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Your ref., Your message of Our ref., person in charge Extension Date

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**EBA/CP/2016/02**

**Draft ITS amending Commission Implementing Regulation (EU) 680/2014 on supervisory reporting of institutions**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation paper and would like to submit the following position:

**General Comments**

We generally appreciate the harmonization of Prudent Valuation Reporting within the COREP Framework. However, the proposed templates post a great operational burden on reporting and IT Architecture. The ongoing reporting of the required fields cannot easily be automated and in some cases, especially for Model Risk, an ongoing operational burden is implicated. Especially for institutions with a comparably small trading book exposure the split of portfolios and AVAs seems high. We would therefore propose to introduce a certain thresholds under which institutions, calculating Prudent Valuation under the core approach, would be allowed to follow a more simplified reporting template.

The proposed templates include various accounting valuation information which should be recorded in the same way as the AVA categories. This adds an additional layer of complexity for reporting and IT processes as this split to the proposed portfolios and adjustment categories is not in line with the current IFRS requirements. Furthermore EBA should align with reporting requirements related to IFRS 9.

The COREP templates are on the one hand very detailed on individual AVAs, especially on Model Risk and Concentration Risk AVAs. On the other hand the AVA for market price uncertainty, which, from our point of view, would add the most important source of information, is only reported in the overall template.

**Questionnaire**

***Question 1: Do you agree with this statement? If not please explain your reasoning. [Annex 2, page 1]***

The additional information embedded in the upside potential might be useful to determine the level of prudence which is already included in the Fair Value of assets and liabilities. Therefore we agree that this additional information is supporting the interpretation of the total aggregated AVA. Those institutions which value their portfolio closer to the 90% confidence level will be able to argue a smaller AVA impact than institutions valuing their portfolios closer to the 10% confidence level. However assessing the appropriateness of the reported downside potential of the AVA might only be possible for those AVAs where the range of plausible data can be retrieved.

The RTS does not state for which AVAs the upside potential should be calculated. Furthermore the efforts required to set up the additional confidence level calculation is expected to be burdensome as it requires an additional full run of calculation for all relevant AVAs.

***Question 2: Would the ‘upside uncertainty’ measure defined above and used in column 120 be suitable as a definition of the upside uncertainty? If not please provide reasons and any alternative suggestions for how such an upside measure could be defined. [Annex 2, page 1]***

The proposed definition appears suitable for a general definition. However it lacks clarification on how to apply it to the different AVA categories.

The approach suggests showing the upside potential for the total aggregated sum of AVA’s. As individual AVAs might be derived by using expert opinions it needs to be clarified how the expert based downside potential can be translated into an upside potential, especially for AVAs like “Future Administration costs” or “early termination costs”. In addition, some institutions do not calculate an adjustment for certain AVA’s (e.g. Operational Risk AVA for those institutions applying the AMA model). As a consequence we propose to limit the upside potential to those AVAs where a plausible range of data (market prices, net present values, etc.) can be retrieved and a confidence level of 90% and 10% can be calculated.

***Question 3: Is the above approach to splitting out fair valued assets and liabilities and fair-value adjustments on the one hand between the different types of AVAs and on the other hand between asset classes and product categories practical to implement? If not please describe the practical obstacles. Please suggest any alternative approaches (particularly if an alternative approach has been found useful for internal reporting purposes). [Annex 2, page 5]***

The breakdown of fair value adjustment in the same categories as the additional valuation adjustments would presume that fair value adjustments are set up in the same way and would fit to the prescribed asset classes and valuation adjustment categories. The product categories which are proposed in the Template C 32.02 do not account for a split in products rather for a split in risk factors embedded in different products. In the case where the valuation input for calculating the Market Price Uncertainty AVA for a valuation position is a market Price the split into the asset classes might not be possible.

Example 1: The institution assesses the market price uncertainty for a bond portfolio on the basis of a range of available market observable price quotations. As for a price range below, how should an institution split the market price uncertainty between the asset classes Rates – Vanilla and Credit – Vanilla?



The proposed attachment of the position to the portfolio where the instrument is booked is not always clear and we would appreciate a more explicit separation by product type.

***Question 4: Is the above portfolio-based approach to splitting out AVAs and other attributes between ‘Exotic’ and ‘Vanilla’ practical to implement? If not please describe the practical obstacles. Please suggest any alternative approaches (particularly if an alternative approach has been found useful for internal reporting purposes). [Annex 2, page 12]***

The split between vanilla and exotic seems suitable. The portfolio split however would indicate that all products exposed to the proposed risk categories, could be aggregated into a portfolio. Although the RTS states the split should not be based on a position or risk basis, the proposed portfolios are likely to be interpreted as being risk based. In order to be able to assess the accuracy of the reported AVA values the Fair Values would have to split to these portfolios as well. If the portfolio definition is neither instrument based nor risk based the split seems unpractical for IPV and Fair Value Reporting Purposes. As a consequence, we would opt for a split which is product based and not portfolio based.

***Question 5: Do you think such mismatches between the portfolio-level AVAs and the institution-level AVAs would be significant? Please give examples. [Annex 2, page 12]***

In order to be able to assess the difference between the portfolio level AVA and the institution level AVA we would need additional clarification on the portfolio term, especially with respect to those AVA categories which can’t be easily attached to individual portfolios. In general, given the guidance on page 10 in Annex 2, we would however not expect a big mismatch between the portfolio and institution level AVA. The proposed split is not beneficial for the internal steering and capital allocation to individual trading desks.

***Question 6: Where the difference is significant what additional practical difficulties would arise from calculating AVAs for each of the portfolio categories in rows 050-170? [Annex 2, page 13]***

See question 5.

***Question 7: What are stakeholders’ views on the ability to usefully summaries in a few key words the models and products concerned, as well as on the associated reporting burden or IT issues? [Annex 2, page 15]***

The description of a model could be usefully summarised in a few key words although some details may have to be left out. In terms of categorisation, the main keywords should be enough to assist with categorisation and mapping.

The description of a product may not always be possible to always be summarised meaningfully in a few words without compromising on accuracy. In the case of exotic and structured products, the complexity of the payoffs would, in most cases, require many more than a few keywords to be able to unambiguously differentiate between the different products in a way that would assist in a further categorisation/mapping  and aggregation by the authorities. More detailed guidance would have to be provided to the institutions after further consultation with them and a final solution may require the introduction of more than one cell for the adequate description of all products, especially if the format has to maintain some forward looking compatibility/expandability as more new products with increasing complexity are introduced by financial institutions as time goes by.

Regarding the extend of the complexity required to collect all the required details for the template, in an accurate, timely and efficient manner, we believe that it would be substantial and not all of it would be one off costs. For example, information that appears to be simple like “Observability” would require collection and aggregation of continuous intra-day communications (emails, telephone conversations, and meeting) of many traders and salespersons with brokers and counterparties in order to be able to confidently provide accurate information about the frequency of qualifying price observations for hundreds of products. It would require the creation of an application that would archive hundreds of emails and conversations that take place every day between hundreds of Front Office personnel. Finally, the ability to aggregate this information across different institution is doubtful as each institution would be referring to different size transactions so a single number of transactions couldn’t be able to capture the volume (or potential volume) of these transactions.

***Question 8: Do you find the proposed instructions on prudent valuation clear? Are there specific parts where definitions or instructions should be clarified?***

The Delegated Act on Prudent Valuation still leaves uncertainty on the treatment of individual AVAs:

* Concentration Risk AVA: Although the RTS and the DA clearly states when a valuation position is concentrated it lacks guidance on how the concentration Risk AVA should be calculated in a second step. As the proposed COREP template aggregates valuation position on portfolio level, should the concentration risk be tested on portfolio level as well?
* Unearned credit spreads: the RTS as well as the DA lack clarification on how to calculate the valuation adjustment. The split into market price uncertainty, close-out costs and Model Risk increases the complexity and requires further details on the expected valuation adjustment.
* Investing and Funding Costs: The same obstacle as for unearned credit spreads.

The individual AVAs leave in general substantial room for interpretations which will be limited by the proposed reporting templates. We would rather appreciate a more clear guidance on the calculation approach for the individual AVA categories.

The application of the simplified approach for smaller institutions which fall below the thresholds on individual level but not on consolidated level as outlined in Article 4(3) of the Delegated Act is not fully clear. We would appreciate feedback on the individual treatment of the institution falling below the threshold for applying the simplified approach. Is the institution allowed to apply the simplified approach for the individual calculation of Prudent Valuation or does the core approach have to be applied on individual entity level as well? In case the core approach is required for the individual calculation as well, the operational burden for consolidated banking groups, with a high number of fully consolidated smaller institutions, is extremely challenging.

***Question 9: Do respondents have any comments on the structure and content of the proposed templates on prudent valuation?***

The proposed templates post a high burden on one-off IT requirements and in addition to that ongoing operational costs. The expected changes in accounting treatment due to IFRS 9 should be incorporated or at least considered in the COREP Templates for Prudent Valuations.

The reporting burden would be substantially more that it is now. Financial institutions would be required to invest significant amounts of money and resources to introduce all of these additional dimensions in the reporting in an accurate and efficient way. Consultants would be required to assist with the new reporting/IT architectures as the contributions for the different fields would come from different parts of the institutions (Front Office, Accounting, Risk Management, Validation Groups, Mid-Office etc.) and new applications would have to be developed for this reason, the implementation and testing of which will last several months. Finally many other application (reporting systems) would require upgrading to be able to provide the additional functionality as well as to maintain the integration with the IT infrastructure of the institutions.

The associated costs with implementing and maintaining such a comprehensive reporting template should only be compulsory for institutions above a threshold which goes beyond the EUR 15 billion thresholds for calculating the simplified approach. We would suggest adding an additional threshold based on the total aggregated AVA amount.

We ask you to give our remarks due consideration.

Yours sincerely,

Dr. Franz Rudorfer

Managing Director

Division Bank and Insurance