German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

on EBA consultation paper "*Draft Implementing Technical Standards on specific supervisory reporting requirements for market risk (EBA/CP/2019/13)*"

Register of Interest Representatives
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Contact:

Uwe Gaumert	Christian Saß
Director	Adviser
Telephone: +49 30 1663 2150	Telephone: +49 30 1663 2110
Fax: +49 30 1663 2199	Fax: +49 30 1663 2199
Email: uwe.gaumert@bdb.de	christian.sass@bdb.de

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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 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 approximately 1,700 banks.

Coordinator:
Association of German Banks
Burgstraße 28 | 10178 Berlin | Germany
Telephone: +49 30 1663-0
Telefax: +49 30 1663-1399
www.die-deutsche-kreditwirtschaft.de

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General comments

If completion of the thresholds template is mandatory for all banks, i.e. particularly also for institutions with small trading book business, this would potentially impose a considerable additional burden in terms of documentation requirements. We are therefore in favour of exempting non-trading book institutions from the obligation to complete such a template.

There is also uncertainty as regards the question of which banks are to perform FRTB SA reporting from March 2021, since formal determination thereof based on the criteria specified in CRR Articles 94 and 325a should lead to FRTB reporting only from September 2021 at the earliest. A clear-cut arrangement is quickly required here to support affected banks in planning FRTB SA reporting.

Specific comments

Q1. The 'thresholds' template requires a breakdown of the 'on- and off-balance sheet business subject to market risk' into on-balance sheet and off-balance sheet business. Is that breakdown clear, or would you need ad-hoc definitions for differentiating 'on-balance sheet items' from 'off-balance sheet items' to ensure a proper implementation of the reporting requirements? Are there particular challenges or a burden involved in differentiating between on- and off-balance sheet items?

This, indeed, raises the question for us of how the breakdown into on- and off-balance sheet business subject to market risk is to be interpreted. This question arises particularly in the area of derivatives, where business is regarded economically as off-balance sheet, but where institutions reporting in accordance with German Commercial Code (HGB) accounting standards (HGB institutions) book certain items as on-balance sheet. Taking foreign exchange risk and the MKRSAFX template as examples shows, moreover, that, while this approach still applies to long and short positions, it no longer applies to the ultimately relevant net long or net short positions (see remarks on reporting template below). In their case, the data has to be additionally collected.

As regards HGB institutions (nGAAP), we would like to make the following separation: on-balance sheet = foreign currency accounts and own securities deposits, off-balance sheet = derivatives. Nevertheless, further ad-hoc definitions would undoubtedly be helpful.

By way of reporting template C90.00, supervisors intend to obtain information on the size of an institution's market risk positions and for calculating the relevant market risk and trading book thresholds. Particularly for monitoring purposes, they expect, among other things, reporting of historical data for the *past 11 reference dates*. According to the consultation paper, the

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information is to be requested to allow monitoring of the entry and exit criteria under CRR Article 94 (7) and (8) for calculation of own funds requirements for trading book business.

We believe that reporting of an institution's historical data should be facilitated. Generally speaking, historical data allows not only supervisors but also institutions to additionally monitor trading book activities and the development of positions subject to market risk. (Historical) representation of the development in the size of the relevant positions thus makes sense.

However, it should, firstly, be noted that the relevant information is already available to supervisors through reference date reporting. Historical evaluation or monitoring of this information is therefore possible. Secondly, there are already similar cases in connection with the entry and exit criteria for reporting (cf. Article 4 of Implementing Regulation 680/2014 in the currently valid version) for which no historical data for calculating thresholds is delivered in the respective reports (e.g. entry and exit criteria for reporting exposures to sovereigns).

It is questionable whether the added value generated by reporting these positions justifies the additional implementation burden if, on the one hand, the information in question is already available to supervisors and, on the other hand, similar cases are not treated likewise.

Q2. Are the scope and level of application of the reporting requirements and the content of the templates and the instructions clear?

We are in favour of detailed definition of on- and off-balance sheet items. It is, for example, unclear whether data is to be used in accordance with the FINREP standards – with all their special arrangements – or on the basis of national accounting standards when it is a question of, for instance, reporting an institution's "total assets". Clear-cut reference to either an article or a definition would facilitate implementation here.

The following points in particular need to be specified further in our view:

- Do the old trading book/banking book definitions apply until further notice in columns 049-090 of thresholds template C90.00? Further guidance and examples would be helpful in this area as well.
- From which date would the market values of derivatives have to be reported in accordance with the SA-CCR requirements? These do not yet have to be reported on 31 March 2021.
- If the derivatives for previous months are still to be included at market value calculated using the mark-to-market method, there will at some point be a break in the logic and a jump in values.

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- It is unclear whether the reporting requirements apply to reporting by institutions on an individual basis or to group reporting. Clarification on this point would be appreciated.
- In the event of group reporting, clarification would then also be needed, in our view, on the following case: how would a subsidiary that does not exceed the reporting thresholds under the stand-alone approach pursuant to Article 325a (1) of CRR II and is therefore exempted from the reporting requirement have to be taken into account in group reporting? (Assumption: no supervisory permission for consolidated calculation pursuant to Article 325b of CRR II has been granted). Does the alternative standardised approach then have to be calculated for the subsidiary's portfolio as well or can the subsidiary's current own funds requirement be used?

Legal references and instructions (Annex II):

Line 0050-060: Trading book business for the purpose of CRR Article 94 (trading book positions pursuant to Article 94): neither Article 94 of CRR II nor the EBA ITSs on specific supervisory reporting requirements for market risk define in detail which instruments are FX positions and thus may be excluded from calculation pursuant to Article 94. In the case of FX spot transactions, classification as an FX position is quite clear, whereas it not clear, for example, how FX derivatives that also have interest rate risk components are to be treated.

Line 90-100: Non-trading book: CRR Article 125 a (2) (f) follows points d) and e). Is point f) connected to points d) and e) or is it a catch-all position for "Other". We understand it to be more the latter, so that for both FX risk and commodity risk only either net long or net short positions should be used (similar to the procedure under CoRep reporting).