POSITION PAPER

ESBG response to the EBA consultation its Draft RTS on back-testing and PLA attribution requirements

ESBG (European Savings and Retail Banking Group)

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ESBG

Dear Sir/Madam,

Thank you for the opportunity to comment on the EBA consultation on the new Internal Model Approach (IMA) under the Fundamental Review of the Trading Book (FRTB). We welcome the proposals made. At some points we feel that the proposals are far more normative than the Basel text. This could lead to unnecessarily rigid rules. The discretion of supervisors would be too limited. Against this background, we would like to share with you the following reflections that we hope will be considered by the EBA.

Question 1: Which are the adjustments that institutions include in the fair value of a financial instrument that you consider not sensitive to market risk? Please provide a list of adjustments or a list of types of adjustments.

Credit Value adjustments: we do not see relevant for the market risk charge since it is covered by a separate CVA charge. Bid/Ask adjustment is sensitive to the market liquidity of the instrument, but this risk is covered by the Prudent Valuation adjustment which is deducted from CET1.

Question 2: Which are the adjustments that institutions include in the fair value of a financial instrument that you consider market risk sensitive? Please provide a list of adjustments or a list of types of adjustments.

We do not see any additional adjustments in the fair value of a financial instrument which we consider as market risk sensitive.

Question 3: Paragraph 4 specifies that no smoothing of adjustments is permitted over the readjustment period. Do you agree with the provision? Do you consider the provision clear?

We support the ISDA/IIF proposal.

Question 4: Paragraph 4 requires institutions to compute (for the purpose of the backtesting) the value of an adjustment (that is included in the changes in the portfolio's value) performing a stand-alone calculation, i.e. considering only the positions in the trading desk. Do you agree with the provision? Do you consider the provision clear?

We support the ISDA/IIF proposal.

Question 5: Do you agree with the criteria in paragraph 5 allowing institutions to exclude an adjustment from the changes in the trading desk's portfolio value? Are there any other criteria you deem useful for this purpose?

We support the ISDA/IIF proposal.

Question 6: How do institutions identify client margins and day-one profits/losses in the systems (e.g. as commissions, margins)? Please specify if currently they are taken into account in the end of- day valuation process, in the actual P&L and in the hypothetical P&L.

Based on the survey which was published by ISDA/IIF there is already some kind of market standard how margins and day-one profits/losses are taken into account in the end-of-day valuation process, in the actual P&L and in the hypothetical P&L.

Question 7: Paragraph 4 requires institutions to compute (for the purpose of the backtesting) the value of an adjustment (that is included in the changes in the portfolio's value) performing a stand-alone calculation, i.e. considering only the positions in trading desks that are calculating

the own funds requirements using the internal model approach (i.e. desks meeting all conditions in article 325az(2)). Do you agree with the provision? Do you consider the provision clear?

We support the ISDA/IIF proposal.

Question 8: Do you agree with the possibility outlined in paragraph 5 to include in the portfolio's changes the value of an adjustment stemming from the entire portfolio of positions subject to own funds requirements (i.e. both positions in standard-approach desks and positions in internal model approach desks)? Or do you think it would not be overly burdensome for institutions to compute adjustments on the positions in trading desks that are calculating the own funds requirements using the internal model approach only?

We support the ISDA/IIF proposal.

Question 9: Do you agree with the criteria outlined in this article for the alignment of input data? Please provide some examples where an institution could use the provision set out in paragraph 2.

We support the ISDA/IIF proposal.

About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 20 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 1,000 banks, which together employ 780,000 people driven to innovate at 56,000 outlets. ESBG members have total assets of €6.2 trillion, provide €500 billion in SME loans, and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking.

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