



EBA/ITS/2019/03

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15 July 2019

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## Final Report

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

# Contents

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<b>1. Executive summary</b>	<b>3</b>
<b>2. Background and rationale</b>	<b>6</b>
<b>3. Draft implementing technical standards amending Commission Implementing Regulation (EU) 2016/2070 on benchmarking of internal models</b>	<b>17</b>
<b>4. Accompanying document</b>	<b>20</b>

# 1. Executive summary

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Article 78 of Directive 2013/36/EU (the Capital Requirements Directive — 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 Regulation (EU) 2016/2070, which specifies the benchmarking portfolios, templates and definitions to be used in the annual benchmarking exercises.

For the 2020 benchmarking exercise, changes to the market risk and credit risk portfolios and to the reporting templates and instructions are necessary to keep the portfolios up to date and the reported data relevant for the abovementioned assessment.

The EBA's supervisory benchmarking exercise currently serves three major objectives, the first being to conduct the abovementioned supervisory assessment of the quality of internal approaches. It is also a powerful tool to explain and monitor risk-weighted asset (RWA) variability over time. In this regard, it triggered, among other things, the development of the EBA's Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures<sup>1</sup>, published on 17 November 2017. Finally, the benchmarking results also provide banks with valuable information on their risk assessments compared with other banks' assessments of comparable portfolios.

## Credit risk

The benchmarking exercises carried out in 2018 highlighted some potential for improving both the definition of the benchmarking portfolios and the reporting instructions. Clear and unambiguous definitions and instructions are necessary to foster a consistent interpretation and implementation of the reporting requirements across institutions, which, in turn, will lead to better data quality and more accurate benchmark values. The benchmarking portfolios generally provide homogeneous pools of exposures that allow RWA and risk-parameter variability due to different practices to be analysed. Therefore, the revision of the benchmarking portfolios was based on three main principles, namely that the number of portfolios to be reported on should be lowered to reduce the complexity of the exercise, that the design of the portfolios should be simplified, with closer alignment to the Common Reporting (COREP) structure, and that there should be a focus on stable portfolio definitions for the future.

Therefore, the main changes to the definition of credit risk portfolios are:

- a reduction in the number of portfolios to be submitted;

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<sup>1</sup> <https://eba.europa.eu/documents/10180/2033363/Guidelines+on+PD+and+LGD+estimation+%28EBA-GL-2017-16%29.pdf/6b062012-45d6-4655-af04-801d26493ed0>

- a simplification and alignment in structure; and
- a number of technical refinements.

The number of portfolios is reduced mainly by limiting the portfolios that are collected for all risk types. Moreover, homogeneous portfolios in terms of rating, country, credit risk mitigation (CRM) and sectors covered are now collected in an independent manner. Based on the feedback received on the consultation paper (CP) published in December 2018, this final draft does not introduce new template C 105.04 but maintains the country times rating split in template C 103; however, the requirement to report empty portfolios has been deleted and the EBA will reflect on potential improvements in this regard in future exercises. Furthermore, a rating split is introduced for specialised lending exposures (SLEs) under the slotting approach, based on the regulatory risk weight (RW) categories of Article 153(5) of Regulation (EU) No 575/2013 (the Capital Requirements Regulation — CRR). This rating breakdown is combined with the SLE classes (project financing, real estate financing, object financing and commodity financing), as introduced in the regulatory technical standards (RTS) on the slotting approach<sup>2</sup>.

A simplification of the structure is achieved, on the one hand, by identifying specialised lending as a separate exposure class in the definition of low default portfolios (LDPs) (i.e. template 102) and, on the other hand, by the proposal to mirror the full exposure class breakdown in COREP in the high default portfolios (HDPs) (i.e. template 103). Moreover, it is proposed that the portfolio breakdown of HDPs and LDPs be aligned, at least as regards the breakdown by CRM to the extent possible.

Finally, some technical refinements are made to the existing breakdowns of HDPs and LDPs, which should support the creation of more homogeneous portfolios.

In particular, a more granular split is introduced in the large corporate portfolio, whereby information on large corporates with revenues between EUR 200 million and EUR 500 million and large corporates with revenues over EUR 500 million will be collected separately.

For SLEs under the slotting approach, a rating split is introduced based on the regulatory RW categories of Article 153(5) of the CRR (i.e. categories 1 to 5) in combination with the criteria for the remaining maturity (less than 2.5 years or equal to or more than 2.5 years).

Finally, for exposures to institutions, a new sub-portfolio is added, namely covered bonds that are eligible for the treatment set out in Article 129(4) or (5) of the CRR, which may be assigned an LGD value of 11.25% where the foundation internal ratings-based (FIRB) approach is applied, since these exposures are expected to be useful in explaining RWA variability.

## Market risk

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<sup>2</sup> [RTS on assigning risk weights to specialised lending exposures under Article 153\(9\) of Regulation \(EU\) No 575/2013 \(CRR\).](#)

The 2020 set of market portfolios are based on the EBA set of market risk benchmarking portfolios used for the 2019 exercise, which took on board suggestions and feedback from institutions during interviews held as part of past market risk benchmarking exercises.

In addition, for the 2020 implementing technical standards (ITS), institutions are required to submit the pricing information for the benchmark instruments together with the initial market valuation (IMV). Furthermore, institutions are asked to submit the risk factors assigned to the instruments, as well as the value at risk (VaR) model specifics and other qualitative information, in the explanatory note.

## Implementation

Given the type of changes introduced by these draft 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 2019 and of other market and credit risk data in 2020 (i.e. with a reference date of 31 December 2019).

## 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

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Article 78 of 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. The EBA's report is based on data submitted by institutions in accordance with Regulation (EU) 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions to be used in the annual benchmarking exercises by institutions using internal approaches for market and credit risk.

As part of these annual benchmarking exercises, the EBA collects feedback from institutions as regards the clarity of the benchmarking portfolios and reporting instructions, as well as from competent authorities as regards the relevance of the portfolios and the accuracy of benchmark values. Feedback from institutions is mainly gathered through interviews with selected institutions and direct contact between institutions and competent authorities, while feedback from competent authorities is shared with the EBA via a dedicated expert group dealing with the benchmarking of internal models.

Some of the feedback received included suggestions for changes to Regulation (EU) 2016/2070; these changes were deemed necessary to provide clearer instructions as regards the reporting requirements, better data validation and more relevant portfolios for which benchmark values can be calculated. The changes are described separately for market risk and credit risk in the following sections.

## 2.1 Credit risk changes (low default and high default portfolios)

1. The credit risk benchmarking exercise is based on the specification of so-called benchmarking portfolios, where risk-based differences are stepwise reduced along various dimensions. First, institutions need to distinguish between LDPs and HDPs.
2. For LDPs, institutions should report the following portfolios in template 102 of Annex I (this split of the LDP is referred to as the level 1 portfolio split for LDPs):
  - a. large corporates (specified as the subset of the COREP sub-exposure class 'Corporates - Others', containing only counterparties with a total annual turnover of EUR 200 million or more and which do not fall under the specification of SLEs in accordance with Article 147(8) of the CRR); the scope of this portfolio is therefore more restricted than the 2019 benchmarking exercise;
  - b. SLEs (specified as the COREP sub-exposure class 'Corporates - Specialised lending', as defined in accordance with Article 147(8) of the CRR); this portfolio was not collected as a separate asset class in the 2019 benchmarking exercise<sup>3</sup>;
  - c. institutions (identical to the COREP exposure class of that name); the scope of this portfolio is unchanged from the 2019 benchmarking exercise;
  - d. sovereigns (specified as the COREP exposure class 'Central governments and central banks'); the scope of this portfolio is unchanged from the 2019 benchmarking exercise.
3. Second, each of the portfolios created is split into defaulted and non-defaulted exposures. The resulting non-defaulted portfolios are further split based on various dimensions: on-/off-balance-sheet exposure, rating assignment, country, CRM and sectors ((financial reporting-FINREP) counterparty sectors and type of exposure). The latter splits are referred to as level 2 portfolio splits for LDPs.
4. In addition, two additional sub-portfolios are collected inside the large corporates: large corporates with revenues between EUR 200 million and EUR 500 million, as well as large corporates with revenues above EUR 500 million. These portfolios were not collected separately in the 2019 benchmarking exercise, and the data will be collected only at the highest levels<sup>4</sup>. This split is motivated by the fact that large corporates in the EBA's benchmarking exercise are characterised by counterparties with an annual turnover of at least EUR 200 million, but that large corporates have been defined as counterparties with an annual turnover of at least EUR 500 million in the context of the final Basel III standard. Note that the large corporates

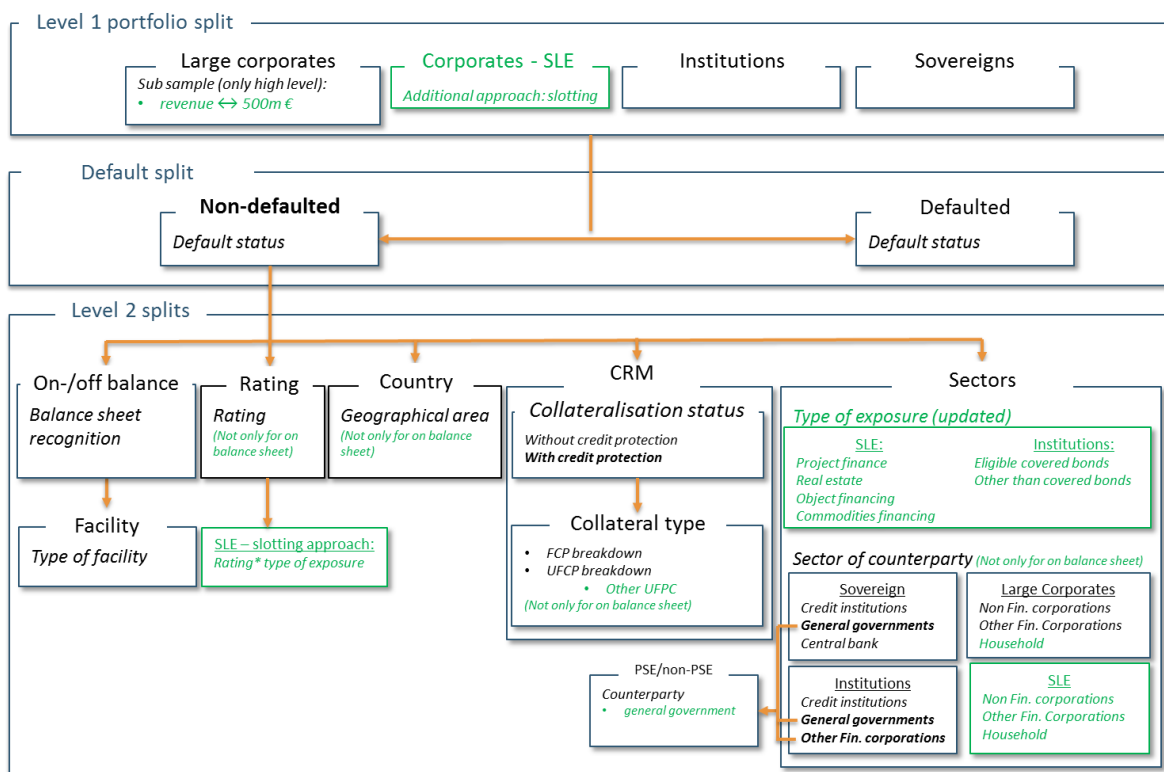
<sup>3</sup> The level 1 portfolio split differs from the specifications of previous benchmarking exercises in that SLEs are treated as a separate class in alignment with their treatment in COREP. Therefore, the data collected are the same, but they are provided through a different structure.

<sup>4</sup> Eighteen portfolios are collected for each of the sub-portfolios: three portfolios for each credit risk type, times two portfolios for each regulatory approach (AIRB and FIRB), times three portfolios for each default status (defaulted, non-defaulted and not applicable).

sample, which comprises all entities listed in template 101 of Annex I, will no longer be collected in the 2020 ITS because these data have not been used by the EBA to assess the representativeness of the template C 101 sample as originally intended.

5. The following chart illustrates the portfolio breakdown for the LDPs, where green indicates portfolios taken on board in the 2020 benchmarking exercise, as explained in more detail below.

### Three different levels for LDPs (template 102)



FCP refers to Funded Credit Protection, UFCP refers to Unfunded Credit Protection and PSE refers to Public Sector Entities.

6. The HDP level 1 portfolio split is aligned to the structure of COREP. The rationale for taking small and medium-sized enterprise (SME) retail exposure, qualifying revolving retail exposure (QRRE) and other retail exposure on board is to enable the benchmarking exercise to assess almost the full scope of IRB approaches<sup>5</sup>. The level 1 structure is therefore the following:

- CORP: Corporates - Others** (specified as the subset of the COREP sub-exposure class 'Corporates - Other', containing only counterparties with a total annual turnover of more than EUR 50 million and less than EUR 200 million); the scope of this portfolio remains unchanged from the previous benchmarking exercise and corresponds to the portfolio 'Corporates - No SME' of previous benchmarking exercises;

<sup>5</sup> Some exposure classes will still be missing, e.g. equity.



- b. *SMEC: Corporates - SME* (specified as the COREP sub-exposure class 'Corporates - SME', which contains only counterparties with an annual turnover of less than EUR 50 million<sup>6</sup>); the scope of this portfolio remains unchanged from the previous benchmarking exercise;
  - c. *MORT: Retail - Non-SME - Secured by immovable property* (specified as the COREP sub-exposure class 'Retail — Secured by immovable property non-SME'<sup>7</sup>); the scope of this portfolio is unchanged from the previous benchmarking exercise;
  - d. *RSMS: Retail - SME - Secured by immovable property* (specified as the COREP sub-exposure class 'Retail - Secured by immovable property SME'<sup>8</sup>); this portfolio was not collected separately at level 1 in the previous benchmarking exercise but was instead part of the previous 'Retail - SME' portfolio);
  - e. *SMOT: Retail - SME - Other, SME-R* (specified as the COREP sub-exposure class 'Retail - Other SME'<sup>9</sup>); this portfolio was not collected separately at level 1 in the previous benchmarking exercises but was instead part of the previous 'Retail - SME' portfolio);
  - f. *RETO, Retail - Non-SME - Other* (specified as the COREP sub-exposure class 'Retail - Other - non-SME'<sup>10</sup>); this portfolio was not collected in the previous benchmarking exercise;
  - g. *RQRR: Retail - Qualifying revolving* (specified as the COREP sub-exposure class 'Retail - Qualifying revolving'<sup>11</sup>; this portfolio was not collected in the previous benchmarking exercise.
7. This split of the HDP is referred to as the level 1 portfolio split for HDPs. The level 1 portfolio split differs significantly from the specifications of previous benchmarking exercises to achieve alignment with the specifications of COREP. In a second step, the level 1 portfolios are split into defaulted and non-defaulted exposures, in the same manner as for the LDP split. The resulting non-defaulted portfolios are further split based on various dimensions: on-/off-balance-sheet exposure, rating assignment, country, CRM, loan to value (LTV) and sectors (NACE code). The latter split is referred to as the level 2 portfolio split for HDPs. The following chart illustrates the

<sup>6</sup> This definition is independent of the use of regulatory facilitations for SMEs (e.g. the use of correlation factors).

<sup>7</sup> Therefore, this is related to situations in which the RW is calculated in accordance with Article 154(3) of the CRR and where the counterparty is an exposure to one or more natural persons in accordance with Article 147(5)(a)(ii) of the CRR.

<sup>8</sup> Therefore, this is related to situations in which the RW is calculated in accordance with Article 154(3) of the CRR and where counterparties are SMEs in accordance with Article 147(5)(a)(ii) of the CRR.

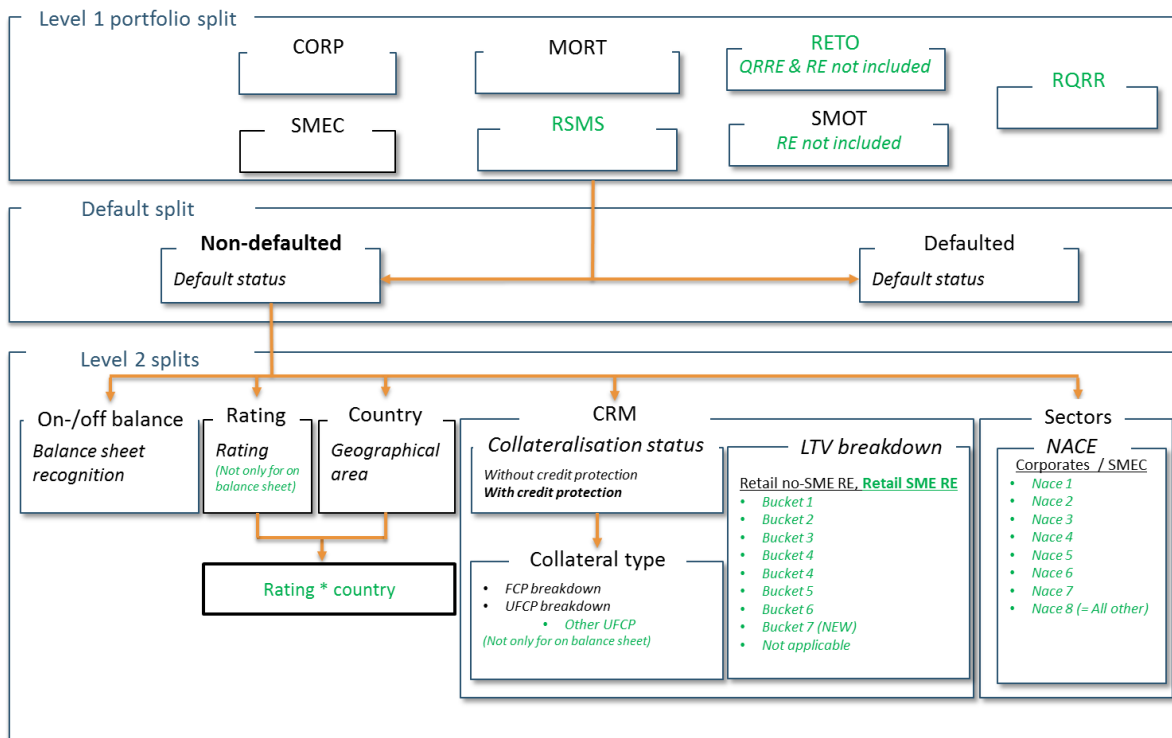
<sup>9</sup> Therefore, this is related to situations in which the RW is calculated in accordance with Article 154(1) of the CRR and where counterparties are SMEs in accordance with Article 147(5)(a)(ii) of the CRR.

<sup>10</sup> Therefore, this is related to situations in which the RW is calculated in accordance with Article 154(1) of the CRR and where the counterparty is an exposure to one or more natural persons in accordance with Article 147(5)(a)(ii) of the CRR.

<sup>11</sup> Therefore, this is related to situations in which the RW is calculated in accordance with Article 154(4) of the CRR.

portfolio breakdown for HDPs, where green indicates portfolios that are proposed to be taken on board in the 2020 exercise, as explained in more detail below.

### Three different levels for HDP (template 103)



#### 2.1.1 Reduction of the number of portfolios collected

##### a. Risk type split

8. For LDPs: For the 2019 benchmarking exercise, all LDPs (specified in template 102 of Annex I to the draft ITS on benchmarking of internal approaches for the 2019 exercise) have to be reported three times. One portfolio captures the counterparty credit risk (CC), one captures the credit risk and free deliveries (CR) and one captures both types of risks (CT). For the 2020 exercise, the risk type split for LDPs is significantly reduced, with a separation into CR and CC only, collected for the level 1 portfolios and default status splits. For all other levels, only CT will be used.

9. For HDPs: For the 2020 exercise, no differentiation by risk type is made; only CT will be used at all levels.

##### b. Reporting of 'empty' portfolios in the rating breakdown

10. Information on the rating scales used by banks is currently collected through the rating grade split portfolios in templates C 102 and C 103. For this purpose, 'empty' rating grade portfolios (i.e. portfolios without exposure) also need to be reported (see ITS on benchmarking, Annex IV,

Part I(4)<sup>12</sup>). This requirement has been deleted in this final draft ITS, as reporting ‘empty’ rating portfolios significantly increases the burden on both reporting institutions and competent authorities.

#### c. Combined level 2 breakdown

11. In the 2019 ITS, institutions were required to also provide a rating split per country (combined split rating per country; ‘level 3’ split) in template 103. For the 2020 exercise, in the CP, whether to reduce the total number of portfolios in template C 103 by dropping the rating per country split and selecting appropriate information on model grade level in a new template (C 105.04) instead was discussed. The rationale for this proposal was that the rating per country split has created an excessive amount of portfolios in the past, with some of them not containing a sufficient number of obligors to allow a meaningfully statistical analysis or not being aligned with the institutions’ perspective on internal ratings, which is based on rating systems rather than on countries. However, based on the feedback received, which pointed out the significant IT costs involved with the set up of a whole new template, it was finally decided that the status quo would be maintained and that the reporting of the country times rating split in template C 103 would be kept as it was in the 2019 ITS.

12. The EBA acknowledges that further reflexions are necessary on the best manner to produce meaningful benchmarking analysis. As an exception to the general rule of keeping the ITS as stable as possible for the 2021 exercise, the EBA will reflect on potential improvements to the rating split data collection.

#### d. On-/off-balance-sheet exposure split

13. To reduce the number of portfolios, the level 2 portfolios characterised by the rating split, the collateralisation/CRM split and the counterparty/sector splits are collected for all exposures, regardless of their balance sheet recognition. Thus, no separate portfolios characterised by on- and off-balance-sheet exposure will be reported at this level.

### 2.1.2 Simplification of the structure of the benchmarking portfolios

#### a. Specialised lending as a separate exposure class

14. In the 2019 benchmarking exercise, SLEs will be reported as sub-portfolios of the large corporates’ benchmarking portfolios. For the 2020 benchmarking exercise, it is proposed that SLEs be treated as a separate level 1 portfolio split. This is well justified for the purpose of consistency with the HDP level 1 portfolios breakdown into retail sub-exposure classes. Another reason to have a separate exposure class for SLEs stems from the different levels of risk compared with other corporates. Moreover, other than non-SLEs in the corporates exposure class, SLEs allow for three different approaches for the purpose of calculating RWAs under the

<sup>12</sup> ‘For portfolios that are defined with a specific rating grade in Annex I, information on the probability of default (“PD”) shall be reported for the entire rating scale used by the institution, even where no internal-ratings based (“IRB”) exposure exists for the respective portfolio at the reporting reference date for each rating grade’.

IRB approach, namely FIRB, AIRB and the slotting approach of Article 153(5) of the CRR. Finally, it should be noted that all SLEs are to be reported under LDPs, independent of size.

**b. Type of exposures (further split for SLEs and specific data collection for covered bonds)**

15. It has been suggested that the level 2 breakdown proposed for the newly introduced exposure class of specialised lending be aligned to the classes of specialised lending as set out in the RTS on assigning RWs to SLEs under Article 153(9) of the CRR<sup>13</sup>: project financing, real estate financing, object financing and commodity financing. Moreover, for the purpose of consistency with the level 2 portfolio split for large corporates, SLE portfolios are also split by the financial reporting sector of the counterparty (non-financial corporates, other financial corporates and household). The proposed level 2 split will provide SLE portfolios that are as homogeneous as possible and is more consistent in structure with the breakdown for large corporates.

16. Furthermore, based on the feedback received after the publication of the CP, it was decided that information based on the RW categories defined in Article 153(5) of the CRR would be collected. This split is collected only in combination with the four types of exposure breakdown defined above. It is not expected to create a significant burden, since the RW categories are well defined in the CRR.

17. A new sub-portfolio is added, namely covered bonds, which are eligible for the treatment set out in Article 129(4) or (5) of the CRR. In accordance with Article 161(d) of the CRR, these covered bonds may be assigned an LGD value of 11.25%, where the FIRB approach is applied. This additional data collection would be conducted only for the institution's portfolio.

**c. Consistency between the HDPs and LDPs**

18. To simplify the portfolio specification, it is proposed that the level 2 breakdown for LDPs and HDPs be aligned to. Therefore, the revised ITS also implements the level 2 portfolio split by CRM for HDPs.

19. Moreover, it is proposed that the definitions be aligned with those used in COREP (i.e. 'unfunded credit protection' should be renamed as 'other unfunded credit protection' and instructions should be clarified, such that exposures subject to double default treatment are included in this portfolio).

### **2.1.3 Technical refinements to the split by NACE codes and ILTV**

**a. NACE code (new NACE codes introduced)**

20. In the previous benchmarking exercises and in 2019, the level 2 HDPs for 'Corporates', 'Corporates — SME' and 'Retail — SME' included a split for sectors, by which exposures related

<sup>13</sup>

<https://www.eba.europa.eu/documents/10180/1489608/EBA-2016-RTS-02+%28Final+RTS+on+specialised+lending+exposures%29.pdf>

to construction firms (NACE code F) could be identified separately. For the 2020 benchmarking exercise, it is proposed that more portfolios be specified in the sector breakdown, with the objective of creating more homogeneous benchmarking portfolios and thus reducing the proportion of unexplained variability. In detail, it is proposed that the following sub-portfolios shall be reported:

- A — agriculture, forestry and fishing
- C — manufacturing
- D — electricity, gas, steam and air conditioning supply
- F — construction
- G — wholesale and retail trade; repair of motor vehicles and motorcycles
- H — transporting and storage
- L — real estate activities
- All other.

21. By including a more granular NACE classification, it is the EBA's intention to introduce further granularity into risk differentiation. However, the EBA is also mindful of the burden that the introduction of this classification may cause and is therefore seeking input on this aspect.

22. Finally, the NACE breakdown is not collected for retail exposures.

#### **b. Buckets for ILTV**

23. For the 2020 benchmarking exercise, an update of the indexed loan to value (ILTV) breakdown for the exposures secured by immovable property is envisaged as follows<sup>14</sup>:

- Bucket 1:  $\leq 55\%$  if the property is a residential immovable property,  $\leq 60\%$  if the property is a commercial immovable property;
- Bucket 2:  $55\% < \text{ILTV} \leq 70\%$  if the property is a residential immovable property,  $60\% < \text{ILTV} \leq 70\%$  if the property is a commercial immovable property;
- Bucket 3:  $70\% < \text{ILTV} \leq 80\%$ ;
- Bucket 4:  $80\% < \text{ILTV} \leq 90\%$ ;
- Bucket 5:  $90\% < \text{ILTV} \leq 100\%$ ;
- Bucket 6:  $100\% < \text{ILTV} \leq 110\%$ ;
- Bucket 7:  $\text{ILTV} > 110\%$ .

#### **2.1.4 Technical refinements incorporating previously published Q&As**

24. Finally, some technical refinements are introduced in the legal text to improve its clarity. These are mostly based on previously published Q&As and are not intended to change the content of the reported data points.

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<sup>14</sup> For QRRE, no ILTV split is intended.

## 2.2 Market risk changes

25. The market risk benchmarking exercise is a market risk-weighted assets variability assessment performed across institutions that have been granted permission to calculate their own funds requirements using internal models for one or more of the following risk categories:

- general risk of equity instruments
- specific risk of equity instruments
- general risk of debt instruments
- specific risk of debt instruments
- foreign exchange risk
- commodities risk and
- correlation trading.

26. Pursuant to Article 362 of the CRR, the general risk component of debt instruments should refer to changes in the level of interest rates. Similarly, the general risk component of equity instruments should refer to broad equity-market movements.

27. Institutions granted approval for only general risk of equity or debt instruments (in accordance with Article 363 of the CRR) may use a broader definition of general risk, for example by including elements of credit spread risk (e.g. sector-related credit spread) in the interest rate general risk. Separate permission is required for each risk category. Many institutions do not have permission for internal models for all risk categories. The number of contributions for each hypothetical portfolio in this exercise thus varies across the sample.

28. Institutions granted permission to use the internal model for calculating market risk own funds requirements for only one or a selection of the aforementioned risk categories, in accordance with Article 363(1) of the CRR ('partial use'), exclude certain risks or positions from the scope of the internal model approval. In this case, the own funds requirements for the risk categories outside the scope of the internal model is calculated according to the standardised approach.

29. Besides this, as set out in Article 369(1)(c) of the CRR, institutions should conduct validation exercises on hypothetical portfolios to test that the model is able to account for particular structural features. These portfolios should not be limited to the portfolios defined in the benchmarking exercise; however, the EBA market risk benchmarking exercise is a useful starting point for institutions to meet this legislative requirement.

30. The market risk measures, requested from institutions' internal models/modelling units within the EBA market risk benchmarking exercise, are VaR, stressed value at risk (sVaR), incremental risk charge (IRC) and all price risk (APR) figures for specific financial instruments and aggregated

portfolios. Moreover, a preliminary assessment of the IMV for each instrument detects the pricing ability of the participating institutions.

### **2.2.1 Additional information request**

31. The new proposal set out in these ITS aims to improve the understanding of the ways institutions reach the values they submit for the benchmarking exercise. With the updated ITS, institutions are required to submit pricing information for the benchmark instruments together with the IMV.
32. Furthermore, institutions are asked to submit the risk factors assigned to the instruments. Institutions are asked to submit those data in a non-aggregated way.
33. The additional information collected will help to verify the correct interpretation of the instruments by the institution. This can be done through comparison and evaluation of the assigned risk factors (e.g. identification of missing risk parameters). Ensuring the correct interpretation of the instruments leads to better data quality and thus the possibility to generate more robust conclusions from the data collected.
34. One objective of the benchmarking exercise is to identify drivers of variability in models' outcomes. Currently, credit institutions are asked to submit risk measures (VaR, sVaR, IRC and APR), which allow the EBA and the competent authorities to measure the variability in models' outcomes for the hypothetical portfolios. The data further allow institutions with significantly deviating results to be identified. Additional information collected on modelling choices (e.g. approach, data weighting) allows the results to be linked with high-level model properties.
35. The Article 78(4) CRD mandates further investigations if the submissions of a credit institution significantly diverge from the benchmark. In this case, the supervisory bodies use the information they collected in the process of supervision and make inquiries with the credit institution in question. This process requires iterative communication between supervisory authorities and credit institutions and allows, in general, errors to be identified in the submissions. However, as this in-depth investigation is conducted only in the case of significant deviations, there is no full overview of the assumptions and choices of the full sample. It is thus not possible to easily correlate deviations from or alignment with the benchmark with certain model choices. Therefore, the process described does not allow drivers of justified variability in models' outcomes to be identified and measured, which is the second objective of the benchmarking exercise.
36. The enrichment of the data collected with the Present Value, introduced in the 2019 exercise, allows for better separation between deviations arising in the pricing engine and deviations arising in the risk model (VaR, sVaR, IRC and APR). The inclusion of risk factor information in the data collection for the IMV will allow differences in pricing systems and differences in the integration of the instrument into the institutions' risk engine to be identified. This will help to pinpoint sources of deviations in the risk model output and therefore will allow the drivers of model variability to be identified and quantified in the hypothetical portfolio exercise. While the

collection and quality assurance of additional data might require additional efforts from the credit institutions and the competent authorities, it will allow more targeted communication during the in-depth investigation of deviations.

37. The requirement to submit sensitivities included in the consultation documents has been removed from the final standards. Nonetheless, the EBA will explore alternative methods of collecting market risk-focused information, such as sensitivities, from banks' submitters.

### **2.2.2 Time convention and instruction simplification**

38. In past exercises, the expiry time of the instruments for market risk portfolios has been a source of inaccuracy and confusion. In these draft ITS, a more general way to express the expiry of the reference dates of the instruments has been adopted. In this way, only a minor effort on the EBA's behalf will be required to update the future benchmarking exercises; therefore, it should reduce the need to introduce additional information annually.

39. Furthermore, in section 2 of Annex V, a specific set of definitions should enhance the clarity of the information.

40. In the final version of the ITS, section 5 ('Additional information') of Annex V has been added to provide additional granularity on the most problematic instrument. This section could be expanded in the future, should other difficulties concerning the understanding of some of the market risk instruments be detected in future exercises.

41. Finally, additional instruction on the conventions to be used in the booking of the instrument should reduce the ambiguity differences in the results submitted by the institutions to the competent authority.



### 3. Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 2016/2070 on benchmarking of internal models

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COMMISSION IMPLEMENTING REGULATION (EU) .../...

of **XXX**

**amending Implementing Regulation (EU) 2016/2070 as regards benchmark portfolios, reporting templates, and reporting instructions to be applied in the Union for the reporting referred to in Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council**

(Text with EEA relevance)

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/EC<sup>1</sup>, and in particular the third subparagraph of Article 78(8) thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) 2016/2070<sup>2</sup> 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 institutions' internal approaches in accordance with Article 78 of Directive 2013/36/EU (the benchmarking exercise). Given that institutions have to submit the results of their calculations at least annually and that the focus of the competent authorities' assessments and of the EBA's reports have

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<sup>1</sup> OJ L 176, 27.6.2013, p. 338.

<sup>2</sup> 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).

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) This Regulation is based on the draft implementing technical standards submitted by the EBA to the Commission.
  - (3) 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 1093/2010 of the European Parliament and of the Council<sup>3</sup>.
  - (4) Implementing Regulation (EU) 2016/2070 should therefore be amended accordingly,
- HAS ADOPTED THIS REGULATION:

#### *Article 1*

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

- (1) Annex I is replaced by the text set out in Annex I to this Regulation.
- (2) Annex II is replaced by the text set out in Annex II to this Regulation.
- (3) Annex III is replaced by the text set out in Annex III to this Regulation.
- (4) Annex IV is replaced by the text set out in Annex IV to this Regulation.
- (5) Annex V is replaced by the text set out in Annex V to this Regulation.
- (6) Annex VI is replaced by the text set out in Annex VI to this Regulation.
- (7) Annex VII is replaced by the text set out in Annex VII to this Regulation.

#### *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,

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<sup>3</sup> 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, 15.12.2010, p. 12).

**Annexes:**

- 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)

## 4. Accompanying document

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### 4.1 Draft cost-benefit analysis/impact assessment

#### A. Problem identification

Article 78 of 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. It also requires the EBA to produce a report to assist competent authorities in this assessment. The EBA's report relies on data submitted by institutions in accordance with Regulation (EU) 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions to be used by the institutions in the annual benchmarking exercise, when using internal model approaches for market and credit risk.

So far, the EBA market risk benchmarking exercise, in particular, has been relying on the framework of the Basel Committee on Banking Supervision (BCBS) to construct the theoretical portfolios. However, this framework has assisted the EU institutions only to a certain extent, as it mainly addresses the needs of international institutions (particularly those most active in trading activities). In addition, these portfolios consist of a mixture of instruments (plain vanilla and exotic derivatives) used by international institutions, which implies that medium-sized and small institutions may have difficulties in modelling and valuing their portfolios, as their portfolios mainly consist of plain vanilla instruments.

A potential miscalculation arising from the lack of complete guidance could lead to non-consistent application among institutions' internal models and potentially to under- or over-valuation of the reported values. This section assesses the impact of filling in the existing regulatory gap and thus the impact of the ITS.

For the credit risk element of the exercise, the number of portfolios and some misalignment between the LDP and HDP templates and the COREP templates increase the burden of data collection and makes it more difficult to ensure sufficient data quality. Furthermore, some thresholds have been updated in the latest framework published at the international level.

#### B. Policy objectives

As mentioned above, the current framework for the conduct of benchmarking exercises does not address the needs of all EU institutions, particularly as regards guidance for modelling and valuation of typical portfolios of medium-sized and small institutions. This provides leeway for free interpretations that could lead to non-consistent application, which contradicts the

promotion of the principle of harmonising the supervisory and reporting rules of the EU Regulation. To this end, the strategic objective of the implementation of the current ITS is the harmonisation of the current rules among EU institutions. The operational objective that has been set up to achieve the strategic objective is to create a supervisory and reporting environment to ensure that institutions apply consistent modelling and valuation techniques. The following sections examine the options that could create such an operational environment, as well as the net impact that the implementation of such solutions implies.

For the credit risk part of the exercise, the main objective of the templates is to ensure the construction of sufficiently homogeneous portfolios that can be compared among institutions. If considering this objective alone, the implication would be that a portfolio structure that is as granular as possible should be built; however, to ensure sufficient data quality, the magnitude of the data collection should be proportionate and the structure of the portfolio breakdown should be as clear as possible to ensure a common understanding of the data to be reported.

### C. Baseline scenario

For the market risk part of the exercise, for most EU institutions, the current method of reporting the results of modelling and valuations assumes increased operational costs and could possibly lead to miscalculations, which, in turn, could lead to over- or under-valuation of the reported values for the purposes of the benchmarking exercises. Since the extent and magnitude of over- or under-valuations cannot be identified, the impact assessment focuses on the assessment of the net impact on the institutions' operations.

For the credit risk part of the exercise, the baseline scenario involves no change to the portfolio's structure and, as a general principle, no change to the ITS at all.

### D. Options considered

When developing the current ITS, the EBA's staff considered the following options:

#### **Option 1: 'do-nothing'**

This option implies that credit institutions continue reporting data for the benchmarking exercise:

- using the current guidance and hypothetical portfolios as defined for the exercises to date;
- using the current portfolio structure for the credit risk exercise.

For the market risk part of the exercise, continuation of the current practice assumes that credit institutions and the EBA have an increased operational cost owing to the need to provide clarifications and to ensure the consistent submission of data. On the one hand, credit institutions would spend much more time seeking clarifications on the methodology, while, on the other hand, the EBA would have to work bilaterally with each of the competent authorities to clarify

the preferred means of modelling and valuation of the reported values.

For the credit risk part of the exercise, continuation of the current practice would make it difficult to enhance data quality. The number of portfolios is too high to enable a detailed data-quality check process and the structure of the portfolios is materially different among different asset classes.

The 'do nothing' option would theoretically restrict the EBA in dedicating resources to developing and drafting additional guidance for the participating banks. Likewise, the EBA will not bear any one-off costs arising from the development of additional guidance on the benchmarking exercises. Similarly, the national competent authorities (NCAs) and the participating credit institutions would not be expected to bear any one-off costs either.

However, to refrain from drafting the present ITS would involve non-negligible on-going operational costs attributed to the allocation of credit institutions', NCAs' and the EBA's human capital to the exchange of questions and answers. Refraining from drafting the present ITS would also involve a high risk of inconsistent application relating to benchmarking exercises and/or incorrect implementation of modelling, which diverges from the EBA's intended implementation.

## **Option 2: revision of the guidance related to the benchmarking exercises**

The main arguments that support the revision of the guidance on the benchmarking exercises are:

- (i) to enhance the harmonisation of the benchmarking exercises across all EU credit institutions;
- (ii) to reduce the operational cost involved in the current excessive communication among credit institutions, NCAs and the EBA;
- (iii) to reduce the operational cost involved in the data-quality check of the exercise.

For the market risk part of the exercise, the current ITS could achieve the first objective by expanding the portfolios suggested by the BCBS, covering the entire spectrum of EU credit institutions. The expansion of the portfolios would be conducted in line with credit institutions' needs on the basis of the feedback received by them. Likewise, the vast majority of the EU credit institutions would receive complete guidance on the application of internal models and valuation methods, enhancing harmonisation across the EU. At the same time, credit institutions would benefit from a streamlined framework that would reduce the on-going cost of the benchmarking exercises across the EU. The second objective could be achieved within these ITS by enhancing the data collection and introducing sensitivities; this would allow a better understanding to be gained of the root causes of variability in the initial submissions of the IMV and would allow there to be more targeted communication with the credit institutions during the analysis phase.

For the credit risk part of the exercise, this option (i.e. revising the benchmarking portfolios) would be based on three main principles: that the number of portfolios to be reported on should be lowered to reduce the complexity of the exercise, that the design of the portfolios should be simplified, with closer alignment to the COREP structure, and that there should be a focus on stable portfolio definitions for the future. The stability of the portfolio structures would then be key to reducing the burden of data collection on credit institutions. Nevertheless, it should be pointed out that reducing the number of portfolios would also involve a reduction in the possible analysis that can be performed. It should, however, be noted that the proposed structure would enable a continuation of most of the analysis already performed and, in particular, the a continuation of the analyses used in the EBA's annual benchmarking report.

#### E. Cost-benefit analysis

The principle of proportionality applies to all aspects of the impact assessment, including the methodology, depth of the analysis, level of detail and necessity of quantitative analysis. Being consistent with this principle, the EBA's staff follow the principle of proportionality when conducting the cost-benefit analyses. Given that the implementation of the current ITS would not have a detrimental impact, the following analysis focuses on the qualitative characteristics. In doing so, it provides rough estimations of the net monetary impact of the conduct of the benchmarking exercises.

The net impact on capital requirements as a result of the implementation of the current guidelines cannot be precisely assessed because, substantially, it would depend on further actions agreed by institutions with NCAs in response to the benchmarking exercise results. However, the impact is expected to be, on average, close to zero due to the hypothetical market portfolio exercise framework. The impact may even be slightly positive for the credit risk part of the exercise, if the exercise reveals some deficiencies in the models that need to be corrected by the institutions.

#### Market risk

##### *Option 1*

**Costs:** a slight increase in the additional operational cost attributed to the bilateral oral or written communication of best practices. This on-going cost is expected to increase over time as a consequence of the increase in the complexity or requirements of the benchmarking exercises. Magnitude of the costs: negligible.

**Benefits:** one-off benefits (i.e. a reduction in the existing operational costs) of not dedicating human resources to the drafting of the present ITS. Magnitude of the benefits: negligible.

Net impact (benefits minus costs): close to zero.

##### *Option 2*

**Costs:** the one-off cost of dedicating EBA staff to the drafting of the ITS. There is also a source of negligible cost that relates to requirement that the EBA explains the new framework to the NCAs and, through them, the participating credit institutions. Magnitude of the costs: close to zero.

**Benefits:** benefits arising from the harmonisation and transparency of the benchmarking exercises and the consistent modelling and valuation of the reported data. In addition, this option would allow there to be better and targeted communication with the credit institutions, as it offers more insights into the data submitted.

#### Credit risk

##### *Option 1*

**Costs:** the portfolio structure would still be complex, thus involving significant on-going costs for the data-quality check for both institutions and NCAs, and a very high one-off cost for institutions that would start the benchmarking exercise for the first time or do not yet have a fully automatic process. A significant running cost would also be incurred for the training of all stakeholders participating in the exercise. In the long run, this exercise may also no longer be consistent with the key thresholds used in the regulatory framework (ILTV thresholds and large corporate portfolios defined using the EUR 500 million threshold on revenue).

**Benefits:** no change would mean no additional IT cost for institutions already participating in the benchmarking exercise: negligible.

Net impact (benefits minus costs): close to zero.

##### *Option 2*

**Costs:** the one-off cost of dedicating EBA staff to the drafting of the ITS and to updating the IT structure of the institutions that already have a fully automatic process. The costs of the additional data collection (covered bonds for the LDPs, new portfolios for HDPs to mirror COREP's structure and new template 105.04) are assumed to be low, as it would be similar to the already existing regulatory and reporting concepts. The exact cost of this option is difficult to assess and, therefore, the CP asked for feedback on this matter.

**Benefits:** the benefits of this option arise from the streamlining of the portfolio structure. The technical amendments (covered bonds, NACE code, ILTV, large corporate sub-portfolios) would also allow better segmentation to explain RWA variability, as well as an alignment with the structure of the portfolios implied by the latest framework published at the international level.

Net impact (benefits minus costs): positive.



## F. Preferred option

Although these benefits are not directly observable and are spread over time, they are considered not negligible and cannot be ignored. Magnitude of the benefits: low.

Net impact (benefits minus costs): positive (low).

The cost-benefit analysis above designates that option 2 is the preferred option, as it has a positive, albeit low, impact. Thus, the cost-benefit analysis above justifies the production of the present ITS and its subsequent publication for consultation. Moreover, it is consistent with the feedback and requests of the participating credit institutions, which sought clarifications on the methodology of conducting benchmarking exercises, as well as a simplification of the data collection for credit risk.

## 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 1 month and ended on 31 February 2019. Ten responses were received, of which eight were published on the EBA's website.

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.

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

### Summary of the key issues on credit risk and the EBA's response

Out of the ten responses received, eight included comments on the credit risk part of the ITS. Overall, the industry welcomed the proposal to simplify the data collection through a reduction in the granularity of the portfolios. The main concerns expressed related to the introduction of new template C 105.04 and the need for stability in the data collection. As a result, the status quo is maintained on the country times rating split in template C 103 and proposed template C 105.04 is not introduced.

### Summary of the key issues on market risk and the EBA's response

Many respondents complained about the additional request for information, with respect to the collection of data on sensitivities. The EBA agrees with the respondents that collecting the firm-

specific sensitivities to improve the comparability of the position could be onerous and fairly challenging, and alternative methods to improve the quality of the submission, such as standardised sensitivities and terms sheets, could be explored for future exercises. The EBA will explore alternative methods to collect market risk-focused information by the banks' submitters.

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

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>General and technical comments — credit risk</b>			
<b>Transparency and openness</b>	Some respondents highlighted the need for further communication between the different stakeholders of the exercise, in particular to give participating institutions an overview of the relative deviation of their estimates from those of their peers.	The EBA agrees with the respondents on the need for efficient communication on the results of the benchmarking exercise for each specific institution. However, the EBA notes that, in addition to the interactions between each institution and its supervisor, a public horizontal report is published on the EBA website every year. In addition a <i>key metrics file</i> describing the distribution of estimates for each portfolio with sufficient observations is shared with all participating institutions.	None
<b>Stability of the ITS</b>	One respondent argued that the EBA should stick with the conclusions made in the 'EBA Report — Results from the 2018 low and high default portfolios exercise' to stabilise reporting definitions, which would improve the consistency of comparisons over time.	The EBA indeed believes that the stability of the ITS is a key element in reducing the burden of data collection and improving the overall data quality. The purpose of this update has mainly been to substantially reduce the number of portfolios reported in the credit risk exercise and, while improvements have been introduced, these are fairly limited in scope. The EBA therefore agrees with the need to limit further changes and this will be taken into account for the 2021 exercise.	There were some proposed amendments, but these were considered burdensome, such as the introduction of template C 105.04; therefore, this template has been removed and the original framework retained

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Clarity in the instruction — exposure covered by multiple collateral types</b>	One respondent enquired about whether an exposure secured by multiple collateral types should be reported in multiple buckets by collateral type (therefore leading to a duplication of the exposure) or based on the predominant collateral type (for example by maximum CRM value).	Although there is no common definition of ‘predominant collateral type’, there should be no duplication of the exposure in multiple buckets: the original exposure value should be allocated into the different buckets of collateral and the sum of the exposures reported in the different sub-portfolios should therefore not be higher than the original exposure value.	The instructions have been clarified
<b>Clarity in the instruction — HDP with no exposure</b>	One respondent asked for further clarifications on the scope of the data collection for HDPs (template C 103): should all the portfolios for which it is possible to compute a 5-year default rate be reported, including those portfolios currently with no exposure (but with exposures in previous years)?	The portfolios reported by the institutions are only those for which there is at least one exposure held by the institutions at the reporting date.	None
<b>General and technical comments — market risk</b>			
<b>Sensitivities collection</b>	Overall, respondents appreciated the objective of collecting additional information to verify the bank-specific interpretation of the instruments. However, respondents were concerned that collecting sensitivities for trades subject to internal model treatment may not serve the purpose of verifying the positions. This is due to the bespoke nature of each institution’s risk factor universe and the methodologies and modelling techniques used to generate sensitivities. Respondents recommended a more standardised approach that would address the challenge of consistency between institutions.	The EBA agrees with the respondents that collecting firm-specific sensitivities to improve the comparability of the position could be onerous and fairly challenging, and alternative methods to improve the quality of the submission, such as standardised sensitivities and terms sheets, could be explored for future exercises. The EBA will explore alternative methods to collect market risk-focused information by the banks’ submitters, as also suggested by some respondents.	The sensitivities collection has been removed, with the collection of information via explanatory notes focusing more on qualitative information

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Definition of the expiry date</b>	Respondents welcomed the improvement of the definition of the expiry date to align with market convention and the simplification introduced in the time setting of the reference date for the instruments.		None
<b>Discussion phase between competent authorities and credit institutions</b>	Some respondents suggested that, during the analysis and discussion phase between competent authorities and credit institutions, the data basis provided by competent authorities is relatively small and makes it difficult for institutions to explain or understand the reasons for out-of-the-ordinary positions. These respondents believe that it would be helpful if the participating institutions were to receive more information about how the results are distributed, e.g. median, mean and 10%, 25%, 75% and 90% quantiles. In addition, general feedback on all relevant portfolios in this form during internal validation would increase the benefit for institutions significantly.	The EBA agrees with the respondents that the feedback given to firms during the submission process could be improved, but is wary of preserving the incentive for institutions to submit their IMV and the risk measure produced by their system without passively converge to the benchmark.	None
<b>Data provision</b>	Some respondents raised doubts about the added value of providing sVaR time series, as the period underlying sVaR is calibrated on the basis of the institution portfolio. Different exposures of the relevant portfolio under the Internal Measurement Approach lead to different sVaR periods and thus to different sVaR for the specified portfolios. Because of the lack of comparability, the request for such data could be discontinued and the associated workload thus avoided. In addition to the VaR time series, the scenario vectors are to be reported for	The EBA disagrees with the claim that the profit and loss vector is not used, since it is applied to compute the profit and loss VaR and the expected shortfall for the institutions that submit it, and it is a useful measure to assess/compare with the historical simulated VaR.	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	historical simulation purposes (Table 108, 'Profit and loss time series'). Experience from previous benchmarking exercises shows that competent authorities do not appear to use these data. In discussions with competent authorities, it was indicated that these tables are not, at any rate, processed by them and that no communication takes place between the EBA and competent authorities in this regard. We therefore propose dropping the requirement to request such data.		
<b>Transparency</b>	Respondents asked for more transparency and openness, suggesting that it would be very useful for the banks participating in the exercise to know how they 'score' relatively to the other banks also involved in the exercise.	Transparency of the results is guaranteed by the EBA public report, where the institution can verify the risk measure benchmarks and their distribution.	None
<b>General suggestions</b>	Finally, respondents made the following recommendations for future studies for the effectiveness of the EBA benchmarking exercise to continue to improve: (a) future portfolio/instrument modifications should be phased in with at most one or two asset classes meaningfully modified per annual exercise, (b) following the booking date but prior to the IMV submission date to work with the EBA, the NCAs and the participating banks should organise and publish specific instrument parameters that cannot be specified until the booking date, such as spot prices, strike prices, coupon rates and reference rates, which will allow banks to enter the IMV phase with greater confidence in the portfolio definitions and	<p>Future implementation will have to consider the timing of development of new modifications within the legal process for adoption of the ITS.</p> <p>Publication of specific data for instruments, prior to submission, can be extremely challenging considering the EBA's standard procedure for publication.</p> <p>The EBA does cooperate and does not exclude future cooperation with the industry for further developments of the exercise.</p>	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	should further reduce the IMV variability due to misinterpretation, and (c) the EBA should consider working with the industry to develop detailed term sheets for the entire portfolio. Alternatively, given the changes made for the 2019 exercise, the EBA could determine which positions require more precise specification. Positions with significant variability in IMV and present value could be assessed carefully for either removal from the portfolio or modification including the development of appropriate term sheets.		
<b>1: Is the risk type split a significant burden for your institution (for LDP/HDP)? Are there level 2 portfolios for your institution, for which the deletion of the split into counterparty credit risk (CC) and credit risk (CR) would lead to the loss of information that is relevant for the benchmarking of internal approaches applied to that exposure class?</b>			
<b>Welcome the deletion of the risk type split</b>	Almost all respondents welcomed the deletion of the risk type split, as this deletion was not considered as likely to lead to a significant loss of information. All but one respondent advocated that it would reduce the complexity of data collection, in particular of the HDPs, for which the extraction of data for the computation of the default rate of the last 5 years would be significantly eased.	Given the general support for the proposal, the EBA proceeded with the CP proposal.	None
<b>2: Do you agree with the introduction of a new template (C 105.04; concerns only columns C 010-C 068) to replace the reporting of 'empty' rating portfolios or do you envisage any other alternatives?</b>			

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General views regarding the introduction of a new template (C 105.04)	<p>Six respondents expressed concerns regarding the introduction of new template C 105.04, while three agreed with the proposal.</p> <p>Most of the respondents disagreeing with the proposal expressed the rationale for their disagreement in both questions 2 and 3. In summary, they relate to:</p> <ul style="list-style-type: none"> <li>the significant IT costs related to the introduction of a new template;</li> <li>the low benefit of the data collected in the context of understanding the RWA variance, in particular given the differences between the institutions' model landscapes.</li> </ul> <p>On the other hand, respondents that supported the CP proposal appreciated the step towards more proportionality, with low and manageable IT costs and no significant loss of information for the supervisor.</p>	<p>Based on the feedback received, which pointed out the significant IT costs involved with the set-up of a whole new template, it was finally decided that the status quo on the reporting of the country times rating split in template C 103 would be maintained. This decision also reflects the EBA's intention to provide stability in the reporting requirements.</p>	<p>Template C 105.04 has been deleted; the country times rating split therefore remains unchanged from previous exercises</p>
	<p>Overall, the industry agreed with the relevance of the problems raised by the EBA, namely the burden of reporting of empty portfolios and numerous reporting country times rating splits. However, the industry made the following alternative suggestions:</p> <ul style="list-style-type: none"> <li>to drop the rating times country split in the C 103 in the same manner as was proposed for the C 102;</li> </ul>		
Alternative proposal		<p>Based on the feedback received, the requirement to report 'empty' rating portfolios has been deleted in the new ITS to decrease the burden on both reporting institutions and competent authorities.</p>	<p>The requirement to report 'empty' rating portfolios has been deleted</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<ul style="list-style-type: none"> <li>to not include a requirement to report empty portfolios;</li> <li>to change the requirement with respect to the scope of consolidation.</li> </ul>		
<b>3: Do you agree with the introduction of a new template (C 105.04; concerns only columns C 010-C 068) to replace the reporting of ‘empty’ rating portfolios or do you envisage any other alternatives?</b>			
<b>Columns particularly burdensome</b>	Apart from the general concerns summarised above, one respondent suggested that columns C 190, C 200, C 290 and C 300 be dropped, as it is particularly burdensome to collect these data at the rating grade for each model.	Based on the feedback received, which pointed out the significant IT costs involved with the set-up of a whole new template, it was finally decided that the status quo on the reporting of the country times rating split in template C 103 would be maintained.	Template C 105.04 has been deleted and the solution previously used to report country times rating splits is kept
<b>4: Do you agree that SLE portfolios should be reported in a separate exposure class? Do you agree that the proposed level 2 breakdown on (a) the proposed sectors of counterparties and (b) the proposed types of exposures (i.e. categories of specialised lending) might be relevant components to explain the variability of risk parameters? Which option do you prefer with respect to the rating split under the slotting approach?</b>			
<b>Introduction of the SLE as a new asset class</b>	No respondent expressed a disagreement towards the proposal. The introduction of a separate SLE exposure class was viewed as logical and as having not much impact, as most of the data points are already separately identified in the existing templates.	Given the general support for the proposal, the EBA proceeded with the CP proposal.	None
<b>Level 2 split — sector split</b>	One respondent disagreed with the proposal to introduce the sector split, pointing out the inconsistency between paragraph 8 and paragraph 17 (the latter introducing a public sector	The EBA acknowledges the potential lack of clarity arising from paragraph 17, although Annex I (provided with the CP) was very clear on the non-introduction of the PSE/non-PSE split (consistently with the structure of the corporates exposure class).	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	entity (PSE)/non-PSE split) and the lack of explanatory power of this breakdown.	Given that the annexes are already clear, no change is required.	
<b>Level 2 split — type exposure</b>	No respondent expressed a disagreement towards the proposal.	Given the general support for the proposal, the EBA proceeded with the CP proposal.	None
<b>Level 2 split — rating split for the slotting approach</b>	<p>Both option 1 (no rating split) and option 2 (RW split based on the regulatory RW category) were discussed in the answers; however, there was no support for option 3 (split based on a potential underlying probability of default model).</p> <p>On the elements to consider for the decisions, the respondents pointed out that:</p> <ul style="list-style-type: none"> <li>‘the definition of RW bucket split could pose a challenge in ensuring a level playing field between institutions when benchmarking portfolios’;</li> <li>the slotting approach should be reviewed based on the BCBS’s approach, as announced in the December 2017 ‘High-level summary of the Basel reforms’.</li> </ul> <p>Overall, the respondents showed slightly more appetite for option 1.</p>	<p>Based on the feedback received after the publication of the CP, it was finally decided that the information would be collected based on the RW categories defined in Article 153(5) of the CRR. This split is collected only in combination with the four types of SLE. This is not expected to create a significant burden, since the RW categories are well defined in the CRR.</p> <p>The RW buckets are regulatory ones; therefore, there should be no concerns over the level playing field between institutions.</p>	A rating times type of exposure split has been introduced based on the RW category of Article 153(5) of the CRR for SLEs risk-weighted under the slotting approach
<b>5: Do you expect that the LDP sub-portfolio characterised by eligible covered bonds will cover a material proportion of exposure? Do you expect that the separation of these exposures can contribute to explaining RWA variability?</b>			
<b>Materiality of the exposures and RWA variability explanatory power</b>	There was no strong consensus on the materiality of the covered bonds exposures. Some respondents highlighted that it would probably depend on the	Given the lack of concerns expressed about the proposal, the EBA proceeded with the CP proposal, as this would be significant for some institutions and a	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	institutions and on how the materiality should be assessed. It was, however, acknowledged that covered bonds exposures could be a significant factor in explaining the RWA variability, given the favourable treatment under the FIRB framework.	significant risk driver in the institution exposure class. Furthermore, the EBA expects an increase in the explanatory power of the LGD variability for both the FIRB and the AIRB approaches.	
<b>6: Do you think the alternative portfolio split would have a higher explanatory power as regards RWA variability induced by differences in CRM usage?</b>			
<b>Welcome alignment between LDP and HDP</b>	Some respondents welcomed the alignment of the level 2 breakdown for LDPs and HDPs, even though the increase of explanatory power would be limited	Given the general support for the proposal, the EBA proceeded with the CP proposal	None
<b>Alternative proposal — level of collateralisation</b>	Limited feedback was received on the alternative proposal to collect figures based on the degree of collateralisation rather than on the nature of the collateral, and the answers that were received were conflicting: two respondents agreed with the alternative treatment, while one respondent was of the opinion that this alternative would be of little interest, as it is relevant only for SME exposures.	Given the lack of consensus on an alternative to the current reporting requirement, the status quo is maintained.	None
<b>7: Do you expect that the proposed NACE code breakdown for HDP sub-portfolios will provide more explanation for RWA variability for a material proportion of exposure? Do you expect that the separation of these exposures could contribute to explain RWA variability in the HDPs in question or do you consider the current split using only NACE code F sufficient? Does the selection of a subset of NACE codes significantly reduce the burden of data collection (compared with a comprehensive collection of all NACE codes)?</b>			
<b>Relevance of NACE code breakdown</b>	The feedback received on this question was not homogeneous, with some respondents arguing that the NACE code breakdown has little explanatory power in the RWA variability, while others argued that the more granular NACE code breakdown	Given the lack of consensus on an alternative to the current reporting requirement, the CP proposal is maintained. The EBA considers these NACE codes as useful for identifying risk drivers and the EBA	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	proposed could provide more explanations of RWA variability.	proposal does moderate the operational impact by limiting the set of NACE codes.	
<b>Use of a subset of the NACE codes versus a comprehensive list</b>	There was no agreement among the respondents on the best way to proceed with respect to the data collection. Those expressing a lack of confidence over the explanatory power of the NACE code breakdown preferred to limit the data collection to a subset of NACE codes, while others argued that, for institutions with a proper distribution in many NACE codes, a comprehensive collection of all NACE codes would be a good way to collect additional relevant information.	Given the lack of consensus on an alternative to the current reporting requirement, the CP proposal is maintained.	None
<b>8: Do you expect that the proposed ILTV buckets for HDP sub-portfolios secured by immovable property will provide more explanation for RWA variability for a material proportion of exposure? Do you expect that the separation of these exposures could contribute to explaining RWA variability in the HDPs in question?</b>			
<b>Change in the LTV breakdown</b>	<p>No concerns were expressed on the change to the LTV breakdown, although some respondents suggested some potential improvements:</p> <ul style="list-style-type: none"> <li>Two respondents suggested that the structure of the data collection be fully aligned with the upcoming Basel III framework, to set out a stable and consistent framework of credit risk sensitivity benchmarks for that specific risk driver. It was, however, acknowledged that the LTV definition used in the Basel Framework is not implemented in the EU.</li> </ul>	<p>The current proposal is a compromise between a simple bucket structure with a similar proportion of exposures and use of future regulatory value:</p> <ul style="list-style-type: none"> <li>Decreasing the granularity of the breakdown (based on the BCBS standard) would prevent buckets being built with homogeneous underlying risk.</li> <li>Increasing the granularity would add complexity to the structure of the breakdown, with unclear benefits.</li> </ul>	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<ul style="list-style-type: none"> <li>By contrast, other respondents suggested that buckets be created based on the proportion of RWA to maximise explanatory power.</li> <li>Others suggested that additional thought should be given to the distinction between commercial immovable property and residential immovable property.</li> </ul>		
<b>9: Do you agree with the additional pricing information requested? Please provide a detailed explanation of your answer.</b>			
<b>Sensitivity collection — variety of risk factors and model</b>	<p>The majority of the respondents suggested that an institution may generate a different risk factor universe and sensitivities while still modelling the same risk, and it might be challenging for competent authorities to consolidate and compare sensitivities collected from different institutions.</p> <p>Respondents recommended that sensitivities be collected as specified in the standardised approach under the Fundamental Review of the Trading Book (FRTB) to address the challenge of standardisation.</p> <p>However, respondents recognised that such an exercise would require significant effort to document and, given the regulatory time lines, it was suggested that the collection of sensitivities be postponed until the 2021 or 2022 benchmarking cycle.</p>	<p>The EBA agrees that the firm-specific collection of sensitivities could be challenging for competent authorities.</p> <p>Alternative measures, such as the standardised approach under the FRTB, could be explored.</p>	Instruction (d) has been modified accordingly

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Sensitivity collection — immateriality</b>	Some respondents suggested that sensitivities may be immaterial for certain products and therefore some institutions may not calculate them on a regular basis, especially when using a full revaluation framework (e.g. exotic gammas).	Products in the benchmark exercise are generally not exotic. The majority of the institutions seems to agree that sensitivities are generally available at firm level  Nonetheless, the EBA agreed with the proposal to not collect sensitivities.	See previous point
<b>Sensitivity collection — ‘price factor submission’</b>	One respondent noted that, in section 1(e)(i) of the Common Instruction of Annex V to the CP, it is requested that the institutions should submit ‘price factors’. However, neither Annex VI nor VII has any instructions or templates for this submission. Nevertheless, this type of submission would require a large volume of data (e.g. details of the different data points for the build-up of the yield curves used in interest rate swaps) and would be very onerous for institutions to prepare. Furthermore, it is difficult to understand the rationale and the use for the request of such a detailed set of data.	Price factor sensitivities are recognised as a misleading concept. The request was for the submission of the sensitivities of the risk factors of the IMV as available from the pricing function of the front office at the moment of the IMV submission.	Section 1(e)(i) of the Common Instruction of Annex V has been reworded
<b>Sensitivity collection — ‘price factor submission’</b>	Some respondents recommended that additional information be collected on modelling choices, rather than sensitivity data, as it was felt that this would be more likely to help identify drivers of variability in model outcomes. These data could include the revaluation method (sensitivities, present value ladders, full reval, etc.) and functional form (absolute, relative, other) and other qualitative information on time series (source, normalisation, buckets, etc.) for each instrument.	The EBA agrees to add the additional information collection to the explanatory note, in place of the sensitivities collection.	Instruction (f) has been redrafted to reflect the change from sensitivities collection to additional modelling specifications

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Sensitivity collection — ‘burdensome request’</b>	Respondents suggested that the time between the IMV reference date and the IMV remittance date be increased to at least 4 weeks to allow for quality assurance of the significantly increased number of values to verify.	This observation is no longer valid, since sensitivities are no longer to be collected.	No change needed in the text
<b>Term sheet</b>	Some respondents suggested that, for considerably less effort than collecting additional pricing information, the EBA could work with the industry to develop more detailed term sheets for the entire portfolio (or portions that have been consistently misinterpreted).	The EBA cannot produce term sheets in the short run in a way that is compatible with the current exercise. This proposal will be considered for future exercises.	No change needed in the text
<b>10: Do you agree with the simplification introduced in the time setting of the references date for the instruments?</b>			
<b>Additional disclosure</b>	Respondents agreed in principle with the relative definition of reference dates. As an additional safeguard, it is suggested that the EBA provide the absolute dates ahead of each annual benchmarking exercise.	The EBA’s analysis suggests that the date seems quite clear and that communication ahead of the exercise should not be necessary.	No change needed in the text
<b>11: Do you have any concerns on the clarity of the instructions?</b>			
<b>Standard term sheets</b>	Respondents suggested that, to help remove ambiguities, industry standard term sheets or pricing supplements be used.	The EBA agrees to take this suggestion into consideration for future exercises.	No change needed in the text
<b>Instruction (kk) in Annex V</b>	Some respondents noted that instruction (kk) in Annex V applies to instruments ‘52 to 67 and 69’ instead of instruments ‘52 to 73’.	The EBA agrees to change the text.	Instruction (kk) has been updated accordingly

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Trade 40</b>	One respondent asked for clarification on the scope of calculation of the risk metrics for trade 40, which settles at the end of the booking day (September) and therefore disappears from the system, leaving residual cash.	The EBA agrees to provide clarification.	Instrument 40 has been updated accordingly
<b>Definitions stated for 'risk factor' and 'price factor'</b>	Respondents noted that there are multiple interpretations across the industry. For example, for interest rate products, a curve or a node on the curve could be a price factor. A similar issue may arise for volatility surface as well. In addition, although there are instructions for 'risk factors', there are no such instructions or templates for 'price factors'.	The EBA agrees to clarify the definition.	Instruction (e)(i) has been updated
<b>Paragraph (jj) states that 100 contracts should be used for instruments 1 and 3-17</b>	Respondents suggested that, in the portfolio definitions, the numbers of contracts vary from 100 to 1 000. This creates an additional operation burden, as it requires that two different set-ups of the deal be maintained. This may also create an additional operational cost and risks in reporting; therefore, respondents suggested that the numbers of contracts be aligned with IMV and risk phases.	The EBA's initial IMV analysis suggests that the number of contracts does not seem to be the source of confusion or errors. Should it be verified that this is a source of confusion for banks submitting the data, this will be reconsidered for future exercises.	No change needed in the text
<b>CDS premium</b>	One respondent asked for clarification on what credit default swap (CDS) premium should be used (e.g. 100 bp running fee) for CDS instruments.	The EBA notes that this information is already in the text of instruction (hh) point (ii).	No change needed in the text
<b>Foreign exchange (FX) risk</b>	Some respondents noted that there was some ambiguity in the instructions for 2019, as some portfolios have base currencies other than euros (e.g. portfolios 10 and 50). It is not clearly stated	The EBA agrees that an institution can calculate risk in the same currency as the portfolio — thus not including any FX risk — unless intrinsically included in the instrument itself. The methodology adopted	No change needed in the text



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	whether or not FX risk should be considered in the risk calculation. Respondents would welcome clarification on if an institution should calculate risk in the same currency as the portfolio — thus not including any FX risk — unless intrinsically included in the instrument itself (e.g. for a euro-based company, portfolio 51 is expressed in US dollars).	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).	
<b>Swaps market convention</b>	One respondent noted that, for swaps, the market convention is to book the swap with a spread on the floating leg so that that value is zero at inception. If this was intended, the instructions should be explicit.	The EBA notes that, according to instruction (x), 'When booking all positions, institutions shall follow appropriate market conventions unless otherwise specified in these common Instructions on in the Instruments descriptions (section 2 of this Annex).'	No change needed in the text
<b>Collateral agreement</b>	Some respondents noted that, as regards the collateral agreement, it should be clarified if banks should assume a collateral agreement with the counterparty.	The EBA agrees with the clarification requested.	Instruction (h) has been amended accordingly
<b>Listed instrument</b>	One respondent suggested that, for any position intended in a listed instrument, the contract reference and the exchange (e.g. Eurex FGBL June 2019 for Euro-Bund Future) should be provided to reduce uncertainty.	The EBA agrees with the clarification requested.	The exchange has been added to the list of instruments 1-8 and 17
<b>Specific instrument parameters</b>	One respondent believed that it would be helpful to publish specific instrument parameters that cannot be specified until the booking date, such as spot prices, strike prices, coupon rates and reference rates. This would allow banks to enter the positions in line with market conventions and would further reduce the IMV variability due to misinterpretation.	The EBA agrees, in principle, but notes that quick publication of a list of parameters is difficult to achieve within the EBA's standard procedure for publication.	No change needed in the text

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>12: Can you please provided a detailed explanation of the instruments that are not clear and a way to clarify the description?</b>			
<b>Instruments 1 and 3-17</b>	One respondent noted that, for the IMV phase, 100 contracts should be used for these instruments (in accordance with instruction (jj)), but the number of contracts varies from 100 to 1 000 in the portfolio definitions. This creates additional operational burdens, since two different set-ups of the positions must be entered. The respondent suggested that the number of contracts be made constant in the IMV and risk phases.	The EBA's initial IMV analysis suggests that the number of contracts does not seem to be source of confusion or errors. Should it be verified that this is a source of confusion for banks submitting the data, this will be reconsidered for future exercises.	No change needed in the text
<b>Instruments 1, 3-7 and 17 (futures)</b>	One respondent suggested that there is uncertainty regarding how to book, as the instructions were not in line with the listed contracts. If the intention is to book as synthetic, then this should be indicated. If these were intended as listed positions, the exchange and contract should also be indicated.	The EBA disagrees with this suggestion, as the instructions are clear enough and institutions can always specify any additional assumptions used in accordance with instruction (o).	No change needed in the text
<b>FX positions resulting from 'past cash' other than in base currency</b>	<p>Some respondents noted that there are cash flows from the time of the booking until the date of the VaR calculation.</p> <p>One of the operational challenges in the calculation of past cash flows is the attribution of the past cash of individual instruments to the different portfolios.</p> <p>In general, past cash flows could be either included or excluded from the VaR calculation. Respondents therefore suggested that the institutions should flag the approach chosen.</p>	The EBA notes that the possibility to flag the approach chosen is already included in the ITS as instructions (n) and (o), and should be reported in the explanatory note of instruction (d).	No change needed in the text

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Instruments 6 and 53</b>	One respondent noted that the currency of the instrument is not consistent with the currency of the portfolio (instrument 6 is in pound sterling but portfolio 10 is in euros, while instrument 53 is in US dollars and portfolio 50 is in euros). The respondent suggested that a clarification be given on the currency convention.	The EBA disagrees with this suggestion, as the instructions are clear enough and institutions can always specify any additional assumptions used in accordance with instruction (o).	No change needed in the text
<b>Instruments 9-16</b>	Some respondents noted an inconsistency: for the options expiring in December, the expiration date is the end of December, whereas the expiration date for options expiring in June is the third Friday of the month, in line with market standard.  The respondents suggested that the expiry date be changed from 'end of December Year T' to 'December Year T'.	The EBA agrees with this suggestion.	Instruments 10, 13, 15 and 16 have been updated accordingly
<b>Instrument 17</b>	Some respondents suggested a different multiplier for instrument 17: 'Short Future NIKKEY 225 (Ticker NKY) (1 point equals 1 000 JPY)'. The index traded on the standard exchange uses a ratio of 500 JPY per point instead of 1 000 JPY. Respondents suggested using the standard exchange.	The EBA agrees with this suggestion.	Instrument 17 has been updated accordingly
<b>Instrument 18</b>	Some respondents suggested that, for the long 5-year auto-callable equity product 'EURO STOXX50', trade is unnecessarily complex and could lead to unwarranted variability in the equity all-in portfolio (ID 58). Respondents suggested that a vanilla option be used on the EURO STOXX50.	The EBA disagrees with this suggestion, as the initial IMV analysis shows that the instrument is well understood.	No change needed in the text

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<b>Instrument 18</b>	Some respondents suggested that the dates on the position seemed inconsistent with the annual observation period. The auto call level was assumed to be that of 19 September 2018.	The EBA disagrees with this suggestion, as the instructions are clear enough and institution can always specify any additional assumptions used in accordance with instruction (o).	No change needed in the text
<b>Instrument 23</b>	Some respondents noted that the ‘Long position on “Cap and Floor” 10-year UBS AG Notes, 1m USD’ is unnecessarily complex and is often excluded for rationale (c) in Annex VI ‘Underlying or modelling feature not contemplated internally’. Respondents suggested that an actual bond be used (rather than having banks build or approximate bonds that do not typically exist in this form) or that this instrument be replaced with a vanilla instrument that has similar risk characteristics such as an IR cap or floor.	The EBA disagrees with this suggestion, as the instruments submitted appear to be well understood by a significant number of institutions. Plus, it is important for the purpose of the exercise to understand which kind of instrument can be modelled.	No change needed in the text
<b>Instrument 37</b>	Some respondents noted that, for the ‘5-year IRS EURO — Receive floating rate and pay fixed rate. Fixed leg: pay annually. Floating rate: 6- month EURIBOR, receive quarterly’, the market convention would be to receive payments every 6 months, not quarterly, and so suggested it would be better to use the market convention of every 6 months.	The EBA agrees with this suggestion.	Instrument 37 has been updated accordingly
<b>Instruments 38 and 39</b>	Some respondents noted that the ‘Short 6-month EUR/USD (or EUR/GBP respectively) forward contract’ is misleading and that the direction of forward contracts should be defined by the currency exchange rate. Respondents suggested	The EBA agrees with this suggestion.	Instruments 38 and 39 have been updated accordingly

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	that it would be better to remove the words 'long/short' for forward contracts.		
<b>Instrument 40</b>	Some respondents suggested that the 'Long 1 MLN USD at the EUR/USD ECB reference spot rate' is misleading and that it would be better changed to 'Long 1 MLN USD Cash'.	The EBA agrees with this suggestion.	Instrument 40 has been updated accordingly
<b>Instrument 47</b>	Some respondents noted that the cross-currency swap has the basis applied to the euro leg, whereas the market convention is for it to be applied to the US dollar leg, and it would be better to apply the cross-currency basis to the US dollar leg. In addition, the cross-currency swap instructions should indicate whether to include cash balance. Moreover, the cross-currency swap should indicate if risk measures should include FX hedge amounts or not. Plus, the market convention would be to book the swap with a spread on the floating leg so that that value is zero at inception. Therefore, respondents suggested that it should be indicated if a spread should be included.	The EBA agrees with this observation and provided additional information to this instrument.	Section 5, 'Instrument additional specifications', has been added to Annex V
<b>Instrument 57</b>	One respondent noted that, for a UK bank, the UK sovereign CDS market is illiquid due to wrong-way risk.	The EBA disagrees with this suggestion, since the instruments need to be the same for all the submitters.	No change needed in the text
<b>Instruments 58-62 and 65</b>	Some respondents noted that, for the CDS credit entities, more than one name can be found. The trade details, such as seniority, fixed or floating recovery rate, RED code and running fee, are not	The EBA disagrees with this suggestion, since the RED code selected at the time of the RTS submission may no longer be liquid at the time of the booking of the instruments. Should this problem be relevant for the	No change needed in the text

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	specified. It is suggested that the RED code for each CDS credit entity specified be provided.	exercise, the EBA will reconsider the possibility of providing the RED codes.	
<b>Instruments 52-67 and 69</b>	Some respondents suggested that the CDS trades should use restructuring clauses as per the market convention: for European corporates, modified restructuring (MM14), for US corporates, no restructuring (XR14), and for sovereigns, full restructuring (CR14). The main (liquid) currency should be used for each name.	The EBA agrees with this suggestion.	Instruments 52, 53, 54, 55, 56, 57, 64 and 69 have been updated accordingly
<b>Instruments 71 and 72</b>	Some respondents noted that the maturity dates appear to be incorrect. It was suggested that these be updated so that all dates are in the European format (DD/MM/YYYY or DD-MMM-YYYY; e.g. 02/10/2023 and 30/03/2021).	The EBA disagrees with this suggestion, since the dates for these instruments are clear.	No change needed in the text