

The European Banking Authority
20 Avenue André Prothin
92400 Courbevoie
France

Subject: European Banking Authority (EBA) public consultation on the Draft Implementing Technical Standards on specific supervisory reporting requirements for market risk¹

The International Swaps and Derivatives Association (ISDA) and the Association for Financial Markets in Europe (AFME), together “the industry” welcome this opportunity to provide comments related to the EBA’s deliberations regarding the proposal for Implementing Technical Standards (‘ITS’) on the supervisory reporting requirements for market risk.

In its Executive Summary the EBA notes that the reporting requirements for the new market risk framework will be gradually expanded; first introducing a thresholds template and a summary template reflecting the own funds requirements under the Alternative Standardised Approach (‘ASA’) for market risk. The industry fully understands the need for further reporting to be in place for the final implementation of the revised minimum capital requirements for market risk². However we caution against a gradual increase in reporting in the meantime, as this would add additional project risk and would not be an efficient use of resources.

Overall we question the need for the Threshold template, as it appears disproportional for small banks in particular and only those Institutions or only those Legal Entities that are applying for derogation/exemption ex Article 94 and 325a should be required to submit such template as otherwise there is no rationale for the ‘threshold’ reporting requirement. Similarly it is not clear that the content of the template will give competent authorities relevant information that could not be obtained via other means.

The industry would prefer the ITS’s application date to be changed to 1 June 2021, so that the first reference date is 30 June 2021. This is to align the first reference date with the other projected CoRep first reference dates. Institutions moving to ASA for market risk could then implement all changes to the CoRep reporting requirements to the same timeframe.

This response is structured in five sections; Considerations on the reporting template, proportionality, the reporting timeline, the reporting requirements and drafting errors.

We thank you in advance for your consideration and please do not hesitate to contact the undersigned associations with questions or if you would like to discuss our recommendations further. We remain committed to assisting policymakers in achieving the objectives of this important ITS.



Gregg Jones
Director, Risk and Capital
ISDA



Mark Bearman
Director, Prudential Regulation
AFME

¹ <https://eba.europa.eu/calendar/draft-implementing-technical-standards-specific-supervisory-reporting-requirements-market>

² <https://www.bis.org/bcbs/publ/d457.pdf>

Consideration on the Threshold Template

Institutions will only be subject to the revised minimum capital requirements for market risk in the Union, if their trading book business and on- and off-balance sheet business subject to market risk exceeds certain thresholds that are defined in Articles 94 and 325a of CRR. We note that for the Article 94 threshold there is no need to include their on- and off-balance sheet exposures from the banking book into the calculation. In the EBA proposal, the “Thresholds” sheet gathers the elements mentioned in both articles with the final goal of identifying those institutions that are eligible for:

- 1) Derogation for small trading book business (Article 94)
- 2) Exemptions from specific reporting requirements for market risk (Article 325a)

Article 94

2. In calculating the size of on- and off-balance sheet business, institutions shall apply the following:

- I. **debt instruments** shall be valued at their market prices or their nominal values, **equities** at their market prices and **derivatives** according to the nominal or market values of the instruments underlying them;
- II. the absolute value of long positions shall be summed with the absolute value of short positions.
- III. Items from the banking book (FX and commodities) are excluded from the threshold calculation.

Article 325a

- A. Institutions shall calculate **the size of their on- and off-balance-sheet business** that is subject to **market risk** using data as of the last day of each month in accordance with the following requirements:
 - B. all the positions assigned to the **trading book** shall be included
 - C. all **non-trading book positions** that are subject to **foreign exchange risk**
 - a. all non-trading book positions that are subject to foreign exchange risk shall be considered as an **overall net foreign exchange position (ONFEP)** and valued in accordance with Article 352
 - D. or commodity risk shall be included
 - a. all the non-trading book positions that are subject to commodity risk shall be valued in accordance with Articles 357 and 358;
- E. the absolute value of long positions shall be added to the absolute value of short positions

On- and off-balance sheet business subject to market risk										
On-balance sheet business subject to market risk	Off-balance sheet business subject to market risk	Breakdown by regulatory book						in % of total assets	Total assets	
		Trading book			Non-trading book					
		of which: Trading book business for the purposes of Article 94 CRR			Positions subject to foreign exchange risk	Positions subject to Commodities risk				
		Total	in % of total assets							
0010	0020	0030	0040	0050	0060	0090	0100	0110	0120	
A. & I.			B. & E.	I. & II.	Ratio_94	C. & E.	D. & E.	Ratio_325	FinRep	

Some comments are worth making

- Total Asset: the obvious source of this information is FinRep Table 1.1 Row 380. FinRep is however available only quarterly, while the template requires it at a monthly frequency
- Breakdown of Regulatory Trading Book. This view is to be typically found in CoRep, also quarterly. CoRep and FinRep logic are clearly different, e.g.
 - cash in FX not part of FinRep but is part of CoRep
 - FinRep operates under a value-date logic while CoRep under a trade-date one, and this can ingenerate mismatches in inventories (there is 2D lag)
 - Regulatory classification of TB is only reflected in CoRep while FinRep works under a Fair Value through P&L logic.

Nevertheless we do not view the differences as sufficient to justify the additional burden of the template for smaller institutions.

- Non-Trading Exchange Risk computed as ONFEP is a metric used under Standard Approach. Banks with an approval to use IMA for FX risk will not have an SA calculation for FX Risk up and running, since this is currently not required. The calculation would need to be set up only for the purpose of filling this template.
- Information in 0010, 0020, 0030 – aside from being not clearly defined – are of no relevance in computing the actual measures in 0050, 0060 & 0040 and 0110.

Considerations on Proportionality

In the light of the above it should be clear that the requested information cannot be considered readily available from existing reporting processes and will necessarily require some investments whose effective utility should be carefully assessed.

In particular for an Institution that decides to fill in the “Summary” table it is unclear to which extent the information required in the Thresholds table should be required for regulatory purposes. An accurate indication of the relevance of Trading Activities can be already found in FinRep comparing two rows of Table 1.1

- FinRep Table 1.1 050 (Financial Assets HfT)
- FinRep Table 1.1 380 (Total Assets)

In other terms we believe that the “Threshold” table should be only required for Institutions of Legal Entities of larger Banks that applied for the derogation in Article 94 or the exemption in Article 325a, i.e. that need to prove they have limited trading activity so as to benefit from the simplified reporting obligation. While it is reasonable to assume that such Institutions will be already computing FX Risk via ONFEP, the point on having Total Asset (FinRep) at monthly frequency stays.

As a matter of principles the template seems to be disproportional for smaller banks that do not have a trading book, or those whose business model leads them to be well below the Article 325 thresholds.

We would therefore suggest that the EBA allows firms to have the possibility of demonstrating compliance with the thresholds via other processes, such as being able to demonstrate compliance with the requirements on supervisory requests or via SREP processes.

Considerations on Reporting Timeline

We would also like to re-confirm the first reporting deadlines for this template. Page 5 of the consultation suggests a first reporting reference date of 31 March 2021. However Annex II – Instructions, paragraph 1.1 (9a)³ states that the first reference date is 28 June 2021. The industry recommends the latter starting point as this is in line with the general implementation of CRR2.

The Industry notes that the European Commission through the publication of the delegated act (Article 2)⁴ requires SA reporting to start 6 months after entry into force. We understand that this is furthermore contingent on the publication of the ITS by the EBA expected by June 2020.

We ask the EBA to coordinate with the European Commission to align the publications of this ITS and the Delegated Act in order that banks are not subject to supervisory reporting requirements under the revised minimum capital requirements for market risk prior to the reference dates mentioned above, i.e. ideally June 2021 but definitely not earlier than March 2021.

We would note that we read para 11 that there not being a requirement to backfill the historic information. Should this reading not be the EBA's intention, it would be helpful for the EBA to clarify.

Considerations on gradual increase in Reporting requirements

It would be helpful if the EBA could clarify what it means by a gradual increase in reporting requirements. The industry is worried that this could imply additional templates prior to CRR3 implementation. We note that the industry will need to put significant resources into updating the new CoRep templates that will be required for CRR2 across all reporting categories. Changing requirements while this project is on-going will increase the project risk for the whole of CoRep reporting, which does not seem to be justified. More generally we suggest that additional reporting requirements for market risk not already included as part of this consultation should be phased to coincide with the implementation of CRR3, when the revised minimum capital requirements for market risk will become a binding capital requirement.

Drafting errors

Typo in Annex II for Column 0200 "Point b of Article 92(4), Article 92(4)"

Typo in Article 6 "This Regulation shall enter into force on the **the** twentieth day following that of its publication in the Official Journal of the European Union."

³ <https://eba.europa.eu/eba-consults-specific-supervisory-reporting-requirements-market-risk>

⁴ https://ec.europa.eu/info/law/better-regulation/initiatives/c-2019-9068_en

Response to Questions

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?

Response:

Please refer to the above content.

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

Response:

Please refer to the above content.