

Comments

on the EBA consultation Paper on Draft Regulatory
Technical Standards on gross JTD amounts under Article
325w(8) of Regulation (EU) No 575/2013

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

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On 12 March 2021 the European Banking Authority (EBA) published the consultation paper "Draft Regulatory Technical Standards on gross JTD amounts under Article 325w(8) of Regulation (EU) No 575/2013". We welcome this opportunity to express our opinion. We limit our opinion to question 4.

Q4. Do you have any other comments that you wish to highlight on these draft RTS?

We would appreciate a specification of how index instruments, multiple-underlying instruments and CIUs should be treated for the calculation of the default risk charge (DRC). The draft regulatory text in section 4 of the consultation paper does not explicitly cover the treatment of multi-underlying instruments, indices and CIUs. A consistent treatment of multi-underlying instruments with the sensitivities based approach (SBA), where a look-through approach is not necessarily obliged (see Art. 325i (1) a), (2) and (3)), would in our view be also economically justified for the treatment of index and multi-underlying instruments in the DRC.

While not considered in the draft regulatory text, the treatment of index instruments and multiple-underlying instrument is covered in section 3.4 "treatment of exposures arising from instruments with multiple underlyings, indices, and collective investment undertakings" of the consultation paper with referencing the Basel text and current CRR articles covering treatment of multiple-underlying instruments, indices and CIUs (paragraph 34 to 37). In paragraph 37, a look through approach is required as the general approach in considering index and multiple-underlying instruments within the DRC. We do not see an economic reason for not being able to capture all features of default risk by directly referring to the underlying index. Indices do not exhibit default risk themselves. Single constituents of an index are replaced in cases of distress and the value of index instruments will always reflect the value of the underlying index. The default of a single constituent of an index will at a maximum lead to short-term volatility that is not larger than usual volatility clusters caused by other reasons.

The subsequent paragraphs refer to different approaches for CIUs as a possible treatment consistent with the sensitivity-based component of the FRTB standardized approach. For example the mandate based approach and the treatment as a single risk factor with attribution to the "other sector", if an institution is not able to obtain sufficient information about the individual underlying exposures of CIU with daily price quotes.

The draft RTS, on the other hand, does not cover the treatment of index and multiple-underlying instruments and CIUs in cases where an institution decided not to apply a look through approach in the sensitivity based component. This is an inconsistency in the treatment within SBA and DRC, which in our view, is not economically justified. We would appreciate a specification whether index and multiple-underlying instruments within the DRC can be treated consistent with the SBA.