Febelfin response to the EBA consultation on the amending technical standards for benchmarking of internal models

Febelfin welcomes the opportunity to provide feedback to the EBA regarding the proposed amendments of the Implementing Regulation for the 2023 benchmarking of internal approaches used in credit risk and market risk. Please find below our feedback focussing on credit risk aspects.

General comments

The EBA mentions that, while new instruments have been included for the 2023 market risk exercise, the credit risk IRB and IFRS 9 templates have remained untouched. However, the Belgian banking sector would like to point out that additional credit risk metrics are included in the annex to the current consultation paper for the 2023 exercise. We assume that the EBA has unintentionally used the 2022 benchmarking exercise consultation paper and final draft ITS as a basis for determining the metrics in the 2023 benchmarking exercise instead of the requirements that were ultimately published in the Official Journal of the EU (Commission Implementing Regulation (EU) 2021/1971) where these extra metrics were omitted. More precisely, it concerns the following metrics:

- PD/LGD excl. supervisory measures, PD/LGD excl. supervisory measures & MoC, LGD excl. supervisory measures & MoC & downturn = TTC LGD in C102 and C103
- RWA add-ons in C105.01

We ask the EBA not to include changes to the benchmark portfolios nor to the data fields to be reported for the benchmark portfolios for credit risk, in line with the EBA's intention.

Credit risk benchmarking

Question 1: For the purpose of reporting the above-mentioned fields, would you make use of the possibility to report the default and loss rate in template C 103 of Annex III with respect to a consistent but back-simulated definition of default or would you report these fields with respect to the definition of default that was in production at the time of the event? Please shortly explain the underlying reasons and your motivation.

> **Febelfin response**: The Belgian banking sector would not be inclined to report the default and loss rate in C103 with a backwards simulated definition of default because of the significant additional workload. The new definition of default has been backwards simulated on the available data history in the context of redesign of IRB models. However, it would be quite

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burdensome to derive default and loss rates based on a backwards simulated definition of default for each of the benchmarking portfolios in C103, as these C103 benchmarking portfolios are very detailed and do not match with the model boundaries. Moreover, we believe the added value of such a voluntary reporting would be very limited as the extent to which the default definition can be simulated backwards can differ from bank to bank or even from model to model.

Question 2: To evaluate the complexity as well as the costs and benefits of a change in the definition of loss-rate in the context of the CR BM data collection the EBA seeks views on enhancing the CR BM exercise with respect to its ability to reveal significant underestimation of LGD on portfolios with comparable characteristics. Industry views are welcome as regards the following questions:

a) Please comment on the expected operational burden if a reporting of realised losses/realised LGDs with respect to closed cases would be required (e.g., either by benchmarking portfolio as specified in c103 of Annex 1 or by LGD model as specified in C105 of Annex III).

b) Which alternative metrics could be used for the benchmarking of LGD estimates?

Responses to this question will not have a direct impact on the 2023 ITS. The input will therefore only be used as input for future reviews of the ITS.

Febelfin response: The Belgian banking sector is not in favour of reporting realized losses/LGDs as this is not readily available in the reporting systems of the banks. Retrieving such data from the historical databases will be very burdensome, especially if these realized losses/LGDs then need to be reported by C103 benchmarking portfolio.