Public hearing – 20/01/2021

Supervisory Benchmarking (SVB) |
Consultation Paper – ITS 2022 - Reference date 31 Dec 2021

Public hearing on the CP on the BM ITS 2022
Basics

- Mandated by **article 78** of the **CRD**:
  - Competent Authorities (CA) to conduct an annual assessment of the quality of internal approaches
  - EBA to produce a report to assist competent authorities in this assessment
- Main objectives:
  - Supervisory assessment of the quality of internal approaches
  - Explain and monitor RWA variability over time and the resulting implications for prudential ratios
  - Provide the banks with valuable information on their risk assessment compared to other banks assessment on comparable portfolios
  - Provide information into the regulatory process

Public hearing on the CP on the BM ITS 2022
Overview

- Credit Risk
  - **Inclusion of information on the level of conservatism embedded in IRB risk parameters PD, LGD, and RWA**
  - **Minor changes in portfolio definition:**
    - **Completion of breakdown into FINREP sector**
    - **Corporate exposures without annual turnover from EBA benchmarking**
- Market Risk
  - **Inclusion of sensitivities related the so-called sensitivities-based method**
- IFRS 9:
  - **The templates are expanded with the collection of additional IFRS 9 parameters**
  - **No change as regards the benchmarking portfolio**

CREDIT RISK TEMPLATES

Public hearing on the CP on the BM ITS 2022
Credit Risk – Four dimensions of conservatism

1. Margin of Conservatism (MoC) – Conservatism in the estimation of PD and LGD
   - **Proposed data collection for LDP and HDP Portfolios based in the MoC framework set out in the GL on PD and LGD**
2. Downturn Component – Conservatism in the estimation of DT LGD
   - **For LGD estimates the CRR requires downturn LGDs estimates that are more conservative than the long-run average LGD as required (Article 181(1)(b))**
3. Supervisory measures
   - **Conservatism in PD, LGD and RWA due to supervisory measures (e.g. input floors, RWA Add-ins,…)**
4. Conservatism in application
   - **Open question to industry on the expected variability due to conservatism in application, e.g. down-notching due to missing re-rating**

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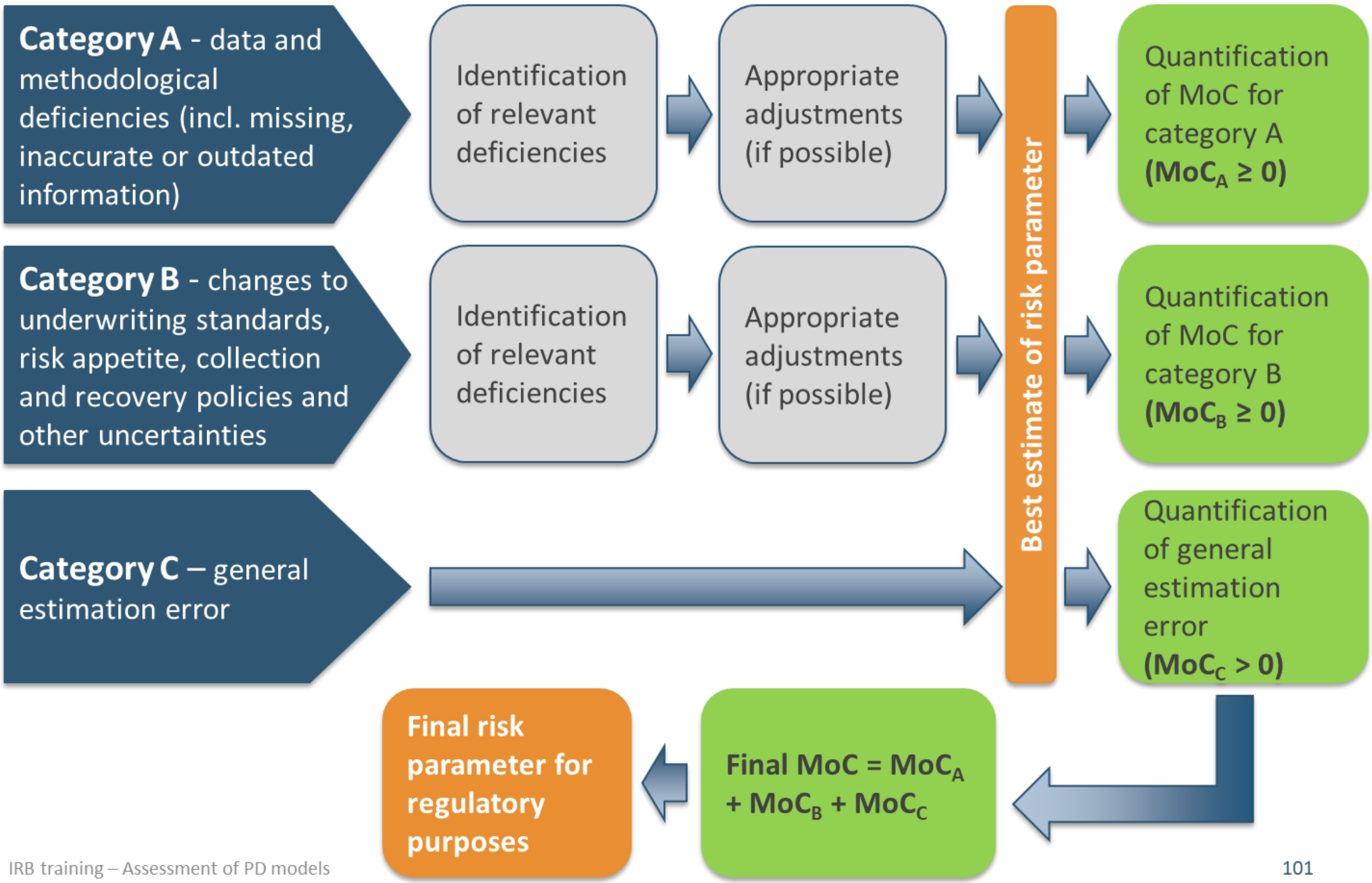
Credit Risk – The MoC-Framework (GL on PD and LGD)



Public hearing on the CP on the BM ITS 2022
Credit Risk – Margin of conservatism

1. Margin of Conservatism (MoC) – Conservatism in the estimation of PD and LGD

- **Proposed data collection for LDP and HDP Portfolios based in the MoC framework set out in the GL on PD and LGD**

PD	PD without supervisory measures	PD without MoC	PD without MoC – Cat A	PD without MoC – Cat B	PD without MoC – Cat C
0060	0061	0062	0063	0064	0065

LGD	LGD without supervisory measures	LGD without MoC	LGD without MoC – Cat A	LGD without MoC – Cat B	LGD without MoC – Cat C
0130	0131	0132	0133	0134	0135

Public hearing on the CP on the BM ITS 2022
Credit Risk – Margin of conservatism

2. Downturn Component – Conservatism in the estimation of DT LGD

- **EBAs Guidelines for the estimation of LGD appropriate for an economic downturn ('Downturn LGD estimation') published on the 06 March 2019 specify how banks should estimate downturn LGD**

LGD without downturn component
0136

0136	**LGD without downturn component**		**For portfolios corresponding to an aggregation of obligors of different grades or pools, the EAD-weighted average of the LGDs net of the downturn-component included in the LGD used for the calculation of RWA shall be provided.** **For portfolios corresponding to individual rating grades, the LGD estimate for that grade, net of the downturn component shall be reported.**

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Credit Risk – Margin of conservatism

3. Supervisory measures

0061	PD without supervisory measures		For portfolios corresponding to an aggregation of obligors of different grades or pools, the EAD-weighted average of the PDs net of supervisory floors and supervisory multipliers or add-ons shall be provided. For portfolios corresponding to individual rating grades, the PD estimate for that grade, net of supervisory floors and supervisory multipliers or add-ons shall be provided.
0131	LGD without supervisory measures		For portfolios corresponding to an aggregation of obligors of different grades or pools, the EAD-weighted average of the LGDs net of supervisory floors and supervisory multipliers or add-ons shall be provided. For portfolios corresponding to individual rating grades, the LGD estimate for that grade, net of supervisory floors and supervisory multipliers or add-ons shall be provided.

Other relevant risk exposure	Other relevant RWA
0190/0290	0191/0291

RWA add-ons (0191 in C102 and 0291 in C103) or capital add-ons (0190 in C102 and 0290 in C103) which are implied due to deficiencies in the IRB approach and which are not reflected in the risk parameter estimates reported.

Public hearing on the CP on the BM ITS 2022
Credit Risk – Minor changes

- **Completion of breakdown into FINREP sectors**

Question 3 for consultation: Do you agree that the added BM portfolios will serve the purpose of providing a full breakdown of COREP exposure classes into FINREP sectors?

- **Incomplete breakdown by size of counterparty:**
  - (a) <=EUR 50 million;
  - (b) >EUR 50 million and <=EUR 200 million;
  - (c) >EUR 200 million;
  - (d) >EUR 200 million and <=EUR 500 million;
  - (e) > EUR 500 million;
  - (f) Not applicable.

Question 4 for consultation: Which obstacles hinder the reporting of homogeneous portfolios in terms of annual turnover as specified in Annex I? Does this lead to exclusion of a material share of the IRB portfolio?

IFRS 9 TEMPLATES

Public hearing on the CP on the BM ITS 2022 IFRS 9 Templates: Background information

- The main aim of the IFRS 9 templates is to collect quantitative data on the IFRS 9 ECL parameters and other relevant information that would allow a good understanding of the different methodologies, models, inputs and scenarios that could lead to material inconsistencies in ECL outcomes.
- In line with the staggered approach presented in the EBA IFRS 9 Roadmap published in July 2019, this consultation paper (CP) envisages the inclusion of new data points, aimed at collecting information on additional IFRS 9 parameters, and, in particular, on the IFRS 9 Loss Given Default (LGD).

To note, while the PD estimations are directly comparable, as they relate to the same default risk, in the case of the LGD parameter, the comparison may be significantly affected by the characteristics of the different facilities (e.g. existence of collateral or a guarantee).

In the light of this, and in line with the approach used for IRB purposes, it is proposed to focus the data collection on "hypothetical LGD" values, intended as those LGD values that would be applied as if:

- The exposure toward the counterparty is senior and unsecured; and
- No negative pledge clause is in place.

Public hearing on the CP on the BM ITS 2022
IFRS 9 Templates: Integration of IFRS 9 LGD

Inclusion of LGD Unsecured (Hypothetical)

In particular, the IFRS 9 templates have been integrated with the following data points, aimed at collecting information with reference, inter alia, to the differences between the IFRS 9 and the IRB LGD and to the impact stemming from the application of the macro-economic scenarios used for the purpose of the ECL estimation:

- LGD IFRS 9;
- LGD IRB without conservative adjustments;
- Hypothetical IFRS 9 LGD values under the different macro-economic scenarios.

C 111.00 - Details on exposures in Low Default Portfolios by counterparty

Expected Loss - IRB	LGD IFRS 9 Unsecured 12M (Hypothetical)	LGD IRB without conservative adjustments Unsecured 12M (Hypothetical)
0410	0500	0560

C 112.00 - Details on exposures in Low Default Portfolios by counterparty by economic scenario

PD - 0 - 108 months	PD - 0 - 120 months	LGD - 0 - 12 months	LGD - 12 - 24 months	LGD - 24 - 36 months
0180	0190	0200	0210	0220

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IFRS 9 Templates: Integration of additional data points

In addition to the IFRS 9 hypothetical LGD, it is proposed to add the following two other set of data points:

- Gross carrying amount: defined in accordance with IFRS 9.
- Scenario weights per time horizon (0-12M; 12-24M; 24-36M; 36-48M; 48-60M; 60-72M; 72-84M; 84-96M; 96-108M; 108-120M).

C 111.00 - Details on exposures in Low Default Portfolios by counterparty

Exposure value - IFRS 9	Gross carrying amount	PD - 12 months - IFRS 9
0040	0045	0100

C 114.00 - Details on macroeconomic scenarios per GDP Area code

GDP growth - 108 - 120 months	Weight of the Scenarios - 0 - 12 months	Weight of the Scenarios - 12 - 24 months	Weight of the Scenarios - 24 - 36 months
0190	0200	0201	0202

MARKET RISK TEMPLATES

Public hearing on the CP on the BM ITS 2022 Market Risk: Update of instruments/portfolios

- Substantial change: SBM data request and minimal amendment in instruments/portfolio composition.

- Only a minor changes to Instruments/portfolio composition was introduced in Annex 5:
  - Quantity of instruments is now solely defined in section 2 (Instruments): e.g. (EQ) instrument 1, 3 – 16;
  - Updated Bond: (IR) Instruments 24 – 35; (CS) 68, 70-73;
  - Added new (CS) instruments: 74-79.

- CP 2022: in the Background banks are advised that P&L vector to be provided for 2021 exercise shall be from 29/2/2021 and going backwards (not 2020 as stated in 2021 ITS Annex 6)

Public hearing on the CP on the BM ITS 2022

Market Risk: Extension of MR data collection to include SBM of the ASA (1/3)

- Implementation of the FRTB in the EU is progressing with **first reporting of the alternative standardized approach (ASA)** in accordance with Article 430b CRR envisaged for September 2021.

- EBA aims to gradually adapt BM exercise to revised market risk framework:
  - Sensitivities-based method (SBM) is the primary component of the ASA – the risk-sensitive ASA is intended to be a credible fall-back to the internal model approach.
  - **Integration of SBM into the BM exercise as a first step with the ITS 2022.** Future revisions of the ITS will adapt the remaining components of the new framework (ASA DRC and RRAO as well as IMA).

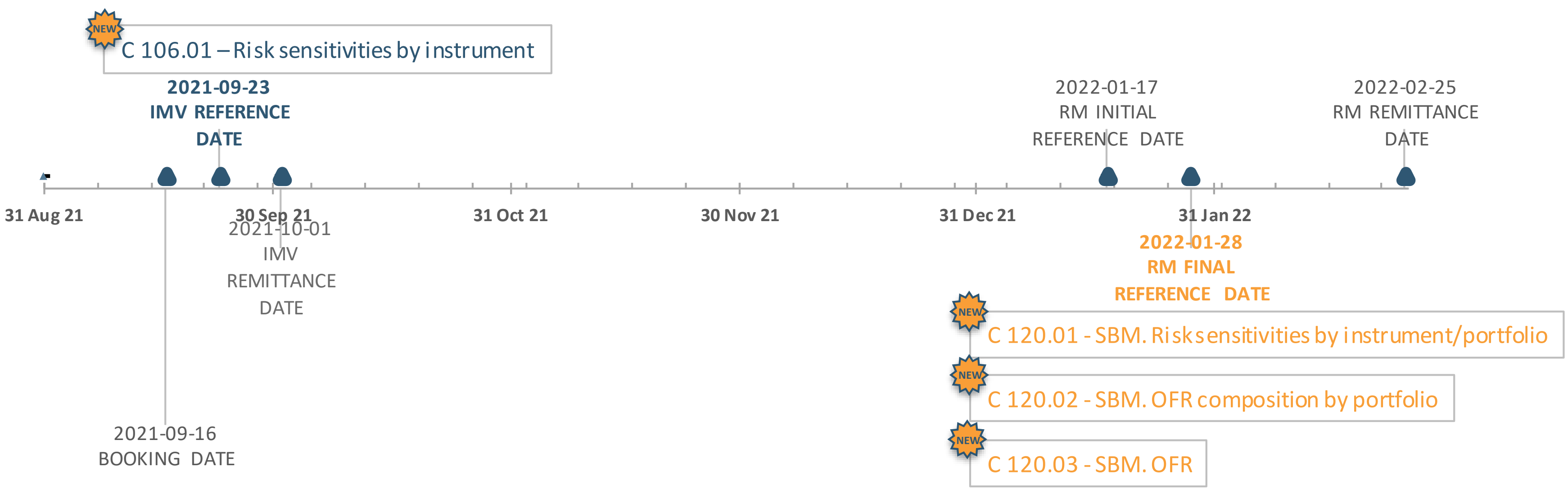
- SBM collection in ITS 2022 to include a granular breakdown of **SBM measures** (Delta, Vega, Curvature) and resulting **OFR** for the EBA BM instruments and/or portfolios.

- Collection to enable competent authorities to enhance existing analyses and investigate potential variability in OFR reported for ASA as the fall-back to IMA (e.g. analysis of risk factors, bucketing choices, reported sensitivity amounts, …).

Public hearing on the CP on the BM ITS 2022

Market Risk: Extension of MR data collection to include SBM of the ASA (2/3)

- Amended / newly introduced **reporting templates**:
  - Templates for **SBM sensitivity data (C 106.01 and C 120.01)** are closely aligned with regulatory ASA risk factors and request information needed in the ASA calculation. Requested for **I) IMV reference date** (early DQ analysis) and **II) RM final reference date**.
  - Templates for **SBM OFR data (C 120.02 and C 120.03)** follow draft ITS on specific reporting requirements for market risk under Article 433b of Regulation (EU) No 575/2013 (CRR) (EBA/ITS/2020/01). Requested only for **II) RM final reference date**.
- **Timeline** of MR BM exercise 2022 (based on Annex V of CP ITS 2022):



Public hearing on the CP on the BM ITS 2022

Market Risk: Extension of MR data collection to include SBM of the ASA (3/3)

- **SBM sensitivity data** in C 106.01 (reported by instrument) and C 120.01 (requested by instrument/portfolio) is reported in a long format with one regulatory risk factor per line. Templates C 106.01 and C 120.01 follow same approach (C 106.01 requests additional info.).

Excerpt from C 120.01 - SBM. RISK SENSITIVITIES BY INSTRUMENT/PORTFOLIO

Instrument number	Risk factor identifier	Bucket	Additional identifier	Implied volatility	Risk sensitivity (Reporting currency results)	Reporting currency	Risk sensitivity (EBA base currency results)
0010	0020	0030	0040	0050	0060	0070	0080

- **SBM OFR data** is reported at portfolio level by risk class, component (Delta, Vega, Curvature) and correlation scenario in C 120.02. Total SBM OFR by portfolio are reported in C 120.03.

Excerpt from C 120.02 - SBM. OFR COMPOSITION BY PORTFOLIO

Risk class	Risk Component	Correlations scenario	OFR (Reporting currency results)	Reporting currency	OFR (EBA base currency results)
0010	0020	0030	0040	0050	0060

ANNEX: LIST OF QUESTIONS

Credit Risk

Q1.1: Do you have any concerns on the proposed collection of data on conservatism in the PD and LGD estimates? In particular as regards the breakdown into Moc A, B and C?

Q1.2: What is, in your view, the appropriate level for assessing the risk exposure or RWA add-ons imposed due to deficiencies in the IRB approach?

Q1.3: Do you agree to the voluntary collection of the information for LDP portfolios?

Q1.4: What are the main challenges for institutions in this regard?

Q2.1: For which kind of portfolios would you expect that outdated ratings (or other missing information hindering the annual re-rating) are a material driver of variability when comparing institutions RWA on homogeneous benchmarking portfolios?

Q2.2: Assuming the aspect is a material driver of variability when comparing institutions RWA, do you have suggestions or preferences for the data collection on conservatism in application?

Q2.3: Do you see any major technical restrictions in providing these data points? If yes, which?

Q3: Do you agree that the added BM portfolios will serve the purpose of providing a full breakdown of COREP exposure classes into FINREP sectors?

Q4: Which obstacles hinder the reporting of homogeneous portfolios in terms of annual turnover as specified in Annex I? Does this lead to exclusion of a material share of the IRB portfolio?

IFRS 9

Q5: Would you be able to report the hypothetical LGDs as described above?

Q6: Would you be able to report the hypothetical LGD IRB without conservative adjustments unsecured as described above?

Q7: Do you see the need to collect weights of economic scenario per time horizon?

Market Risk

Q8: Do you see any issues or lack of clarity in the definition of the data points of template C 106.01 and C 120.01? Do you see any issues in the format of the templates C 106.01 and C 120.01 to report all relevant risk factors and sensitivities for the SBM in an appropriate way?

The proposed templates for the collection of OFR data for the SBM (C 120.02 and C 120.03) follow the draft implementing standards on specific reporting requirements for market risk under Article 433b of Regulation (EU) No 575/2013 (CRR) (EBA/ITS/2020/01).

Q9: Do you agree with the proposed format for the collection of OFR data for the SBM in templates C 120.02 and C 120.03?

Q10: Do you agree with the two proposed points in time for the collection of sensitivity data in relation to the ASA? Do you agree with the proposed point in time for the collection of OFR data? How significant do you deem the additional reporting burden if the collection was extended to additional days in the risk measurement period?

Q11: Do you agree with the proposed collection of ASA sensitivity data and own funds requirements data in both the instrument / portfolio base currency specified in the ITS and the institution's own reporting currency?

Q12: Do you see any issues or lack of clarity in the definition in the changes and updates introduced in the list of instruments and portfolio of Annex 5?

The EBA contemplates a portfolio overhaul for future BM update, which would aim to better align the range of instruments and risk considered in the benchmarking portfolio with banks' actual trading book portfolios and aim to better capture specific features of ASA.

Q13: Which types of instruments, specific risks, etc. play a particularly important role in your portfolio but are misrepresented / underrepresented in the EBA portfolio?

Q14: Which instruments, risk factors and portfolio constellations are considered particularly relevant for benchmarking the ASA and should be included in the benchmarking portfolio (distinguishing by SBM, DRC and RRAO)?

Q15: Do you currently make use of any industry standards to exchange instrument specifications in a standardised way? If yes, which standard or standards are most relevant?

Q16: Would you deem additional instrument specifications using industry standards beyond the current ITS instructions useful? If yes, how would you use them in the benchmarking exercise?

Q17: In your view, which would be the ideal process to integrate such instrument specifications in the benchmarking exercise (e.g. submission of instrument specification to CA for validation, publication of instrument specifications)?

Q18: Concerning instrument parameters depending on the level of risk factors on the booking date (e.g. strike prices), how helpful would you find additional information on these and which process would you envisage?

EBA EUROPEAN BANKING AUTHORITY

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20 Av André Prothin, 92927 Paris La Défense

Tel: +33 1 86 52 7000

E-mail: info@eba.europa.eu
http://www.eba.europa.eu