1 Churchill Place
Canary Wharf
London E14 5HP
United Kingdom

19th August, 2014

European Banking Authority (EBA)
Tower 42 (Level 18)
25 Old Broad Street
London
EC2N 1HQ
info@eba.europa.eu

Ref: CONSULTATION PAPER ON EBA DRAFT RTS AND ITS ON BENCHMARKING PORTFOLIOS (EBA/CP/2014/07)

Barclays supports a risk sensitive regulatory capital framework that provides the flexibility to achieve good risk management, and consider that the use of benchmarking will contribute to a greater level of transparency and understanding around the role of internal models in regulatory capital calculations. In addition, benchmarking of internal models can help to enhance the credibility of the internal approaches and draw out differences that build confidence in the use of risk models via greater transparency and enhanced understanding. However we consider it important that benchmarking does not effectively lead to a 'standard approach' being implemented across the industry that would potentially stifle the ability to enhance risk management and possibly create systemic risks.

In the letter below we set out Barclays Key Messages on the proposals and our answers to the consultation question are set out in the attached Appendix.

Key Messages

Benchmarking a useful addition to the regulators toolkit

Barclays supports the use of benchmarking as part of the supervisory oversight process of internal models used in regulatory capital calculations. Barclays considers that benchmarking is an important step in improving the transparency and understanding of model based RWA calculations and the implications of modelling choices on capital which if a degree of flexibility is retained will promote improvements in risk management.

Identification of outliers for specific assessment

Barclays agrees with the EBA on the importance of understanding the range of outcomes, which will vary through time. Article 3 of the draft RTS proposes a number of criteria for Regulators to use to identify internal approaches that merit special assessment. However, an assessment against a "benchmark" calculated using standardised risk weights is unlikely to provide the best comparison as standardised approaches are less risk sensitive and do not always fully reflect the underlying risks. In addition, a comparison against the standardised approach may be misleading (e.g. in the case of sovereigns which attract a zero risk weight, inconsistency of the application of the standardised approach, and in the majority of cases have not undergone a recalibration exercise since their inception).

Barclays is also concerned about the possible impact on risk modelling of establishing such "thresholds". Such a framework could result in internal risk models developed and calibrated specifically to "pass" or "fail" the EBA's "thresholds", which may not lead to useful models for internal risk management purposes (many of these models are still required to satisfy the "use test" set out in the CRR) and could inhibit developments in risk management.

Proposed methodologies

For high default portfolios, Barclays is in agreement with the principal of the proposed approach of the EBA exercise, noting there will always be exceptions within the broad labels introduced. Barclays consider that it is appropriate to group the data according to key dimensions. Segmentation plays an important role in providing assurance that similar portfolios from different firms and countries are being compared correctly i.e. 'like with like'. In addition, it is important that the instructions for such exercises are sufficiently clear and granular, to reduce the possibility of firms interpreting instructions differently, leading to underlying differences in calculations.

An important consideration is that some of the detailed data requirements could be very onerous. This includes the proposed calculation of RWAs using outturns and binomial stress. Similarly, the requirement to calculate RWAs as if a portfolio were standardised is not easily done. For HDP benchmarking should just use data calculated under the existing reporting requirements. Effective segmentation and clear guidance for completion should allow for useful comparison of approaches without creating additional onerous data requirements.

For the above reasons, Barclays would not recommend assessing against a benchmark calculate using the standardised risk weights as a first option and consider that other approaches will provide a better comparison.

Operational issues

Article 5 of the ITS requires firms to use production quality systems when deriving benchmark results. Barclays recommends where firms are unable to use production systems, a tolerance for variance is introduced.

There are often very good reasons why firms are prevented from using production systems when participating in these types of exercises beyond availability of systems and resource constraints, for example, unauthorised trading controls prevent "dummy" bookings of benchmark portfolios. Even where parallel production systems are used, valuations and resultant risk metrics may not be subject to the same month-end price control checks and adjustments, credit sanctioner review and sign-off, and additional measures taken subsequently to running the models such as post-model adjustment and/or capital add ons.

Barclays has contributed to the ongoing work of the IIF in considering the key drivers of variability in RWAs, and one aspect that features is the existence of an acceptable level of variability due to the fact that firms engaged in benchmarking exercises are rarely using full back-to-front production quality systems. This variability can be evidenced in firms' mark-to-market valuations, even without running a risk or regulatory capital model. As such, Barclays would encourage supervisors to allow some level of tolerance for variance, at the outset, due to the fact that participation in benchmarking exercises often relies on off-line calculations which may not benefit from a full front-to-back valuation and risk process i.e. where the risks represented in the benchmark portfolios are not representative for the risks run internally.

Data provision

Barclays considers that it is important that competent authorities will need to give careful consideration to achieving the right balance between firms providing high level portfolio information and very detailed transaction level data – as the former could prove insufficient

BARCLAYS

and the latter disproportionate. Interpreting the results could be challenging due to the differences in input data supporting the models across firms (if information is very high level or too detailed) and supervisory resources would need to be sufficient to undertake such exercises effectively.

Subsequent Review

A key question is the review process that may occur once approaches in need of specific assessment are identified. Barclays considers that integrity of models (quality of models) also requires high quality disclosures of a more qualitative nature.

Benchmarking of model outputs should be part of the ongoing model approval and oversight process. While benchmarking will contribute to enhanced transparency around the model outputs, benchmarking cannot replace supervisors assessing the merits, or otherwise, of firms risk models and their outputs. This enables supervisors to acknowledge firm specific differences and tailor made approaches to manage the consequential differences in risk profile.

The assessment of the quality of internal models is not a standalone process that can be performed purely based on the results of hypothetical portfolios supplemented with certain additional information on model validation and performance. Use of the information described in Articles 8 and 10 will support this understanding but assessment of the quality of a model is a much broader exercise to be performed by competent authorities over an extended period of time. As noted in the RTS the information requested in Articles 8 and 10 is shared with supervisors during the course of ongoing supervisory activities and hence Barclays would not expect these documents to be re-provided as part of benchmarking processes but for supervisors to make use of information already provided.

Alignment with other benchmarking exercises

EBA benchmarking should be aligned with the requirements from other regulators (e.g. the BCBS) in order to prevent duplication, overlaps and inconsistencies from multiple initiatives in the same area. It may not be proportionate for firms to provide responses to multiple data requests all looking at the same aspect, aimed at achieving the same result, as such exercises are resource and time intensive and may detract from other activities.

In some respects the benchmarking refers to comparing the variability in RWAs and in other areas refers to an implied underestimation of capital. However if benchmarking leads to increased standardisation of RWAs, this may decrease the amount of capital held and lead to a position where the level of capital held does not reflect the underlying risks as closely as a well developed internal model would have done.

Please do not hesitate to contact me (William.Hayward@barclays.com +44 20 7116 2443) if you have any questions or comments on the issues raised. Furthermore, Barclays would be happy to continue to participate in the relevant forums to discuss the issues presented in this paper in more depth, if it would be of assistance.

Yours sincerely

William Hayward

Director, Group Risk

BARCLAYS

Appendix 1: Barclays response to EBA questions

Q1. Do you consider the use of common benchmarks for credit and market portfolios necessary to ensure a common approach?

Barclays considers that benchmarks do not need to be common across the disciplines given the differing nature of credit and market portfolios (eg variations in clustering of results) and the differing sources of variability (modelling choices vs. model parameters) that need to be recognised in order to enhance risk management.

Barclays would suggest that the use of common benchmarks, while helpful, should be supplemented by the use of more specific benchmarks aimed at certain portfolios e.g. using the one year alternative VaR (use of 1 year P&L vector) for market risk.

Overall Barclays considers that the exercise involving a comparison of the AIRB approach was useful in highlighting differences between the risk weights used between firms. Barclays would be interested in understanding the variance in the risk weights used and if this is reflective of specific differences in the firms and their risk profile, or due to a difference in approach.

In addition, Barclays would welcome a definition of 'extreme values' for which the proposed approach in the consultation (page 25, paragraph 9) is to disregard such results in order not to affect the comparison. Barclays considers that it is important to define such terms in order that a uniform approach is applied and different interpretations are not used which could affect the underlying results.

Q2. Do you consider that the benchmarks outlined in the RTS are sufficiently proportionate and flexible? Do you have any alternative benchmark proposals? If yes, please provide details.

Given potential limitations in the study, Barclays considers that the benchmarks need to be more flexible than are currently proposed.

Whilst Barclays agree that 'outliers' do require further enquiries and analysis, it should not be the case that outliers are automatically deemed to be unjustified as an outlier may result from a firm specific difference, and be justified. For example, for HDP portfolios the proposed benchmarking exercise is to identify which portfolios are "outliers" and worthy of further review. However this will be a matter of judgement rather than a mechanistic approach.

In addition to using quartiles, Barclays considers that it would also be useful to look at a number of dispersion type metrics, for example the use of a normalised average (or mean) of a group of peers as the optimal comparison level, as opposed to using quartiles as an indication of significant differences between bank portfolios and low / high diversity in own fund requirements or the firm's ratio to average (mid to median), the number of standard deviations from mean.

In terms of the suggested criteria Barclays is not convinced that assessment against the standardised results is appropriate. Barclays experience is that depending on the asset class most (if not all AIRB firms) are either above or below the standardised risk weights,

Barclays is unclear as to how the use of "outturns" would be used in the assessment of the level of capital. Barclays considers that it is appropriate that supervisors should endeavour to understand how much of a potential divergence in capital is attributed to poorly performing models and how much is based on justifiable differences. However, Barclays has a concern that a full run of the full front-to-back capital solution, using different inputs, may not be something that firms are able to do easily (if at all).

In addition, the RTS also proposes the use of a binomial back test. It is not clear what this is and Barclays would welcome further clarification.

Q3. What limitations do you see in relation to the use of the proposed benchmarks, i.e., (i) first and the fourth quartiles; (ii) comparison between own funds under the internal models and the standardised approach; and (iii) comparison between estimates and outturns?

Barclays support the EBA's comments that in principle the exercise should not lead to standardisation, preferred methods or encourage some bias towards an 'acceptable' range, particularly if specific results are disclosed.

As Barclays recommendation is that only high level information is provided, consistent with previous RWA exercises, rather than disclosure of firm specific results, the emphasis on the assessment of the results should be on the dispersion of results ("quartile approach"…) and an acceptable range of outcomes, and that this could vary through time.

Barclays understanding is that Article 78 does not require that thresholds are established upfront and it may not actually be of assistance to the benchmarking exercise to do so at this stage. Barclays would suggest the following:

i. The EBA should consider disregarding the fourth quartile as this is not necessary given the Directive remit of paying particular attention to approaches where there is a significant and systematic under-estimation of own funds requirements (Article 78.3b).

ii. The Standardised Rules should not be used as a "benchmark" as these tend not to be risk sensitive and are not necessarily a conservative benchmark (e.g. sovereigns in Market Risk where standardised rules are likely to underestimate risk given 0% risk weights).

   The use of Standardised rules as a 'benchmark' may also not be the most appropriate anchor when many of these are being revised (e.g. SA-CCR, Sensitivity Based Approach (SBA), etc).

iii. The definition of outturns in a Market Risk context requires further clarification. Barclays assumes that this refers to the use of a one year 'P&L' vector for Market Risk to allow variability from the choice of modelling assumptions to be identified (e.g. differences in the length of time series, weightings and data). However, it should be noted that this data will not be readily available for all firms if they are not using an historical simulation model. Further, in this situation, the resulting VaR would not be relevant for the benchmark as the model would not be in use and will affect the accuracy of the benchmarking results.

iv. The use of comparison between estimates and outturns may not be beneficial in instances where the actual internal default experience of the firm for the relevant portfolio is limited (e.g. the Barclays Hedge Fund portfolio has limited internal default experience compared to the industry-wide default experience).

v. For HDP it is likely that each national regulator will only have a limited number of AIRB firms to benchmark and the review process is likely to be far more subjective. In addition, across HDP and Market risk, this may not be proportionate as some firms will be required to build new models that will be solely used for the exercises. As such, we consider that it should a targeted submission, used selectively where there are material concerns over the variability in RWAs, for which such an approach may be proportionate.

vi. Barclays is unclear of the use of outturns and binomial back testing in establishing benchmarks against which to assess capital requirements and would welcome further clarification on this proposal.

Q4. What in your view is the most appropriate benchmark and/or approach for the assessment of the level of potential underestimation of own funds requirements?

A combination of approaches should be considered as opposed to a 'one size fits all' approach e.g. the use of a normalised average (or mean) of a group of peers as the optimal comparison level; other percentiling approaches (rather than using quartiles only).

The benchmarks in (i) are the approaches that are most appropriate for market risk although the assessment of dispersion should be more sophisticated than just using the first and fourth quartiles. (See question 2).

For HDP, the key issue is defining the portfolios for which data is requested so that regulators have the best chance of being able to compare "like with like". The benchmarks would then simply identify which firms merit further investigation. In this regard, benchmarking is less important than the provision of data for identified portfolios and any subsequent investigation/challenge.

Q5. Which set of market risk portfolios do you consider more appropriate for the initial exercise conducted under Article 78?

Barclays supports use of a single set of portfolios to be used across different exercises (whether instigated by Basel or the EBA), and encourage a unified approach. If further RWA variability studies are to be conducted by Basel, Barclays would encourage these to be aligned to the EBA to make use of the same portfolios. Where Basel is proposing to use different portfolios to those selected by the EBA, Barclays would encourage the EBA to adopt use of the BCBS portfolio version 2.

Barclays agrees with the draft ITS that the Basel portfolios should be used as an initial starting point. However, in principle Barclays could also migrate to the EBA portfolios with the addition of more complex products over time, as capacity and infrastructure is developed to run HPEs.

Both sets of portfolios have their own advantages and disadvantages which we have summarised in the table below:

	Advantages	Disadvantages
EBA	• Vanilla • More readily replicated • Easier to isolate drivers of variability due to incremental addition of risks	• New • More aggregation increases operational risks
Basel	• Familiarity • More representative of current trading book	• 'Exotic' portfolios create greater potential for variability • More difficult to assess diversification

Q6. As explained in the background section, do you consider the approach proposed by the EBA appropriate for future annual exercises?

Regulators should agree one common benchmarking exercise. The co-ordination of this data gathering exercise should be compared to other such initiatives already in place e.g. how does this proposed EBA annual exercise differ to the LDP / Group Template exercise submitted to the PRA annually? Is there an initiative to determine differences / similarities between the two exercises in order to reduce duplication and ensure consistency in data provided?

Q7. Do you have any alternative proposals? If yes, please provide details.

As indicated under Q6, it would be helpful to synchronise the EBA exercise with other initiatives already in place by the PRA / EBA / BCBS.

Q8. Which of the two options for phasing-in do you consider preferable?

Option 2 (defining 'all' portfolios and including provisions in the ITS that specify the phasing-in of portfolios over time i.e. institute a rotation process requiring banks to submit LDP portfolios in the even years and other portfolios in odd years) is preferable as providing the necessary information on a rotational basis would ease the implementation issues for both firms and competent authorities.

Q9. Do you see any potential ambiguities in the credit risk portfolios defined in Annex I? Please identify the relevant portfolio providing details and any suggestions that would eliminate these ambiguities.

The corporate vs. retail definition should align with firm's existing regulatory reporting and not inadvertently create additional or different reporting groupings.

Q10. Do you have any suggestions for additional credit risk portfolios? Please provide details.

The credit risk portfolios should be identified to increase the possibility of "like being compared with like". This may be most easily achieved by using key risk drivers. For example, for mortgage portfolios, it is right that LTV is identified. However, portfolio risk profile can also vary according to many other factors such as (a) time on book and (b) degree of delinquency

It is also important that only exposures in the same legal jurisdiction are compared. Most AIRB banks will have exposures across many countries and it is important that these are separated out. For example the European economic downturn may mean that risk weights in some countries are high relative to others. These portfolios should be disaggregated.

Q11. Do you see any potential ambiguities in the market risk portfolios defined in Annexes VII.a and VII.b? Please identify the relevant portfolio providing details and any suggestions that would eliminate these.

In the EBA portfolios:

- Instruments 1-9, 11 and 13 include the term 'OTC' but are exchange-traded instruments.
- Instruments 59 and 60 do not include an indication of the notional.
- Instruments 1-3 don't have an exact end date, unlike Instruments 3-14.
- Instrument 28, doesn't indicate which reference rate to use for the spot rate, Barclays assume this would be the ECB reference rate, but this should be clarified. Similarly the end of day three month EUR/USD forward rate and if a cross currency spread should be booked.

In the TBG type portfolios:

- Portfolio 27 – it needs to be made clear whether short index put means short receiver.
- Position seniority should be confirmed
- US names now trade NORE instead of MODRE, this should be clarified.
- For portfolio 14, the notional amount in USD is variable and resets at the beginning of each interest period, but it doesn't specify the source or time of that spot rate

Whichever portfolios are used, we would encourage the used of standardised confirmations to minimise potential ambiguities.

Q12. Do you have any suggestions for additional market risk portfolios? Please provide details.

See above comments on EBA portfolios in Q5.

Q13 Do you agree with the possibility of allowing firms to refrain from reporting portfolios if one of the conditions stated in Article 3 is met?

Broadly, yes though with two caveats:

i. It is unclear what Option (c) adds to Option (a) and Option (b).

ii. If regulatory approval has not been given, it is unclear whether firms should be submitting results where the model is used for internal purposes only as these might distort the results, as the model could diverge from regulatory requirements further than when only considering those used for both regulatory and internal purposes.

Q14 Do you have any suggestion about additional exemptions from reporting? If yes, please provide details.

Barclays would suggest that the following additional exemptions are made from reporting:

i. Consideration should be given to including a materiality threshold with exemptions for portfolios that fall below the threshold. For example, this could be defined as either a % of a firms' RWAs, or as a % of a market, or for mortgage books greater than Euro X bn etc.

   Imposing a materiality threshold would also recognise that the work associated with including smaller insignificant portfolios in the HPE is not proportionate and will not yield results of significance to justify their inclusion and the associated time and resource required to do so. In these cases, supervisory oversight could take other forms, e.g. internal validation reporting.

ii. It is not clear whether the exemptions from reporting will also include portfolios which have supervisory floors / add-ons, as well as slotting for in-scope property exposures, etc. Barclays would recommend that consideration is given to exempting such portfolios from reporting because by definition the risk weights should be the same.

BARCLAYS

Appendix 2: Annex and Templates and Article wordings

CP Article 10 - the application of transitional provisions using Basel 1 floor (CRR Article 500) is not applicable to Market Risk, so the reference in CP Article 10 to an adjustment to own funds requirement for market risk is unclear.

CP Article 11 – it is unclear what the alternative VaR and SVaR based on P&L time series are and the reference to backtesting. This should be more clearly explained. Does this mean the VaR/SVaR from using a one year P&L scenarios, these are not P&L time series. If this means constructing an actual P&L time series for the hypothetical portfolios using the pricing models, this is different. This does not appear to be required by CP Article 13. Terminology used throughout the RTS/ITS differs but we think this may mean the latest one year 'P&L' time series which is used in a historical simulation for VaR rather than an 'actual' P&L time series using pricing models and backtesting (per CRR Article 366) and validated by Finance. The latter would not be available on a hypothetical portfolio.

Document	Section	Comment
Annex IV	3	The data submission templates are unclear, for example is data required at portfolio, PD band or exposure level. Very clear guidance is required for all data fields with local regulators resourcing support for submitting firms. Data should typically come from regular capital reporting processes.
AnnexVIII	PartII: IMV	Instrument number and description should be pre-populated. Note depending on final portfolios this may need to be labelled portfolio
Annex VIII	2 rows 030	"More than 1 and up to 2 years" should be modified to "more than 1, up to and including 2 years" Similar for "more than 2 and up to and including 3 years"
	2 rows 060	Wording should be clarified for Regualtory add-on, to reference the minimum multiplication factors. NB: depending on permission this may vary on the legal reference when instructions are working in multiple jurisdictions or have multiple permission for different scopes.
	2 rows 050	Reference should be clear that this is the value of the multiplier not the value of any add-on
	Section 2 NEW	Add column for value of other capital add-ons, e.g. RNIVs in PRA framework
	Section 2 NEW	Suggest a column is required for Portfolio ID to enable a single flat file to be produced.