the ITS. The PD under the baseline scenario should be reported only if it is equivalent to the PD used under scenario 0 in template 112.00. This is to ensure comparability of the metric across institutions using different estimation methodologies.</p>	Yes



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Reporting in 112.00	<p>Further clarifications were requested by respondents related to the approach used:</p> <ul style="list-style-type: none"> (i) One respondent pointed out that under Approach 1 the ECL amount is determined as a probability-weighted ECL of each scenario. However, in some cases the different scenarios are aggregated at the PD level rather than at the ECL level. This respondent requested further clarification of this aspect in the description of Approach 1. (ii) Another respondent proposed that, in the case of those banks using Approach 3 (i.e. where an adjustment is applied to the ECL amount to reflect the non-linearity effects), the baseline PD should be reported, in order to improve transparency. 	<p>The clarification on the reporting criteria to be followed by those banks applying Approach 3 has been provided in the instructions for the ITS.</p> <p>As regards the other clarification requested, if institutions are able to determine a probability-weighted average PD they must follow the reporting criteria provided for banks applying Approach 1.</p>	Yes
Reporting in 113.00	<p>In addition, one respondent asked for further clarification on the definition of the 'Annualised PD at reporting date' used in template C113.00, in particular with the interaction with the scenario defined in template C112.00. The definition should make it clear whether the PD should be according to</p>	<p>This clarification is already mentioned in the instructions for the ITS, according to which this data point is to be completed with the annualised lifetime PD representing the probability of default used for the purpose of the assessment of the significant increase in credit risk.</p>	No



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	scenario 0 or 1 (or another one for institutions under Approach 3).		
Q12. Do you believe that additional macroeconomic variables should be tested in future exercises and, if yes, which ones would be appropriate in the context of a benchmarking exercise?			
Collection of macroeconomic indicator	<p>While two respondents acknowledged that GDP changes are not sufficient to synthesise all the effects of forward-looking information, it was suggested to keep the list of macroeconomic variables to its simplest form. It was, however, pointed out that GDP changes could be insufficient to synthesise all the effects of forward-looking information and that for some LDP portfolios (e.g. multinational corporates) cross-national indicators (e.g. euro GDP growth, Brent Crude) are more appropriate than country-specific ones. Including cross-national information should be considered.</p> <p>Last, one respondent also suggested including in the templates a 'Macroeconomic scenario (yes/no) or 'GDP-relevant scenario (yes/no)' field in order to boost their meaningfulness.</p>	<p>The EBA acknowledge the relevance of cross-country geographical areas and introduced three new possibilities: world, euro area and European Union.</p> <p>The use of a macroeconomic scenario and GDP as a macroeconomic variable will, however, be in the scope of the qualitative part of the exercise.</p>	Yes
Q13. Do you see any issues or lack of clarity in the definition of the data points of template 113.00?			



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Definition of annualised PDs	Three respondents pointed out that the use of the annualised originated/reporting PD is a source of incomparability, given that it is also calculated on the basis of the contractual maturity since the origination/reporting date. Thus the comparison would be between two annualised PDs with different times to maturity. Moreover, such an approach does not consider, inter alia, that other transfer metrics could be used by banks (e.g. rating approach). Further clarifications were requested in this regard.	<p>The EBA agrees with the comments received and has amended the template to bring consistency between the different annualised PDs.</p> <p>However, the EBA believes that this approach is appropriate even for approaches based on rating downgrade, as it should be possible for each counterparty (and not on average) to transform a condition of a change of ratings into a condition of a change in PDs.</p>	Yes
Q14. Do you believe the reduction of the number of facilities to five significantly reduces the burden of the data collection?			
Limitation to five facilities	<p>Three respondents deemed the restriction to five facilities a relevant measure to reduce the burden of the data collection. Among the reasons quoted were the possibility of facilitating data quality controls across geographies. However, two respondents added that the data collection at the level of facility was still a material and major operational challenge to implement, in particular due to the absence of common data structures for IRB and IFRS 9.</p> <p>One respondent believed the limitation to five facilities was irrelevant to decreasing the burden of the exercise.</p>	<p>Based on this feedback, the EBA understands that the limitation of the data collection to five facilities alleviates the burden of the data collection, although not in a significant manner.</p> <p>Since the assessment of SICR has to be performed at the facility level, it is not possible to reduce the template with a data collection at the obligor level.</p> <p>The template is therefore left unchanged.</p>	No



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Q15. Do you agree with the list of the three qualitative triggers, or do you believe one indicator currently classified as '5 other indicators' is more important and should deserve a specific field?			
Use of qualitative triggers	<p>The three qualitative triggers (30 days past due, watch list, forbearance) were assessed as relevant to reporting by two respondents.</p> <p>However, it was noted that reporting the simultaneous triggering of qualitative indicators could be burdensome. It may be better, instead, to report the main qualitative indicator that triggered the stage change, according to the evidence of the institution. In addition, it was pointed out that some institutions use different degrees of priority to determine the shift to exposures to Stage 2 in the case of the SICR qualitative indicator. Therefore, there might be institutions that may not fill in all of the modalities of the variable 600 Qualitative Stage 2 Trigger set.</p> <p>Finally, one respondent pointed out that there could be some differences in the definition of the 'watchlist' indicator used by banks</p>	<p>Based on this feedback and the analysis of the answers provided in the ad hoc exercise, the EBA agrees that the template can be simplified.</p>	Yes
Other issues on market risk			



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Currency reporting	One respondent said that another important item is currency reporting. In particular, it would invite the EBA to clearly state in Annex V that institutions have to calculate risk in the same currency as the portfolio, as indicated in the 2020 Final report on draft ITS amending the benchmarking regulation, in order to avoid any misinterpretation of the instructions and guarantee uniformity among the institutions. Indeed, as underlined in the consultation response in 2019, it deems that the EBA should clarify whether the bank must calculate risk figures in the same currency as the portfolio – thus not including any FX risk – unless intrinsically included in the instrument itself. In 2019, in its final report on the consultation, the EBA stated that it agreed with industry’s view that the methodology adopted should be in line with the risk model that the institution adopts and should be reported in the explanatory note, instruction (d), as demanded by instructions (n) and (o), but it did not include any change in the text. Thus, in the respondent’s opinion, it would be appropriate to specify this point in the final draft.	The EBA confirms the past analysis of the issue.	The instruction has been amended to clearly.
Instrument 34	One respondent suggested that instrument 34 is a bond in a currency different from the reporting currency requested in the instruction. The suggestion	The EBA agrees with the suggestion.	Instrument 34 is now updated to



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	would be to have a bond issued with the same reference currency as in the instruction.		an instrument in US dollars.
Instrument 39	One respondent suggested that instrument 39 still presents some ambiguity, and suggested a more prescriptive description of the instrument.	The EBA agrees with the suggestion. By extension, to have a consistent set of instructions, the same change is applied to instrument 38.	Instruments 38 and 39 now specify which is the long and which the short position.
Instrument 47	One respondent suggested that the cash balance 'Included' in the specification of instrument 47 was not the most common setting.	The EBA agrees with the suggestion.	In section 5 the cash balance is now changed to 'excluded'.

