Final Draft ITS on supervisory benchmarking for the 2024 exercise

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

Article 78 of Directive 2013/36/EU (CRD) 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 to CAs that allow a comparison of individual institutions’ risk parameters. These benchmark values are based on data submitted by institutions as laid out in Commission Implementing Regulation (EU) 2016/2070 which specifies the benchmarking portfolios, templates and definitions to be used as part of the annual benchmarking exercises.

For the 2024 benchmarking (BM) exercise the following changes have been agreed vis-a-vis the current versions of the ITS:

- For the IFRS9 part (IFRS 9), following the staggered approach presented in the IFRS 9 roadmap, the proposed changes to the ITS on supervisory benchmarking extend the data collection – limited so far to the single counterparties in table 101 of Annex I - to the high-default portfolios (HDP), i.e. corporate SME and retail exposures, from the 2024 exercise onwards (with full extension on HDPs planned to be achieved with the next ITS for the 2025 exercise).

- For credit risk (CR), a limited number of HDP portfolios is added such that the CR and the IFRS9 templates relate to a common set of portfolios for which the metrics specified in the different templates should be reported. In addition, in Annex 4 the reference to the COREP data field relating to collateral values is removed.

- For market risk (MR), templates and instructions for the two remaining components (Default Risk Charge - DRC, Residual Risk Add-On - RRAO) of the alternative standardised approach (ASA) are introduced, alongside with targeted amendments to the existing templates and instructions of the sensitivities-based-method (SBM) collection. Furthermore, a new Annex is added providing a list of instruments and portfolios in order to test the benchmark banks’ implementations of the regulatory SBM aggregation logic. Finally, a series of instruments were amended, for the usual update of expired (or close to maturity) instruments and to fix some issues reported in the previous exercise.

The Annexes presented in this draft ITS replace or are added to the existing set of templates in order to create a consolidated version of the updated draft ITS package.
2. Background and rationale

2.1 IFRS 9 templates

1. The benchmarking exercise has gradually been extended to the accounting dimension in order to assess the most relevant drivers of variability and related impacts on the prudential ratios arising from the implementation of the IFRS 9 ECL model. For these reasons, Regulation 2016/2070 has been amended \(^1\) to integrate additional templates on IFRS 9. Previously, the data collection has focused only on so-called low default portfolios (“LDPs”) \(^2\).

2. Given its limited scope, the current data collection is not able to ensure a comprehensive view of the existing variability of the ECL outcomes and the related impacts on the amount of own funds and regulatory ratios, as large part of the financial instruments subject to the IFRS 9 impairment requirements (i.e. the high default portfolios, “HDPs”) are currently out of the scope of the IFRS 9 benchmarking exercise. Considering that, in general terms, the variability of banks’ practices and ECL outcomes on HDPs is expected to be higher than on the LDPs. Moreover, focusing only on LDPs prevents a broader understanding of the different methodologies, models, inputs and scenarios that can lead to material inconsistencies in ECL outcomes.

3. For these reasons, as stated in the EBA IFRS 9 monitoring Report published in November 2021 and following the staggered approach presented in the IFRS 9 roadmap \(^3\) changes are introduced to Regulation 2016/2070 in order to integrate additional portfolios and templates dedicated to HDPs.

4. It is worth reminding that in line with the approach taken for the LDPs the EBA has launched a 3rd ad-hoc data collection - complemented by a qualitative survey - to test the proposed quantitative templates and to gather additional insights on IFRS 9 modelling practices specific to HDPs. The analysis of the templates and related first evidence have also been duly considered in the finalization of the current ITS.

3.2.1. Scope of the IFRS 9 benchmarking on HDPs

5. The IFRS 9 benchmarking on HDPs implies several changes in logic of the analysis as it involves a comparison of the model outputs on commonly defined portfolios that do not necessarily have the same level of risk and that are less easily comparable with respect to the common counterparties for low-default portfolios. A clear definition of the scope of the data collection and the related data points to be collected plays therefore a key role in ensuring sound and meaningful analysis.

\(^1\) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02016R2070-20220720

\(^2\) In order to test the quantitative templates and calibrate the data request, the EBA performed in 2019 and 2020 two ad hoc quantitative data collection, accompanied by a qualitative questionnaire on modelling aspects. The main findings and conclusions of these exercises have been published in the “EBA IFRS9 monitoring report” in November 2021

6. The IFRS 9 benchmarking exercise on HDPs leverages as a starting point on the list of common portfolios previously defined for the purpose of the IRB credit risk benchmarking exercise for HDPs. Nonetheless, considering the potentially significant workload for institutions and competent authorities, as this stage it is deemed more proportionate and aligned with the envisaged staggered approach to collect the whole set of information (“full data collection”) only for a limited number of HDPs asset classes and to use only the more relevant characteristics – i.e., “splits” - for defining the homogenous portfolios in scope. Moreover, additional portfolios need to be introduced to cater for the specificities of the IFRS 9 data needs.

7. Further extensions of the scope of the full data collection will likely be required in the following exercises, as well as further considerations could be given to the envisaged granularity of the portfolios defined and the potential combination of some of the envisaged splits.

Scope and Level of splits

8. It is EBA’s intention to extend the IFRS 9 benchmarking exercise to all the HDPs exposures class already defined for the credit risk benchmarking purposes, i.e. Corporate (“CORP”), Corporates which are SMEs (SMEC), Other retail SME exposures (SMOT), “Other retail non SME exposures” (RETO), Retail SMEs exposures secured by real estate (RSMS) and ii) Retail mortgages (MORT), Retail - Qualifying revolving (RQRR).

9. Nonetheless, following a staggered approach and for limiting the reporting burdens for institutions, a full data collection (involving all Level 2 splits) is envisaged only for the asset classes CORP, SMEC and SMOT while for the others information are required only at more aggregated level.

10. Moreover, as not all the portfolio splits envisaged for the credit risk benchmarking are considered relevant at the moment for the IFRS 9 benchmarking purposes, the next IFRS 9 exercise will focus only on some selected portfolio breakdown (Geographical area and NACE code). An additional portfolio split will however be included (‘IFRS 9 collateralisation’ for which the definition is contained in Annex 2), in order to take into account, the differences in the eligibility of collateral between the accounting and prudential framework. The list of the final portfolios in scope for IFRS 9 is contained in Annex 1.

11. The choice to require a full data collection also for the asset classes SMEC and SMOT – for which a full reporting was not required during the 3rd ad hoc exercise - is justified by the fact that for those asset classes the Level 2 split is already aligned with CORP. Consequently, further testing of the information requested is not deemed necessary.

12. It is also worth to highlight that - differently from the 3rd ad-hoc data collection - the information at geographical breakdown level is envisaged for all the countries (i.e. the same approach of the credit risk benchmarking) and not limited to the EU zone. Nonetheless, in order to ensure a more proportionate approach this information will be requested only for all the jurisdictions where institutions have material exposures. Following the consultation, specific instructions in this regard have been introduced to the Annex 8 of the ITS.

13. The definition of homogenous portfolios will not envisage at this stage any combination of Level 2 portfolio splits (e.g., Geographical area or NACE code combined with IFRS 9 collateralisation status).
While it is acknowledged that such a combination may lead to more meaningful benchmarking results, this choice is driven by the consideration of ensuring a smooth extension of the benchmarking exercise to HDPs without adding further complexity.

### 3.2.2 Highlights on IFRS 9 templates and data points

14. The main objective of the introduced set of templates is to collect quantitative data that would allow to perform sound and meaningful analyses on the ECL outcomes among homogeneous portfolios, as well as to compare data input and other relevant information that can explain any source of undue variability of the outputs of the IFRS 9 models.

15. The design of the quantitative template leverages to the extent possible on the one already envisaged for LDPs, even if the information is collected for common portfolios instead of common counterparties. Similarly to LDPs, these templates should allow to investigate some important dimensions:

   a. The analysis of the variability of the ECL and IFRS 9 risk parameters (C.115.00)
   b. The analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curve and the macroeconomic scenarios (C. 118.00 and C.116.00)
   c. The analysis of variability of practices in the SICR assessment (C.117.00)

### The analysis of the variability of the ECL and IFRS 9 risk parameters

16. Experience gained in the past collection on LDPs shows that not all the institution are able to disentangle the effect of MoC and supervisory measures from the IRB 1Y PD. Moreover, not all the banks derive IFRS 9 PD lifetime term structure from the 1Y PD IRB. Banks, in fact, can derive IFRS 9 PDs leveraging from the IRB infrastructure, data and processes (i.e. risk differentiation and rating assignment) but employing ad-hoc (i.e. accounting) estimation process, that generally entails the estimation of intermediate parameters (i.e. generally referred as PD “TTC” or PD “unconditional”) and the use of different calibration processes.

17. To cater for those situations, templates 115.00 contains a specific data point to collect the “intermediate” PD parameter (“TTC”, “Unconditional”) embedded - where this is relevant - by those accounting models that would allow to better analyze the drivers of the ECL variability.

18. Another important dimension that is required in template 115.00 is related to the collection of the PD values for different stages. Even if it is acknowledged that different PD levels can be explained by risk based considerations (different riskiness of the portfolios and different maturities) these information can also be useful to detect potential variability of the ECL model outcomes due to not homogeneous risk practices, also linked to the approaches followed for the SICR assessment.

### Analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curves and macroeconomic scenarios

19. Similarly to LDPs, the analysis of the lifetime PDs for HDPs entails two separate steps:
a. First, in the template 118.00, the variability of the economic scenario is assessed via the variability of one macroeconomic variable forecast, namely the GDP.

b. Second, in the template 116.00, the variability of the PD curve measured for each economic scenario defined in the previous step.

20. With regard to the analysis of the variability of the PD curves, the attention is drawn to the relevant instructions contained in Annex 8 that specifies the PD curves for each of the economic scenarios to be reported in template 116.00.

21. Differently from the LDPs - where these PD curves refer only to single counterparties - it is acknowledged that for HDPs could be more complex to produce these data for common portfolios, as this could entail the need to aggregate data and parameters of single exposures that can fall under different: i) rating systems ii) rating grades or PDs, iii) satellite models used for FLI incorporation, iv) approaches used for achieving probability weighted outcome. For these reasons the whole set of information are collected only for portfolios which contain the geographical breakdown and for the most aggregated portfolios (breakdown for asset classes). Following the consultation phase, further instructions have been given to cater for those situations where reporting these data create more challenges (i.e. when institutions are geographically diversified and use different ECL models for different countries).

Analysis of variability of practices in the SICR assessment

22. The approach envisaged for the analysis of variability of practices in the SICR assessment on HDPs differs from the one adopted for the LDPs as for HDPs information is collected only a portfolio basis. Therefore, the information on the qualitative and quantitative triggers are envisaged to be collected only at aggregated basis, while precise and granular information on the quantitative thresholds determining the shift to a different stage – that are applied at facility level - are disregarded at this stage.

23. With the limitations above, the introduced template C. 117.00 will allow to collect other relevant information to benchmark the outcomes of the SICR practices (like the transition rate between stages) and to detect any further elements that may signal potential area of concerns in this area (like an excessive transitions to Stage 3 directly from Stage 1).

2.2 Credit risk benchmarking

24. The templates for the data collection for credit risk (CR) benchmarking (BM) are specified in Annexes I-IV of the (consolidated) ITS. Annex I specifies the benchmarking portfolios via a set of characteristics and Annex II provides the relevant definitions for this. Annex III contains the actual parameters and metrics that institutions are to report for the portfolios defined in Annex I. Finally, Annex IV provides the definitions and descriptions relevant for Annex III. For the 2024 update of the ITS section on credit risk the following changes have been agreed and are implemented in the Annexes.

25. **Value of collateral** (column 0120 of templates C101,102 and 103 of Annex III): This field refers to Columns 0150 to 0210 of template C 08.01 of Annex I to Implementing Regulation (EU) 2021/451
in earlier version of the ITS. Given that the ITS on reporting (i.e. Implementing Regulation (EU) 2021/451) has been updated and that starting from 06/2023 the information in COREP will be based on the market value of a collateral capped to the outstanding relevant exposure value, the data fields reported for COREP and benchmarking purpose for this information will deviate.

26. There are 10 new portfolios added to Annex I (sheet 103). In detail for each of the non-defaulted benchmarking portfolios CORP, SMEC and SMOT4 two portfolios are added to reflect the state of collateralisation for accounting purposes 5. These portfolios are specified via an additional characteristic that is added in Annex I (sheet 103; column 0200), namely the Collateralisation status IFRS 9:

“Exposures shall be assigned to portfolios based on their collateralisation status, as used for the purpose of the expected credit loss measurement under IFRS 9:

Collateralised exposures.

i. This portfolio shall include all those exposures, for which, in accordance with IFRS 9 B5.5.55, the measurement of expected credit losses reflects the cash flows expected from the related collateral and/or other credit enhancements that are part of the contractual terms of the exposure into question and are not recognised separately by the entity. Those exposures that are only partially collateralised shall be reported for their full amount within this portfolio.

Not-collateralised exposures.

ii. This portfolio shall include all those exposures, for which, the measurement of the related expected credit losses is not affected by the presence of any collateral or any other form of credit enhancements.

(c) Not applicable.”

27. Including these portfolios into the IRB CR benchmarking allows to understand the variability of own funds requirements which may arise due to potentially diverging reflection of credit protection across institutions. In fact, there are several reasons why collateral or credit protection may be taken into account differently across institutions as well as differently for accounting purposes (e.g. in the IFRS9 LGD) and for the RWA calculation under the IRB approach:

a. For corporates and SMEs collateral may be very specific to the individual loan contracts and therefore it may be impossible to estimate IRB LGD in accordance with the GL on PD and LGD taking into account the value of these specific collaterals. For example, an SME might pledge a certain machine which is specific to the product the SME is producing with this machine. Given that IRB LGD shall be quantified based on historical data it may not be possible to take the value of this machine into account (if no cash flows for a comparable type of SME and machine are recorded in the data underlying

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4 CORP = CORPORATES, SMEC = SMEs in the exposure class corporates, SMOT = Other retail SME exposure
5 Its sums up to 10 portfolios given that CORP and SMEC are separated by FIRB and AIRB approach
the IRB LGD quantification), whereas for accounting purposes this can be done, as it relates to the cash flows expected from the related collateral and/or other credit enhancements that are part of the contractual terms of the exposure into question.

b. The eligibility requirements for collateral and credit protection applicable under the accounting framework and under the prudential framework are not aligned and may be interpreted differently among supervisors.

28. In Annex I, 7 entries were obsolete and have been deleted and the definition of the following 4 portfolios has been aligned to the general definition of LCOR portfolios, i.e. the size of the counterparty has been restricted to >= 200 mln:

<table>
<thead>
<tr>
<th>Portfolio Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>LCOR_GOV_0225_CT_FIRB_x0_Rx0_ALL</td>
</tr>
<tr>
<td>LCOR_GOV_0225_CT_AIRB_x0_Rx0_ALL</td>
</tr>
<tr>
<td>LCOR_CIN_0226_CT_FIRB_x0_Rx0_ALL</td>
</tr>
<tr>
<td>LCOR_CIN_0226_CT_AIRB_x0_Rx0_ALL</td>
</tr>
</tbody>
</table>

2.3 Market risk benchmarking

29. As part of this year’s update to the market risk benchmarking exercise, the data collection of the alternative standardised approach (ASA) of the revised market risk framework that was introduced with the sensitivities-based method (SBM) in the ’22 exercise is completed by including the two remaining components (Default Risk Charge - DRC, Residual Risk Add-On - RRAO). In addition, a limited number of targeted amendments are proposed for the existing templates and instructions of the ASA SBM collection. Additional instruments and portfolios, added as a separate Annex 10, defined by SBM sensitivities (SBM validation instruments and portfolios) are proposed in an effort to benchmark banks’ implementations of the regulatory aggregation mechanism.

2.3.1 Introduction of DRC and RRAO collection templates

30. The ITS 2022 introduced the sensitivities-based method (SBM) component of the alternative standardised approach (ASA) to the Market Risk benchmarking exercise. This included the reporting of SBM sensitivities (C106.01) together with the IMV collection and the reporting of SBM sensitivities together with the corresponding OFR as of the end of the risk measure period (C120.01, C120.02, C120.03). The introduction of the remaining default risk charge (DRC) and residual-risk add-on (RRAO) components was left to future revisions of the ITS.

31. This Consultation Paper includes a proposal for specific DRC reporting templates (C120.04, C120.05) that shall be reported as of the end of the risk measure period, following the approach taken for the SBM collection. RRAO is introduced via an amendment of the existing template (C120.03) which is further expanded by aggregate DRC results so that it includes the aggregate results for all three components of the ASA. Therefore, the SBM only template (C120.03) ceases to exist, and it is substituted by the new template (C120.06).

32. The two proposed DRC templates include a detailed template that collects exposure-level data (C120.04) and a template for the results of the DRC calculation, broken down by regulatory bucket (C120.05).
2.3.2  Targeted amendments to SBM collection

33. Several amendments are proposed to improve the collection of SBM data (C106.01, C120.01, C120.02). These include:

- An additional column (0090) in template C120.01 to obtain the bank-applied risk-weights for sensitivities and for the calculation of curvature risk positions. This information is readily available in banks and facilitates data quality checks and analyses performed by competent authorities.

- A harmonisation and simplification in the reporting of Vega sensitivities in templates C106.01 and C120.01. As different practices were observed in the data reported as part of the ‘22 exercise, it is now clearly specified that banks shall report Vega sensitivities after weighting by the corresponding implied volatility. As a simplification, the additional reporting of implied volatilities is omitted in this context. Banks would be allowed to anticipate this approach already as part of the ‘23 benchmarking exercise, to get more consistent results with respect the 2022 submission.

- Further information on ASA methodological alternatives that may impact Benchmarking results are proposed to be collected via template C120.02 (approaches of Art. 325q(7), Art. 325e(3) and Art. 325q(7)) that will help competent authorities to better understand the impact those approaches may have on the resulting own funds requirements.

34. A further amendment is proposed as a result of reporting practices observed in the SBM collection but which would similarly apply to the risk measures of the current market risk framework. This concerns the instruction “kk” in Annex 5. Regarding the currency of the calculation of risk measures (including but not limited to SBM) it is proposed to specify that banks shall calculate risk measures from the perspective of their own reporting currency using their existing systems and consider FX risk factors from the point of view of their reporting currency. The reporting in EBA portfolio currency (i.e., the Base currency of instruments and portfolio of Annex 5) that is requested for SBM shall be performed by a simple conversion using the applicable ECB reference rate without a change in the considered risk factors. This change shall reduce the operational burden for banks and align the exercise more closely to banks’ productive systems.

2.3.3  Targeted amendments to Annex 5

35. A series of minor changes were introduced to the instruments in Annex 5, to update them or to amend them with respect to some issues reported in the 2023 exercise. The changes are listed here below.

- Changes that involved a simple update of the instruments (i.e., the instruments remain substantially the same type, but with a postponed maturity). More specifically this involves instruments 207, 208, 209, 215, 217, 520, 521, 522 and 534.

- Changes that involved an amendment of some instruments (i.e., the instruments remain the same, but minor details of the instruments changed and the banks participating in the exercise
should pay great attention to these small changes). More specifically, this involves instruments 204, 223, 224, 301 and 302.

- It should be noted that the “base currency”, defined for every single defined for each instrument and portfolio, was substituted with “EBA instruments/portfolio currency”. This does not change the type of currency that needs to be used for reporting the IMVs and Risk Measures. The change is proposed to avoid any possible misunderstanding between the “base currency” of the instruments and portfolio” with the “base currency” methodology applied for the sensitivities computation.

- Very minor amendments in the wording of a series of instruments (202, 220 -Section 5, 301, 302, 310, 311, 405, 529, 530, 602, 604, 606, 608 and 610) following the consultation suggestion were added in the final text for the 2024 ITS. Finally, the following instruments and portfolios were also partially amended with respect the previous exercise. Instruments: 121, 201, and 204. Portfolio: 2021 and 2022 (solely with respect the IRC request).

2.3.4 SBM validation portfolios

36. The existing set of hypothetical portfolios in the market risk benchmarking exercise is based on hypothetical financial instruments that are interpreted and booked by banks according to the instructions. Variability observed in the risk measures reported for those portfolios may result from various sources starting from varying interpretations and bookings to modelling and other implementation choices made in the approaches that are benchmarked.

37. To reduce these sources of variability for the benchmarking of the ASA SBM, it is possible to specify instruments and portfolios by directly defining sensitivities towards regulatory risk factors (SBM validation portfolios). In this way, the only sources of variability remaining are the correct interpretation of the provided sensitivities and the implementation of the regulatory prescribed SBM calculation algorithm (netting, application of risk-weights, correlations, aggregation formulae). As already adopted by industry-led benchmarking exercises, this approach can be used to comprehensively validate banks’ implementations at a comparatively low cost as the interpretation and booking burden of such instruments is considerably lower when compared to the hypothetical financial instruments generally used in the exercise. Reported results should in principle be identical across all reporting banks so that competent authorities can easily spot divergent implementations and give feedback to their supervised institutions based on the results.

38. The newly added Annex 10 defines a set of SBM validation portfolios for all the components of the general interest rate risk class of the ASA SBM. Compared to the consultation version of the SBM validation instruments and portfolio, the final set aligned their definition with a consolidated industry practice to leverage the experience matured by the industry in carrying on similar exercise; this alignment is also expected to facilitate the banks when performing this validation exercise.

39. The choice of the GIIR as risk class is due to its relevance across all participating banks and relevance for most financial instruments. Banks are expected to report the results of their SBM calculations for the SBM validation portfolios as part of the risk measure submission. The limited scope of the validation (just GIIRR) is aimed at testing the general concept and interpretability of the data by
participating banks. If the approach can be implemented successfully, an extension to more risk classes of the SBM, specific features of the SBM calculation, and other components of the ASA (i.e., DRC) will be considered for future revisions of the ITS.

2.3.5 Anticipated changes in light of the banking package

40. On 27 October 2021, the European Commission adopted a review of EU banking rules (the Capital Requirements Regulation (CRR III) and the Capital Requirements Directive (CRD V)). The included proposal to amend the CRD includes a proposed amendment to Article 78 to add the alternative standardised approach for market risk set out in Part Three, Title IV, Chapter 1a of the CRR to the approaches included in the scope of the supervisory benchmarking.

41. Should this proposal enter into force by 1. January 2025, as currently envisaged in the Commission proposal, this would imply that institutions applying the alternative standardised approach would be included in the supervisory benchmarking, regardless of whether they hold approval under the (alternative) internal model approach for market risk. This change would imply a substantial increase in the scope of banks taking part in the benchmarking exercise. EBA expects that these institutions will prepare on time for participation in the exercise and wants to foster transparency as much as possible. Therefore, EBA is naturally monitoring the developments and will communicate on this aspect once legal clarity exists on the overall benchmarking framework.

42. At the current moment, no assumption regarding the finalisation of the new regulation has been made. Should the regulation be finalised into its current form, the new institutions in scope should consider the 18 months for CRD transposition to apply at the Member State level, before they would be demanded to be formally in the benchmarking exercise.

43. Similarly, regarding the alternative internal model, some expectations can be assumed based on the reporting requirements. At the current stage, the FRTB IMA banks should start reporting no sooner than as of Q4 2025. EBA is planning to start the development of an ITS with revised requirements for benchmarking the alternative internal model approach as soon as possible and plans an earlier-than-usual consultation of 2026 ITS, so that banks would have more time to prepare for this new framework.
3. Draft implementing standards

EBA/ITS/2023
05/06/2023

Draft implementing technical standards amending Commission Implementing Regulation (EU) 2016/2070 on benchmarking of internal models
COMMISSION IMPLEMENTING REGULATION (EU) No …/… of [date]

amending Implementing Regulation (EU) 2016/2070 as regards 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

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, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and in particular Article 78(8), third subparagraph, thereof,

Whereas:

(1) Commission Implementing Regulation (EU) 2016/2070 specifies the reporting requirements for institutions to enable the European Banking Authority (‘EBA’) and competent authorities to monitor the range of risk weighted exposure amounts or own funds requirements for the exposures or transactions in the benchmark portfolio resulting from the internal approaches of those institutions and to assess those approaches as required by Article 78(3) of Directive 2013/36/EU.

(2) Considering that, pursuant to Article 78(1) of Directive 2013/36/EU, the benchmarking exercise is of at least annual duration and that the focus of the competent authorities’ assessments and of EBA’s reports has changed over time, in order to identify areas where further regulatory guidance is needed, exposures or positions that are included in the benchmark portfolios, and therefore also reporting requirements, need to be adapted accordingly. It is, therefore, appropriate to amend Annexes I, II, IV, V, VI, VII, VIII and IX to the consolidated Implementing Regulation (EU) 2016/2070. Considering that it is also necessary to introduce a new set of validation portfolios to the benchmarking exercise related to market risk, it is thus appropriate to reflect such a change by adding a new Annex X to Implementing Regulation (EU) 2016/2070.

(3) Further, a new international accounting standard, International Financial Reporting Standard 9 (IFRS9), was adopted through Commission Regulation (EU) 2016/2067. In order to take this standard into account for the reporting requirements, Commission Implementing Regulation

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(EU) 2021/2017 amended Regulation (EU) No 2016/2070 by adding two new Annexes, one with the templates for reporting and the other with the instructions for completing the templates. Those annexes aimed at producing benchmarks for the IFRS 9 ECL outcomes and IFRS 9 PD and, further to amendments introduced by Commission Implementing Regulation (EU) 2022/951, loss given default (LGD) parameters on common counterparties belonging to the low default portfolios. As stated in the EBA IFRS 9 monitoring Report and following the staggered approach presented in the IFRS 9 roadmap, it is now necessary to integrate additional portfolios and templates to gradually extend the IFRS 9 benchmarking exercise to the high default portfolios.

(4) Implementing Regulation (EU) 2016/2070 should be amended accordingly.

(5) This Regulation is based on the draft implementing technical standards submitted to the Commission by the EBA.

(6) 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 advice 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.

HAS ADOPTED THIS REGULATION:

Article 1

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

(1) in Article 2:
   (a) point (i) is replaced by the following:
   ‘(i) the information specified in template 114.00 of Annex VIII, for all the geographical areas of the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C114.00 of Annex II and Annex IX respectively;’
   (b) the following points are inserted after point (i):
   ‘(j) the information specified in template 115.00 of Annex VIII, for the counterparties referred to in template 104 of Annex I, in accordance with the

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10 Commission Implementing Regulation (EU) 2022/951 of 24 May 2022 amending the implementing technical standards laid down in 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

11 https://www.eba.europa.eu/eba-notes-significant-efforts-ifrs-9-implementation-eu-institutions-cautions-some-observed
instructions referred to in Tables C104 and C 115.00 of Annex II and Annex IX, respectively;
(k) the information specified in template 116.00 of Annex VIII, for the counterparties referred to in template 104 of Annex I, in accordance with the instructions referred to in Tables C104 and C 116.00 of Annex II and Annex IX, respectively;
(l) the information specified in template 117.00 of Annex VIII, for the counterparties referred to in template 104 of Annex I, in accordance with the instructions referred to in Tables C104 and C 117.00 of Annex II and Annex IX, respectively;
(m) the information specified in template 118.00 of Annex VIII, for the counterparties referred to in template 104 of Annex I, in accordance with the instructions referred to in Tables C104 and C 118.00 of Annex II and Annex IX, respectively;

(2) in Article 3, paragraph 1 is replaced by the following:
‘1. For internal approaches for market risk, an institution shall submit to its competent authority the information specified in the templates of Annex VII, in accordance with the portfolio definitions and instructions contained in Annexes V, VI and X.’;

(3) Annex I is replaced by the text in Annex I to this Regulation;
(4) Annex II is replaced by the text in Annex II to this Regulation;
(5) Annex IV is replaced by the text in Annex III to this Regulation;
(6) Annex V is replaced by the text in Annex IV to this Regulation;
(7) Annex VI is replaced by the text in Annex V to this Regulation;
(8) Annex VII is replaced by the text in Annex VI to this Regulation;
(9) Annex VIII is replaced by the text in Annex VII to this Regulation;
(10) Annex IX is replaced by the text in Annex VIII to this Regulation;
(11) the text in Annex IX to this Regulation is added as Annex X.

Article 2

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

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

Done at Brussels,

For the Commission
The President

On behalf of the President

[Position]
ANNEX

Annex I (Credit Risk Benchmarking)
Annex II (Credit Risk Benchmarking)
Annex III (Credit Risk Benchmarking)
Annex IV (Market Risk Benchmarking)
Annex V (Market Risk Benchmarking)
Annex VI (Market Risk Benchmarking)
Annex VII (IFRS9 Benchmarking)
Annex VIII (IFRS9 Benchmarking)
Annex IX (Market Risk Benchmarking)
4. Accompanying documents

4.1 Draft cost-benefit analysis for changes related to credit and market risk benchmarking

Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal model approaches, used for the calculation of own funds requirements, and requires the EBA to produce a report to assist them in this assessment. The report of the EBA relies on data submitted by institutions in accordance with EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions to be used by the institutions as part of the annual benchmarking exercise, when using internal model approaches for market and credit risk.

The current draft ITS aim to update the previous ITS for the benchmarking data collection with the purpose of improving the exercises and adapting to the relevant policy changes which will be applicable by end-2023 and thus relevant for the 2024 exercise.

With regard to the credit risk no metrics have been deleted or newly introduced. Therefore, no in-depth impact assessment is considered relevant.

4.1.1 Market risk

Regarding the EBA’s market risk benchmarking data collection, the purpose is to extend the set of information collected on the FRTB Alternative Standardised Approach (ASA). The new data concerns the Default Risk Charge (DRC) and the Residual Risk Add-On (RRAO). This will complete the sensitivities measures collection introduced in 2022, and it will be important for future extension of the scope of the data collection to all ASA banks.

As per Article 15(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any ITS developed by the EBA shall be accompanied by an Impact Assessment (IA) annex which analyses ‘the potential related costs and benefits’ before submitting to the European Commission. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

For the purposes of the IA section of the Consultation Paper, the EBA prepared the IA with cost-benefit analysis of the policy options included in the regulatory technical standards described in this Consultation Paper. Given the nature of the study, the IA is mainly high-level and qualitative in nature including quantitative analysis when possible.

A. Problem identification

With regard to the market risk benchmarking data collection, the previous ITS for benchmarking data collection have remained stable, in terms of the sensitivities data collection.
B. Policy objectives

The general objective of the current ITS is to update the previous ITS for benchmarking data collection to complete the set of information that concerns the ASA.

The main objective of the implementation of the current draft benchmarking ITS is to extend the set of templates to have a complete representation of the DRC and the RRAO for all the instruments and portfolios to be benchmarked.

This would foster the strategic objective of creating 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 environment, as well as the net impact that the implementation of such solutions implies.

C. Baseline scenario

For the market risk part of the exercise, for most EU institutions, the current status of reporting the results of modelling and valuations implies the potential operational costs and miscalculations, which lead to overvaluation or undervaluation of the reported values for the purposes of the benchmarking exercises. Since the extent and magnitude of overvaluations or undervaluations cannot be identified, the impact assessment focuses on the assessment of the net impact on the institutions’ operations.

D. Options considered

When developing the draft ITS, the EBA considered the following options:

**Option 1: do nothing**

This option implies that credit institutions continue reporting data for the benchmarking exercise using just the previous set of templates for the exercises to date.

For the market risk part of the exercise, the continuation of the application of just the previous set of templates assumes that credit institutions and the EBA have the usual operational cost assigned to providing clarifications and ensuring the consistent submission of data.

The ‘do nothing’ option would imply leaving the Implementing Regulation on market risk benchmarking unchanged, Annex VI and VII, which would result in obtaining almost the same results as the previous exercise, with a loss of relevance and significance for banks and competent authorities in the data collection.

**Option 2: revision of the templates relating to the benchmarking exercises**

The main arguments that support the revision of the templates in the market risk benchmarking exercises are:

A. to enhance the significance of the benchmarking exercises across all EU credit institutions;

B. potentially providing new insights into the different functioning of the market risk model.
For the market risk part of the exercise, the current ITS could achieve the objective by expanding the set information collected. With some new additional templates (120.04, 120.05 and 120.6), the data ASA collection could be completed, providing a full picture of the ASA implementation. Moreover, this would provide new elements of analysis, for banks and competent authorities.

E. Cost-Benefit Analysis

The principle of proportionality applies to all aspects of the impact assessment, including methodology, depth of analysis, level of detail and necessity of quantitative analysis. Being consistent with this principle, the EBA 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 that relates to the conduct of benchmarking exercises.

The net impact on capital requirements, implied by the implementation of the current guidelines, cannot be precisely assessed because, substantially, it would depend on further actions agreed by institutions with national competent authorities in response to the benchmarking exercise results; however, it is expected to be on average close to zero due to the hypothetical market portfolio exercise framework.

**Market risk:**

*Option 1*

**Costs:** a possible loss of informativeness in the data collection, that would be substantially identical to the previous one.

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

*Option 2*

**Costs:** the one-off cost of dedicating resources to the drafting of the ITS. There is also a source of minimal cost that relates to the need for the EBA to explain the new set of templates to the national competent authorities and, through them, the participating credit institutions. However, it is to be noted that the data requested with the new templates could not be too burdensome, since the instruments are basically the same as before, and the DRC data collection logic is very similar to the SBM logic; moreover, for RRAO only aggregated information is collected.

**Benefits:** the benefits of this option arise from providing new and complete ASA information and data, which would trigger the provision of additional insights to competent authorities and would keep the exercise relevant for the banks involved.
F. Preferred option

The EBA considers that, although these benefits are not directly observable and are spread over time, they are not negligible, and they are considered more important than the costs enumerated above. For this reason, the preferred option is Option 2.

4.1.2 IFRS9

44. The sound and consistent implementation of the IFRS 9 accounting standard is of paramount importance for regulators and supervisors since the outcome of the expected credit loss (ECL) calculation directly impacts the amount of own funds and regulatory ratios. This link to prudential requirements reinforces the need for scrutiny from regulators and the need to enlarge the supervisory toolkit to detect any potential sources of variability arising from the implementation of the IFRS 9 ECL model that may have related impacts on the prudential ratios.

45. For these reasons, the benchmarking exercise has gradually been extended to the accounting dimension and Regulation 2016/2070 has been amended to integrate additional templates on IFRS 9.

46. Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal model approaches, used for the calculation of own funds requirements, and requires the EBA to produce a report to assist them in this assessment. The report of the EBA relies on data submitted by institutions in accordance with EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions to be used by the institutions as part of the annual benchmarking exercise.

47. Given the commonalities between IRB models for credit risk and IFRS 9 models, it was deemed appropriate to build on the existing ITS on supervisory benchmarking in conducting the IFRS 9 benchmarking exercise. Nonetheless, the current scope of the exercise and set of templates cover only the low default portfolios (“LDPs”). As stated in the IFRS 9 monitoring Report and following the staggered approach presented in the IFRS 9 roadmap changes are therefore suggested to Regulation 2016/2070 in order to integrate additional portfolios and templates dedicated to HDPs.

48. As per Article 15(1) of the ESAs regulation (Regulation (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010 of the European Parliament and of the Council), any implementing technical standards developed by the ESAs shall be accompanied by an Impact Assessment (IA) annex which analyses ‘the potential related costs and benefits’ of the guidelines. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

49. The EBA prepared the IA included in this consultation paper analysing the policy options considered when developing the guidelines. Given the nature of the study, the IA is qualitative in nature.

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A. Problem identification

50. The existing ITS on supervisory benchmarking currently includes templates to monitor risk parameters for credit and market risk and IFRS 9, even if for the latter information is only collected for a limited list of counterparties belonging to LDPs asset classes.

51. The limited scope of the IFRS 9 data collection does not ensure a comprehensive view of the existing variability of the ECL outcomes and the related impacts on the amount of own funds and regulatory ratios, as a large part of the financial instruments subject to the IFRS 9 impairment requirements (i.e. the high default portfolios, “HDPs”) are currently out of the scope of the exercise.

B. Policy objectives

52. The general objective of the current ITS is to update the previous ITS for benchmarking data collection.

53. The specific objective of the current ITS on IFRS 9 is to extend the data collection on the high default portfolios, ensuring in this way the possibility to perform the IFRS 9 benchmarking analysis on large part of banks’ financial instruments subject to impairment requirements.

C. Baseline scenario

54. The baseline scenario is the existing Regulation 2016/2070 where, for IFRS 9 only the collection of specific data points on a list of common counterparties belonging to the low default portfolios is foreseen. If there are no changes applied to this regulation, any additional data collection on IFRS9 information on HDPs should be done on an ad-hoc basis.

D. Options considered

55. When drafting the present amendment to the ITS on benchmarking several options were considered with regard to different dimensions.

56. With regard to the scope of the exercise:

   Option 1: To directly extend the IFRS 9 benchmarking to all the HDPs, requiring a full data collection for all the asset classes;

   Option 2: to follow a staggered approach, limiting a full data collection for some specific portfolios (Corporate, SME Corporate and SME other) while collecting information for the other asset classes only at aggregated level (i.e. without portfolio splits)

57. With regard to the level of portfolio splits:

   Option 1: to use the same type and level of splits already envisaged for the credit risk benchmarking exercise;
4.2 Feedback on the public consultation

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

The consultation period lasted from 08 December 2022 to 28 February 2023. In total, the EBA received 6 responses (4 confidential and 2 non-confidential) and a public hearing was held on the 09 February 2023. All public responses are published on the EBA’s website.

The following table presents a summary of the key comments received in the consultation, the EBA’s analysis of those and whether changes are made to the proposed policy in response to these comments.

In many cases several industry bodies made similar comments or the same body repeated its comments in the response to different questions. In such cases, the comments, and EBA analysis are included in the section of this paper where EBA considers them most appropriate.

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

Summary of key issues and the EBA’s response

The general comment received concerns the introduction of an SBM validation component. The issue is linked to the creation of new standards by the EBA that are similar but not fully aligned with the industry practice could generate unnecessary effort and reduce the efficiency of the process and impact the standard that the industry has developed.

The industry strongly recommends that the SBM validation component should not be introduced as it was proposed in the consultation. The industry further recommends that if this component is to be introduced, it should be fully aligned to the existing industry standards.

With regard to the IFRS 9 part of the exercise, the main comments received focused mainly on the materiality threshold concept to be envisaged for reporting information on portfolios with the country breakdown and on the challenges in reporting information at aggregated level on PD curves, number of scenarios and weights of probability for geographically diversified institutions, when different models are used for different geographies. Moreover, some requests of further clarifications of specific data points have been highlighted.

The EBA acknowledges the operational challenges and potential biases in some reporting figures that can arise when reporting information at aggregated level and for non-material portfolios. For this reason, the feedback received have been taken duly into account into the finalization of the ITS and changes have been introduced to the instructions of the IFRS 9 templates (Annex 8) to accommodate to the extent possible the industry’s responses.

As a result, the following changes have been agreed vis-a-vis the consultation paper of the ITS 2024:

- Introduction of a materiality concept and a specific materiality threshold for the reporting of information related to portfolios with a geographical breakdown;
o Revision of the instructions related to Template C. 116.00 and C. 118.00 related to the reporting of PD curves, weights and scenarios for the list of aggregated portfolios in scope of the exercise, in order to provide guidance on how to report information when institutions use different ECL approaches for different geographies (different number of scenarios, weights etc);

o Enhancement of the current instructions to clarify some specific data points not deemed particularly clear during the consultation phase.

More details on the industry’s feedback received and EBA’s analysis are reported in the following Feedback Table. The Feedback Table contains only those questions from the CP for which at least one response or comment has been received.
### Summary of responses to the consultation and the EBA’s analysis

#### Responses to questions in Consultation Paper EBA/CP/2022/14

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<tr>
<th>Questions</th>
<th>Summary of responses received</th>
<th>EBA analysis</th>
<th>Amendments to the proposals</th>
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<tbody>
<tr>
<td><strong>IFRS Q1:</strong> Do you see any issues or lack of clarity in the definition of the scope of the exercise?</td>
<td>No issues were raised by respondents in this regard. One respondent has requested further details in relation with the envisaged materiality approach defined to report information split by geography.</td>
<td>Further details on the envisaged materiality approach are specifically provided in question 3 below.</td>
<td>None</td>
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<td><strong>IFRS Q2:</strong> Do you agree with the proposed list of benchmarking portfolios relevant for IFRS9? Do you believe that other dimensions should be used in the level 2 split? Do you have concerns on the alignment with the IRB benchmarking portfolios?</td>
<td>One respondent has highlighted challenges in deriving the IRB exposure class from the information in the IFRS9 chain and related potential inconsistencies issues in reporting information. Concerning column 0200 of C.103.00 and C.104.00 of Annex I (collateralization status IFRS 9) and in case of guaranteed exposures based on the presence of a credit enhancement driven by a better score/rating from a protection provider, is the EBA’s expectation to receive the information at original obligor level for IFRS 9 reporting purpose and at protection provider level for IRB reporting purpose, or should it prevail the same approach for IFRS 9/IRB? Please let us share an example with the aim to clarify the question: Consider one loan with a Corporate-SME which is 100% guaranteed by a Corporate-no SME, which should be the approach, in terms of portfolio ID, we must follow to report this specific case for IFRS 9 and IRB purpose?</td>
<td>The EBA takes note of the potential challenges highlighted on mapping IRB asset classes and IFRS 9. However, the definition of the common portfolios - anchored to IRB asset classes as a starting point - is meant to ensure the definition of homogenous portfolios valid for all the reporting institutions (while for IFRS 9 it doesn’t exist a predefined segmentation). Concerning column 200 of C.103.00, it is worth to recall that the column is meant to define the portfolios in scope of the exercise according to the presence/absence of collateral as for the purpose of the ECL estimation. More in general, in relation to guaranteed exposures, the instructions clarify that “the PD parameter to be reported shall be the one of the original obligors, regardless of whether, for regulatory purposes, the CRM technique is applied via a substitution of the risk parameters of the obligor by the risk parameters of the...”</td>
<td>None</td>
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<tr>
<th><strong>IFRS Q3: Do you agree with the proportionate approach taken for the geographical area envisaged by the exercise? How should the materiality thresholds be defined?</strong></th>
<th>Concerning the alignment with the IRB benchmarking portfolios, one respondent expressed concerns for the future extension of the benchmarking to non-IRB portfolios, as for the latter the criteria for segmenting will not be automatically present and this will require extra efforts for institutions. Protection provider. However, the effect of the guarantee shall be taken into consideration in the LGD and in the ECL estimate, in line with the approach used for accounting purposes. Under no circumstances should the PD parameters of a protection provider be reported as the risk parameters of the original obligor”. On the alignment of IFRS 9 and IRB portfolios, the EBA acknowledges that the future extension of the benchmarking to non-IRB portfolios – anyway not envisaged by the current ITS - will pose more challenges in the definition of homogeneous portfolios. For this reason, any future choices in this regard will be taken duly considering the reporting burdens and associated cost-benefit analysis.</th>
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<td>Some respondents have highlighted that for countries in which there is only a limited number of obligors there is a risk of large outliers and biased outcomes for benchmarking purposes. It was proposed to envisage a materiality threshold based on the number of obligors and based on the exposure amount. Some respondents have also suggested to set the threshold also considering the allocated amount of provisions. One respondent has proposed to collect information with the same criteria of the EBA stress test, (paragraph 103 to 106 of the “2023 EU-Wide Stress Test Methodological Note”).</td>
<td>The EBA takes note of the concerns expressed in terms of potential bias that could arise from collection data and parameters on non-material portfolios with a geographical breakdown. For this reason, information on these portfolios will be collected only when the exposures are considered material. This means that information on portfolios (with geographical split) below the identified threshold will not be asked. Nonetheless, information at aggregated level (i.e. without geographical split/breakdown) will be collected without any materiality thresholds and no exception will be granted in terms of countries to be considered (i.e. it will not be limited only to EU regions). This</td>
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<td>Amendments introduced to Annex 8 (Instructions) to define the materiality threshold</td>
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### Responses to questions in Consultation Paper EBA/CP/2022/14

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<th>Response</th>
<th>None</th>
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<td>IFRS Q4: For the sake of allowing meaningful benchmarking observations, do you see any issue in not considering any combination of split at this stage? Or do you see merits in combining some dimension? If yes, which combination of split should be considered</td>
<td>One respondent has also expressed its preference to limit the data collection only on the European IRB countries, as the inclusion of portfolio information outside the EU may lead to misleading conclusions and lack of comparability with the information reported by the rest of European institutions. Another respondent has suggested to limit the contribution on IFRS 9 data to the Legal Entities where the majority of the exposure is booked. Choice is meant to ensure that the information received remain aligned with other financial and prudential reporting, and more importantly, with the AIRB benchmarking exercise for which a materiality concept is not envisaged at this stage. Considering the feedback received and the evidence collected during the last 3rd ad hoc exercise the threshold has been set in terms of relative exposures of the portfolio in the final ITS. The choice to use only one criterion is driven by the needs to ensure a simple and not operationally burdensome approach, ensuring at the same time the level playing field among reporting institutions.</td>
<td>No issues were raised by respondents on the absence of combination of splits. It was also suggested to consider any combination of splits only at a later stage. The EBA will consider any combination of splits only at a later stage.</td>
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<td>IFRS Q5: Do you see any issues or lack of clarity in the definition of the data</td>
<td>Some respondents have asked clarifications on the data point “0100 PD - 12 months IFRS 9” of template 115.00, and related instructions (point 7 of Annex</td>
<td>None</td>
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<td></td>
<td>The proposed instructions (Annex 8) clarifies that where the facility expires within the year considered for a specific data point, the</td>
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### Responses to questions in Consultation Paper EBA/CP/2022/14

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<td><strong>points of template 115.00? Is the definition of IFRS 9 PD TTC/unconditional sufficiently clear?</strong></td>
<td>8). More in particular, it was asked if, also for template 115, where the facility expires before the year considered for a specific data point, the facility’s PD shall not be included in the exposure weighted average PD, similarly to what envisaged for template 116.00. No concerns were raised on the definition provided for PD Unconditional/TTC. One respondent has suggested to consider the liquidation value of the collateral rather than the market value, as considered more in line in line with the ECL calculation under IFRS9.</td>
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<td><strong>IFRS Q6: Do you see any issues or lack of clarity in the definition of the data points of template 116.00 and 118.00?</strong></td>
<td>Considering the request to report ECL amounts for stage1, stage 2 and stage 3 and to report the ECL amount associated with the economic scenario 0 as the weighted average of the ECL reported for the economic scenario 1 to 5, some respondents have highlighted the expectation of material differences between booked ECL amount and amount calculated as the weighted average of the ECL reported for the economic scenario 1 to 5. This divergence is considered due to the fact that the booked ECL is linked with the SICR assessment based on probability weighted PD while the parameter estimates and the ECL amount to be reported for this facility shall be related to a default event over a 12 months’ period. The only derogation to this rule is only envisaged for the purpose of template C.116.00, where it is stated that if the facility expires before the year considered for a specific data point, the facility’s PD shall not be included in the exposure weighted average PD. Therefore, this exception is not applicable for template 115.00. As the instructions are considered sufficiently clear the EBA is not introducing any amendments in this regard. On the collateral value, the EBA acknowledges that the liquidation value could also be a valuable information for benchmarking purposes. Nonetheless, keeping the market value reference allows to ensure alignment with the IRB benchmarking exercise and reduce the reporting burdens. Regarding the first concern on material divergence between booked ECL and reported ECL, it is worth to highlight that the ECL to be reported in template 116.00 for economic scenario 1 to 5 is the ECL associated with each scenario keeping the SICR assessment unchanged (for each scenario) and anchored to the approach actually used for ECL purposes. Considering the doubt expressed and potential misunderstanding also for other participants the instructions are revised accordingly. Clarification on ECL for stage and scenarios (and interaction with SICR) introduced in Annex 8 related to template C. 116.00</td>
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<td><strong>Clarifications provided on how to report</strong></td>
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<tr>
<td>IFRS Q7. Do you agree to the envisaged approach to collect the whole set of information only to limited subset of portfolios (L2)</td>
<td>One respondent has identified issues in reporting PD Curves for geographically diversified institutions as it is not considered feasible to aggregate and report PD information for portfolios that have different ECL approaches in terms of number of scenarios, weights etc. The EBA acknowledge the potential issues in reporting PD curves for geographically diversified institutions, in terms of feasibility of aggregating and report PD values for portfolios that have different ECL approaches (number of scenarios, scenarios and weights in template C. 118.00 when ECL approaches differ in terms of number of scenarios and different weights.</td>
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One respondent has identified issues for geographically diversified institutions as in those cases it is not feasible to aggregate the information of different macroeconomic variables used in the ECL estimation, as well as to report the information for portfolios that have different ECL approaches in terms of number of scenarios, weights etc.

One respondent has also suggested to enlarge the collection of the macro-economic risk driver of FLI in template 118.00 as the GDP could not be the only and/or main risk driver for the portfolios in scope (especially for Retail).

The EBA understands the potential challenges to report macroeconomic variables and scenarios/weights that can arise for geographically diversified institutions. For this reason, the instructions already envisage that where the annual GDP growth is estimated for aggregated geographical zones different from the ones referred to in column 0010 of template C.115.00, this estimation shall be reported for each of the countries belonging to the relevant geographical zone and for each maturity bucket.

As far as for the scenarios and weights (when could be different within the same countries) further instructions are provided to clarify how to report information in those situations.

The EBA also acknowledge that other macroeconomic risk factors can be more relevant for some portfolios. For this reason, the possibility to use further macroeconomic variables will be considered with the next updates of the ITS on Supervisory benchmarking, while in the current ITS only the GDP information will be collected in order to ensure a staggered approach and limit the reporting burdens for the first data collection.
### Responses to questions in Consultation Paper EBA/CP/2022/14

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<tr>
<td>geographical split and aggregated asset classes? Do you see any issue in reporting the PD curves?</td>
<td>One respondent has highlighted issues in the reporting of PD curves in terms of meaningfulness of the information provided. As IFRS 9 PD values are stored in internal systems only up to the maturity of the facility, the computation of PD weighted averages in template C 116.00 would produce figures that are strongly connected to the maturity of the underlying exposures, which might also lead to possible inconsistencies when analysing the PD curves at portfolio level, especially for high maturities. The same respondent has highlighted that request to report PDs of the original counterparty, i.e. before credit risk mitigation, would bring an additional bias when considering PD values in relation to ECL. Finally, the same respondent has asked the possibility to provide the information (e.g. 0040 “Stage 1 exposures with more than a three - fold increase in PD”) according to the quantitative criteria used for transfer logic (e.g. lifetime PDs without annualization when this approach is used). weights, etc), as well in terms of meaningfulness of the information provided for maturity beyond the contractual terms of the loans in the portfolio. For these reasons further instructions are provided in the final Annex of ITS to clarify how to report information in those situations. Moreover, for ensuring consistency on how banks report PD curves data and taking into account the potential lack of information on PD curves beyond the contractual maturity, it is now envisaged to collect information only up to the actual maturity of the exposures. On the reporting of PDs of the original counterparty, i.e. before credit risk mitigation and highlighted potential bias when considering PD values in relation to ECL, the EBA understands the expressed concerns. Nonetheless, the choice to collect information on PD before credit risk mitigation is meant to collect homogenous information on the original exposure class/portfolio and to consider the effect of the guarantee/guarantor only in the collected LGD values. Therefore, this approach is kept in the final ITS. On the possibility to provide the information (e.g. 0040 “Stage 1 exposures with more than a three - fold increase in PD”) according to the quantitative criteria used for transfer logic (e.g. lifetime PDs without annualization when this approach is used), the EBA acknowledge that this choice would reduce reporting burdens for banks using in terms of scenarios/weights and to clarify on (not) reporting PD information beyond contractual maturity.</td>
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### Responses to questions in Consultation Paper EBA/CP/2022/14

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<td><strong>IFRS Q8: Do you see any issues or lack of clarity in the definition of the data points of template 117.00? Would you see merits in collecting information on more granular quantitative triggers and relevant thresholds used for SICR assessment? If yes, in which ways?</strong></td>
<td>Some respondents have suggested to replace column 0050 and column 0051 in the description of the columns 0120 and 0130 letter a) of the related instructions with column 0053. The same respondents have also asked if for column 0140 is it expected that it is the sum of exposures considered in columns 0120 and 0130. A respondent has also asked how is defined/set the &quot;reporting period&quot;. The reference to column 0050 and 0051 is meant to provide the definition of the exposure value in Stage 1 and stage 2 at the beginning of the reporting period and that move to Stage 3 at the reference date. The definition is considered sufficiently clear the EBA is not introducing any amendments in this regard. With regard to the reporting period, the reference and remittance dates are laid down in Article 4 of Commission Implementing Regulation (EU) 2016/2070 of 14 September 2016. According to this Regulation, information on IFRS 9 shall be submitted as it stands on 31 December of each year.</td>
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<tr>
<td><strong>CR 1: Does the removal of the reference to COREP for the data field 0120 of templates C101, 102 and103 of Annex III as explained in</strong></td>
<td>One respondent claimed that the removal of the connection to COREP would make the data submission a little bit more complex. The respondent asked for more clarity on the benefit of the misalignment of the criteria for collateral value. It is true that the deviating definitions of collateral value reporting to COREP and for benchmarking purposes will lead to more complex data submissions for some institutions. However, the alternative option of aligning to the re-definition of the according COREP data field would likely lead to more complex data submissions.</td>
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### Responses to questions in Consultation Paper EBA/CP/2022/14

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<tr>
<th>Paragraph 3 create the need to change your data submission?</th>
<th>When reporting to COREP and for benchmarking purposes.</th>
<th>Have triggered changes for some institutions as well. The EBA considers that the consistency of the data field definition over time is more relevant for the benchmarking purposes than the alignment to COREP.</th>
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</table>
| MR 1: Do you see any issues or lack of clarity in the definition of the data points of templates C120.04 and C120.05? Do you foresee any issues in terms of compatibility of template C120.04 and data standards used by the industry? | A respondent has identified the following issues with the data templates:  
1. In respect column 0060 (Credit Quality Category) of the C120.04, the following additional allowable values are required to support the ‘securitisations that are not in the ACTP’ risk class as per the official mapping of SEC-ERBA credit quality steps.  
   - ‘Credit quality step 7’, ‘Credit quality step 8’, etc. through to ‘Credit quality step 17’  
   - ‘Credit quality step All Other’  
2. In respect of C120.04, the allowable values for data points relating to ‘securitisations that are in the ACTP’ do not support the representation of non-tranchned instruments that may be included in the ACTP (e.g., non-securitisation hedges and Nth-to-default instruments). This may not be required for the current set of instruments but may be required in the future.  
3. FRTB-SA CRIF does not include Risk Weight as a data field as risk weighting is usually determined by the SA model itself based on the inputs, rather than being an input to the model. The EBA acknowledges the technical feedback received on template C120.04 and aims to limit the implementation costs for institutions by ensuring compatibility with existing industry standards and by limiting the data request to data points that are directly required as part of the regulatory own funds calculations.  
   In terms of proportionality, the requirements for market risk calculated under the alternative standardised approach have built-in proportionality, given that Art. 325a CRR limits the application of the approach to those institutions that have a significant exposure to market risk. In view of this inherent proportionality of the underlying regulatory framework, the generally high importance of the DRC as a component of the alternative standardised approach, and in order to avoid unnecessary complexity, the benchmarking exercise does not provide for a further layer of proportionality. This aspect may be the subject of reconsideration in future revisions of the ITS. More generally, the information reported through C120.04 is considered critical to understanding the drivers of variability in DRC requirements, and the format will enable competent authorities to | The technical feedback has been considered by opening column 0060 of template C120.04 to include the relevant SEC-ERBA credit quality steps, allowing the reporting of non-tranchned instruments as part of the ‘securitisations that are in the ACTP’ and moving from LGD to a Recovery Rate notation in column 0100 (without a change in substance). |
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Risk weight applicable to a given row should be readily identifiable from the specification of the risk, excepting those cases for which there are methodological alternatives. In the case of 120.02, data fields to capture methodological alternatives have already been added to the template proposed by the EBA (e.g., (0090): Division of curvature risk components for foreign-exchange risk by scalar). It is proposed by the Industry that the addition of a data field to capture the methodological alternative “Division by sqrt(2) for liquid ccy/ccy pair”, in addition to those already proposed, would eliminate any requirement for a distinct data field to capture the applicable risk weight.

Other minor points of divergence in the proposed DRC representation with respect to the existing data standards used by the respondent (i.e., the ISDA FRTB-SA CRIF) are as follows:

- FRTB-SA CRIF uses Recovery Rate notation rather than Loss Given Default
- FRTB-SA CRIF captures Tranche Thickness rather than distinct Attachment and Detachment Points for securitisations not in the ACTP

A respondent responded that additional information requested in template C120.4 is deemed of limited added value for understanding (the drivers of) the DRC calculation of the institutions, nor is it providing high-value insights in the DRC capital of the institution’s actual portfolio. This leaves institutions, and especially those trace the steps in the DRC calculation from the jump-to-default amounts to the resulting capital requirements.

The EBA recognises that the applicable risk weight may be deducted on the basis of the information reported in a particular row of templates C120.01 and C120.04. The benefit of obtaining this information for benchmarking purposes (facilitating data quality and analysis for competent authorities) outweighs the cost of providing information that institutions should have readily available at this level of aggregation as part of the regulatory capital calculation.
Responses to questions in Consultation Paper EBA/CP/2022/14

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<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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<tr>
<td>Institutions having a low contribution of the DRC component to their overall FRTB-SA (ASA) capital requirements and who have not persisted this (redundant) information to their reporting environment, with a (significant) implementation and maintenance cost without a return. Indeed, the choice of an institution not to persist all this information in their initial set-up, has been based on regulation and on reporting requirements prevailing at the time (this info is not required in the prudential framework, i.e. COREP), and follows a risk-based approach as far as it concerns internal (management) reporting and risk monitoring (i.e. reporting environment is rich in information on components and portfolio attributes that matter to the institution). Considering that the cost of implementation of this additional data request would have to be attributed solely to the EBA benchmarking exercise, the institution kindly suggests to apply also in the EBA Benchmarking Exercise a risk-based approach, and allow institutions having a low amount of DRC OFR (e.g. less than 5% of FRTB OFR) to be exempted from reporting C120.04.</td>
<td></td>
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<tr>
<td>MR 2: Do you agree with the proposed format for the collection of DRC data in templates C120.04 and C120.05?</td>
<td>A respondent mentioned that as stated in the EBA RTS on Gross JTD amounts5 (Article 2, paragraph 1): “The alternative methodology to estimate the gross JTD amount of an exposure referred to in Article 325w(7) of Regulation (EU) No 575/2013 shall consist in calculating the difference between the market value of the instrument from which the exposure arises for the institution at the time of the calculation and</td>
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<td></td>
<td>The EBA acknowledge the issue and the existence of the alternative methodology. Therefore, when the alternative methodology is implemented the bank submitter will have the option to leave the fields interested black.</td>
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### Responses to questions in Consultation Paper EBA/CP/2022/14

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<tr>
<th>Question</th>
<th>Response</th>
<th>Action</th>
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<tr>
<td>3. Do you agree with the proposed amendments to template C120.06 (former C120.03) to include DRC and RRAO OFR by portfolio?</td>
<td>A respondent acknowledge that the proposed amendments are pragmatic.</td>
<td>No change to the proposal followed to this comment.</td>
</tr>
<tr>
<td>4. In your view, what approaches would be suited to benchmark banks’ implementation of the RRAO requirements more comprehensively?</td>
<td>A respondent has no recommendations in respect of approaches to benchmark RRAO more comprehensively at this time.</td>
<td>No change to the proposal followed to this comment.</td>
</tr>
<tr>
<td>5. Do you agree with the proposed change to the reporting of vega sensitivities?</td>
<td>A respondent acknowledge that the proposed amendment is pragmatic.</td>
<td>No change to the proposal followed to this comment.</td>
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</table>
### Responses to questions in Consultation Paper EBA/CP/2022/14

<table>
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<tr>
<th>MR 6: Do you agree with the proposed clarification with regards to taking the reporting currency view for the consideration of FX risk? Do you agree with the proposed clarification with regards to converting reporting currency results to the EBA portfolio currency using the applicable ECB spot exchange rate?</th>
<th>A respondent does not agree with the proposal to take a reporting currency view with regards to FX risk. In the opinion of the respondent significant benefits could be expected from the proposed change, while it could lead to a number of potential complications. These include an increase in the variability of results with a lack of visibility of the underlying causes (especially for results relating to Basel 2.5 measures), the unintended benchmarking of FX risk for portfolios that have not been designed for that purpose, and a requirement for additional clarifications in respect of instrument level instructions.</th>
<th>The EBA agrees not to amend the substance of the rule and keep it as it was in the previous exercise. A further specification for the ASA submission is added, to restate the instruction linked to ASA reporting.</th>
<th>The instruction reverted to the previous rule, plus specification for ASA reporting figures.</th>
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<tr>
<td>MR 7: Do you agree with the proposed introduction of individual and aggregated portfolios for purposes of SBM validation?</td>
<td>A respondent does not recommend the introduction of an SBM validation component as currently proposed for the following reasons: there is an existing industry gold standard (i.e., the ISDA Unit Test) that has extensive use across the industry and diminishing returns have been observed in respect of this validation element and hence the benefits of a year-on-year validation process are considered by the respondent to be negligible. Should the EBA introduce this element instead of relying on the existing industry gold standard (i.e., the ISDA Unit Test) as proposed by the Industry, the industry recommends that the portfolios and representation should be fully aligned to the</td>
<td>EBA acknowledges industry feedback that the introduction of an additional supervisory unit test would impose an additional burden on banks and that the marginal benefit of repeating a unit test-like validation activity is low. The latter is particularly true given that the alternative standardised approach is a regulatory requirement, so no changes to the calculation logic (and therefore the results of such a validation activity) are expected once the FRTB is fully implemented in the EU. The alternative standardised approach is expected to become the main approach for calculating own funds for banks with significant market risk exposures, both through direct application and through the fall-back mechanisms</td>
<td>The unit test for the ITS 2024 will, in line with the original proposal, include SBM validation portfolios for the risk class general interest rate risk. Instead of relying on a regulatory specification, the approach will be based on an industry developed specification. This will increase the comprehensiveness of the test and will not</td>
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### Responses to questions in Consultation Paper EBA/CP/2022/14

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<th><strong>Existing Industry Gold Standard</strong> (i.e., the ISDA Unit Test).</th>
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<tr>
<td>A respondent report that article 41 from the Consultation Paper states that “the approach [the SBM validated portfolios] can be used to comprehensively validate banks’ implementations at a comparatively low cost as the interpretation and booking burden of such instruments is considerably lower when compared to the hypothetical financial instruments generally used in the exercise.” The respondent is of the opinion that this conclusion cannot be generalized.</td>
<td>The statement fails to recognize that the SBM validated portfolios approach is an additional benchmarking exercise, and does not replace the benchmarking exercise through (portfolios of) hypothetical financial instruments.</td>
<td>The statement fails to recognize that institutions targeting straight-through-processing in their FRTB-SA implementation, have not foreseen the option in their IT architecture to process (not even through manual intervention) validated portfolios of sensitivities (halfway) the FRTB OFR calculation. The respondent is also of the opinion, that this exposes the FRTB-SA calculation process to new vulnerabilities, as it would require to foresee such possibility to manually intervene in the FRTB-SA calculations at an artificial point.</td>
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<tr>
<td>EBA recognises the efforts made by the industry to develop a comprehensive unit test and therefore proposes to adopt the relevant test definitions in terms of test portfolios and test sensitivities. Using the existing benchmarking framework, this will allow supervisors to gain confidence in the implementation of their supervised banks and to identify potential remaining divergent interpretations across banks.</td>
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<td>The EBA will review the set-up of the SBM validation portfolios in future exercises, both with a view to extending the scope to further risk classes and components of the alternative standardised approach, and to consider reducing the frequency or limiting the use of SBM validation portfolios to banks that have not previously participated in the exercise.</td>
<td>The EBA will review the set-up of the SBM validation portfolios in future exercises, both with a view to extending the scope to further risk classes and components of the alternative standardised approach, and to consider reducing the frequency or limiting the use of SBM validation portfolios to banks that have not previously participated in the exercise.</td>
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<td>and output floor in conjunction with the alternative internal model approach. Correct implementation of the regulatory calculation and aggregation logic in banks is therefore considered to be of paramount importance.</td>
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<td>Result in significant additional implementation costs for institutions that have already participated in industry-led exercises.</td>
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**Responses to questions in Consultation Paper EBA/CP/2022/14**

| MR 8: Do you see any issues or lack of clarity with the instructions of Annex 5 defining the SBM validation portfolios? | A respondent noted the following issues:  
- The SBM validation portfolios do not align with the existing industry gold standard (i.e., the ISDA Unit Test).  
- Unlike the ISDA Unit Test, the proposed portfolios do not test all possible combinations & permutations for GIRR Delta. Note the following example test condition deficiencies:  
  - different inflation curves for the same currency  
  - intra-bucket flooring  
  - inter-bucket negative square root alternative specification  
  - inter-bucket aggregation with ERM II currencies | See response and changes in MR 7 |
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<td>MR 9: Do you propose additional SBM validation portfolios to test other risk classes, components or specific features of the SBM calculation?</td>
<td>A respondent advise that additional portfolios should be fully aligned with those of the existing industry gold standard (i.e., the ISDA Unit Test), which covers all possible combinations and permutations of risk factors.</td>
<td>See response and changes in MR 7</td>
</tr>
<tr>
<td>MR 11: Does the industry recommend any changes to the design of the existing exercise considering the</td>
<td>A respondent would welcome a more differentiated approach based on materiality of the total FRTB-SA capital requirements and/or of its sub-components. For example, exempting institutions from (parts of) the exercise or specific tables using a set of materiality thresholds.</td>
<td>The opinion shall be considered in the future development of the framework</td>
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<td></td>
<td></td>
<td>No change to the current proposal followed to this comment.</td>
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**Responses to questions in Consultation Paper EBA/CP/2022/14**

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<thead>
<tr>
<th>Extension to banks using the ASA?</th>
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<tr>
<td><strong>Additional comment</strong></td>
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| **Instrument 202** | A respondent noticed that the definition for the swaption (Instr. 202) can be interpreted as requiring the strike to equal the ATM spot rate or forward rate of the associated IRS. The respondent therefore recommends clarifying as below:  
  • 202 – Two-year EUR swaption on 5-year IRS EUR – pay fixed rate and receive floating rate. The strike price is based on the ATM spot rate of the IRS defined within this instrument |
|  | The EBA consider the suggestion appropriate to enhance the clarity of the instrument description.  
  The instrument is amended as suggested. |
| **Instrument 220** | A respondent noticed that additional specification for the cross-currency swap (Instr. 220) has incorrect information for floating leg 2 and the following amends are recommended:  
  • 220 - Section 5: Additional specifications for instruments: Float Leg 2: Effective Date: Booking date + 6 months Maturity date: Booking date +5,5 years |
|  | The EBA consider the suggestion appropriate to enhance the clarity of the instrument description.  
  The instrument is amended as suggested. |
| **Instruments 301 & 302** | A respondent acknowledged the amendments to the specifications for the FX forwards (Instr. 301, 302) but it recommends more explicit clarification as below:  
  • 301 - 6-month USD/EUR forward contract. Cash settled. Long USD – Short EUR; Notional USD |
|  | The EBA consider the suggestion appropriate to enhance the clarity of the instrument description.  
  The instruments are amended as suggested. |
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<tr>
<th>Instrument</th>
<th>Description</th>
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<tr>
<td>40</td>
<td>10 000 000; EUR/USD ECB reference as spot rate / forward rate as of end of the booking date to determine forward rate.</td>
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<tr>
<td></td>
<td>- 302 - 6-month EUR/GBP forward contract. Cash settled. Long EUR – Short GBP; Notional 10 000 000 GBP; EUR/GBP ECB reference as spot rate / forward rate as of end of the booking date to determine forward rate.</td>
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<td></td>
<td>- 302 - 6-month EUR/GBP forward contract. Cash settled. Long EUR – Short GBP; Notional 10 000 000 GBP; EUR/GBP ECB reference as spot rate / forward rate as of end of the booking date to determine forward rate.</td>
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<td>Instruments 310 &amp; 311</td>
<td>A respondent recommends also the same clarifications for the other FX Forwards in the portfolios (Instr. 310, 311) as below:</td>
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<td>- 310 - 6-month EUR/DKK forward contract. Cash settled. Long EUR – Short DKK; Notional EUR 10 000 000; EUR/DKK ECB reference spot rate as of end of the booking date to determine forward rate.</td>
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<td></td>
<td>- 311 - 6-month EUR/BRL Non deliverable forward contract. Long EUR – Short BRL; Notional EUR 10 000 000; EUR/BRL ECB reference spot rate as of end of the booking date to determine forward rate.</td>
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<td>Instrument 405</td>
<td>A respondent recommends a clarification of the strike price of the gold option (Instr. 405) as below:</td>
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<td>- 405 - Long Call option. 5 000 0zt of London Gold. Strike price: ATM forward rate as of end of the booking date</td>
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<td>Instrument 530</td>
<td>A respondent noticed that the duration of the CDS index option (Instr. 530) is longer than usually</td>
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The EBA consider the suggestion appropriate to enhance the clarity of the instrument description. The instrument is amended as suggested.
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<tr>
<th>Instruments 529, 602, 604, 606, 608, 610</th>
<th>observed for such an instrument in the market and the following amendment is recommended:</th>
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<td>• 530 - Short Put option. EUR 10 000 000. Underlying iTraxx Europe index on-the-run series (same instrument of 529). Expiry date: Booking date + 1 year 6 months</td>
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</table>

A respondent noticed that many instruments related to on-the-run CDS indices (Instr. 529, 602, 604, 606, 608, 610) are specified with a maturity of approx. 6 years (June Year T+5) while market convention is a maturity of approx. 5 years, therefore it recommends amending these instruments as the below example:

|                                        | • 529 – Long (Buy protection) EUR 10 000 000 CDS on iTraxx Europe index on-the-run series. Maturity: June Year T+4 |

The EBA consider the suggestion appropriate to enhance the clarity of the instrument description. The instruments are amended as suggested.