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Consultation Paper

Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.3.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by **15.02.2021**. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal approaches used for the calculation of own funds requirements. To assist competent authorities in this assessment, the EBA calculates and distributes benchmark values against which individual institutions' risk parameters can be compared. These benchmark values are based on data submitted by institutions as laid out in Commission Implementing Regulation (EU) 2016/2070 which specifies the benchmarking portfolios, templates and definitions to be used as part of the annual benchmarking exercises.

For the 2022 benchmarking exercise, changes to the reporting templates and instructions are necessary:

- For market risk, in order to keep the exercise updated with respect to the Regulation in place, the framework is proposed to be extended to allow the collection of new information, in particular as regards the collection of sensitivities measures. In addition, without changing the design of the portfolios, some instruments of the exercise have to be updated to keep their maturities aligned with the hedging instruments.
- For credit risk, in order to understand the level of conservatism incorporated in the risk estimates (PD and LGD) and the RWA via supervisory imposed add-ons and via the margin of conservatism [MoC]. In addition some enhancements are proposed on the existing data requirements.
- For the IFRS 9 templates, in order to collect information on additional IFRS 9 parameters and, in particular on the IFRS 9 LGD, in line with the staggered approach communicated in the IFRS 9 roadmap¹.

The EBA supervisory benchmarking serves three major objectives, the first one being the abovementioned supervisory assessment of the quality of internal approaches. It also provides as well a powerful tool to explain and monitor RWA variability over time and the resulting implications for prudential ratios. In this role it triggered, among others, the development of EBA Guidelines on PD and LGD estimation and the treatment of defaulted assets, published on the 17 November 2017. Lastly, the Benchmarking results as well provide the banks with valuable information on their risk assessment compared to other banks assessment on comparable portfolios. These three objectives are better achieved, if information on the level of conservatism incorporated in risk parameter estimates or RWA is available. In particular, it will be possible to analyse the share of variability that stems from different levels of conservatism.

¹ <https://eba.europa.eu/eba-publishes-its-roadmap-on-ifs-9-deliverables-and-launches-ifs-9-benchmarking-exercise>



Next steps

The Annexes presented in this draft ITS replace or are added to the existing set of templates in order to create a consolidated version of the updated draft ITS package.

The draft ITS will be submitted to the Commission for endorsement before being published in the *Official Journal of the European Union*. The technical standards will apply 20 days after publication in the Official Journal.

3. Background and rationale

3.1 Credit Risk

3.1.1. Changes proposed for the purpose of transparency on the level of conservatism included in risk parameter estimations

1. The objective of IRB benchmarking is to reveal unjustified variability in own estimates of risk parameters (PD, LGD, CCF) and RWA across IRB banks. Some of the observed variability will however be due to different levels of conservatism that institutions incorporate into the risk parameter estimates or RWA calculation. More in detail banks are required by Article 179 (f) of the CRR to *“add to its estimates a margin of conservatism that is related to the expected range of estimation errors. Where methods and data are considered to be less satisfactory, the expected range of errors is larger, the margin of conservatism shall be larger.”* This CP therefore is proposing to collect information in this regard.
2. The GL on PD and LGD² introduced a framework for the estimation of MoC. This is applicable to HDP IRB portfolios starting from 01.01.022 (and to LDP IRB portfolios from 01.01.2024). Therefore, it is considered, that information on MoC included in the risk parameter estimates should be collected starting from the Benchmarking exercise of 2022 (building on data as of 31.12.2021). The collection of the information on MoC will be voluntary for LDP portfolios until 31.12.2023, due to the later application date of the GL on PD and LGD.
3. The data collection will allow disentangling variability observed on the risk estimates used for RWA calculation and the variability observed on risk parameters net of margin of conservatism and net of conservatism implied by supervisory multipliers or supervisory floors. In addition, some supervisors seem to rather imply model-add-ons to capital requirements instead of add-ons to the risk parameter estimates or RWA. For this purpose, information on potentially existing RWA or capital add-ons is collected as well. It could however be considered to collect the latter information only for specific benchmarking portfolios as those add-ons are unlikely to be defined in relation to e.g. single rating grades.
4. In Annex III new columns have been added to collect information on the percentage of a risk parameter considered in RWA calculation that is
 - a. due to supervisory imposed floors or multipliers (e.g. due to measures in accordance with Articles 146 or 164)

² See <https://eba.europa.eu/regulation-and-policy/model-validation/guidelines-on-pd-lgd-estimation-and-treatment-of-defaulted-assets>

b. due to the MoC component incorporated in those estimates (including a breakdown into category-A, B and C Moc as defined in the GL on PD and LGD in paragraphs 43(a) and 43(b).

5. For C102,C103 the following columns have been added for MoC on PD:

PD without supervisory measures	PD without MoC	PD without MoC – Cat A	PD without MoC – Cat B	PD without MoC – Cat C
0061	0062	0063	0064	0065

6. For C102, C103 the following columns have been added for MoC on LGD:

LGD without supervisory measures	LGD without MoC	LGD without MoC – Cat A	LGD without MoC – Cat B
0131	0132	0133	0134
LGD without MoC – Cat C	LGD without downturn component		
0135	0136		

7. At this stage, since CCF has not been in the focus of the BM exercise, MoC information is not collected in relation to CCF.

8. In addition the following columns have been added to C102,C103 in order to collect information on RWA add-ons (0191 in C102 and 0291 in C103) or capital add-ons (0190 in C102 and 0290 in C103) which are implied due to deficiencies in the IRB approach and which are not reflected in the risk parameter estimates reported. It may not be straight forward to break these add-ons down to all sub-portfolios and as such the information may be asked only on some top-level portfolios.

Other relevant risk exposure	Other relevant RWA
0190/0290	0191/0291

9. The advantage of collecting the information on the conservatism included at the level of the benchmarking portfolios is that the implied benchmarking analysis seems to be straight forward. E.g. calculating the benchmarks (and deviations) with and without conservatism will reveal outliers due to variability in conservatism. The main complexity of the proposed addition seems to be its aggregated nature, as institutions will have to aggregate the risk parameters with and without conservatism and thus calculate the regulatory capital for considered benchmarking portfolios several times.
10. The EBA is mindful of the challenges that the new data collections may entail, in particular as the first application date for the MoC framework as laid down in the GL on PD and LGD coincides with the relevant reference date for this ITS. Nevertheless, institutions should aim to report the required information on conservatism (at least at the level of the overall MoC) as well for LDP portfolios, which will as well serve these institutions to understand the chosen and supervisory implied level of conservatism in comparison to peers.

Question 1 for consultation:

Q1.1: Do you have any concerns on the proposed collection of data on conservatism in the PD and LGD estimates? In particular as regards the breakdown into MoC A, B and C?

Q1.2: What is, in your view, the appropriate level for assessing the risk exposure or RWA additions imposed due to deficiencies in the IRB approach?

Q1.3: Do you agree to the voluntary collection of the information for LDP portfolios?

Q1.4: What are the main challenges for institutions in this regard?

3.1.2. Transparency on the level of conservatism in RWA due to conservatism in the application of risk parameters

11. Chapter 8 of the GL on PD and LGD describes another potential source of variability of risk parameter estimates due to conservatism, namely variability due to conservatism in the application of risk parameters:

12. *“While the MoC described in Chapter 4 addresses any weaknesses in data or methods in the process of model development and risk quantification, additional conservatism referred to in Chapter 8 is meant to address any weaknesses in the implementation of the models and application of the risk estimates to the currently existing exposures. These weaknesses may include, in particular, missing or outdated information necessary for the rating assignment in accordance with the model (for example missing update of the financial statement of the obligor), missing rating or update of the rating of the obligor. Institutions should be able to detect and monitor these situations to make sure that the risk is reflected correctly, including additional conservatism where necessary.”*
13. For the purpose of providing transparency on the variability of risk parameter estimates and RWA it may be beneficial to assess this aspect as well. The EBA is however in the process of exploring the materiality and feasibility of collecting data on this aspect in the Benchmarking exercise. Assuming that this aspect is a material driver of variability, the information could either be gathered in a more or less formal way (e.g. via a survey). A formal way could for example be implemented via additional portfolios for which the benchmarking data is provided net of the conservatism in application (in particular without any downgrading due to outdated ratings). However information on the general level of outstanding ratings and the time periods these ratings are already overdue could rather be collected via a survey.

Question 2 for consultation:

Q2.1: For which kind of portfolios would you expect that outdated ratings (or other missing information hindering the annual re-rating) are a material driver of variability when comparing institutions RWA on homogeneous benchmarking portfolios?

Q2.2: Assuming the aspect is a material driver of variability when comparing institutions RWA, do you have suggestions or preferences for the data collection on conservatism in application?

Q2.3: Do you see any major technical restrictions in providing these data points? If yes, which?

3.1.3. Other Changes proposed for Benchmarking (BM) IRB credit risks models

14. Completion of breakdown into FINREP sectors: For creating homogeneous portfolios, which provide for the possibility to benchmark credit risk parameters, the institutions IRB and SA portfolios are broken down along certain characteristics. However, the experience from the 2019 and 2020 benchmarking exercise shows that it might be necessary to review the split of attribute [080] "Sector of Counterparty", as some combinations have been observed that were not foreseen when setting up the split (and the according quality checks) originally. Therefore, it is proposed to create additional portfolios as follows

4 portfolios for the Exposure class “CG and CB”

GOVT_CBA_tbdx_CT_FIRB_x0_Rx0_ALL	Non-financial corporations
GOVT_CBA_tbdy_CT_AIRB_x0_Rx0_ALL	Non-financial corporations
GOVT_CBA_tbdx_CT_FIRB_x0_Rx0_ALL	Other financial corporations

GOVT_CBA_tbdoy_CT_AIRB_x0_Rx0_ALL	Other financial corporations
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2 portfolios for Exposure class “INST”

INST_NFI_tbdx_CT_FIRB_x0_Rx0_ALL	Non-financial corporations
INST_NFI_tbdy_CT_AIRB_x0_Rx0_ALL	Non-financial corporations

4 portfolios COSP (Credit-Institutions and GOVIES)

COSP_CG_tbdx_CT_FIRB_x0_Rx0_ALL	General governments
COSP_CG_tbdy_CT_AIRB_x0_Rx0_ALL	General governments
COSP_INST_tbdx_CT_FIRB_x0_Rx0_ALL	Credit institutions
COSP_INST_tbdy_CT_AIRB_x0_Rx0_ALL	Credit institutions

4 portfolios LCOR (Credit-Institutions and GOVIES)

LCOR_CG_tbdx_CT_FIRB_x0_Rx0_ALL	General governments
LCOR_CG_tbdy_CT_AIRB_x0_Rx0_ALL	General governments
COSP_INST_tbdx_CT_FIRB_x0_Rx0_ALL	Credit institutions
COSP_INST_tbdy_CT_AIRB_x0_Rx0_ALL	Credit institutions

<p>Question 3 for consultation: Do you agree that the added BM portfolios will serve the purpose of providing a full breakdown of COREP exposure classes into FINREP sectors?</p>
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15. Review of the instructions for reporting BM-data for BM-portfolios where either the substitution of risk weights (RW) or the substitution of risk parameters (RP) is applied to either the full or any subset of the considered benchmarking portfolio: It is proposed that

- It should be stressed that, in particular with the significant increase in the use of substitution of risk weights due to public guarantees in the COVID crisis, portfolios from C102/ C103 where risk weights substitution is applied such that the EAD after CRM [0090] and the RWA are zero or blank need to be reported in C105.02 (and thus C105.01.). This will enable transparency on the default rates which might be “blurred” in the coming years due to the public guarantees.
- The sector of counterparty of IN_0001910_CX_XIRB (The European Investment Bank) in C 101 should be set to “general governments” for the purpose of allowing risk parameter substitution and applying a below the PD floor of 3 bps.

Corporate exposures without annual turnover from EBA benchmarking:

16. For the purpose of the creating homogeneous benchmarking portfolios institutions are asked to aggregate their counterparties in terms of their size:

014 0	Size of counterparty	<p>Exposures shall be split into parts and assigned to portfolios based on the size of the counterparty which shall be determined based on the total annual turnover for the consolidated group of which the counterparty is a part:</p> <p>(a) <=EUR 50 million; (b) >EUR 50 million and <=EUR 200 million; (c) >EUR 200 million; (d) >EUR 200 million and <=EUR 500 million; (e) > EUR 500 million; (f) Not applicable.</p> <p>The total annual turnover shall be calculated in accordance with Article 4 of the Annex to Commission Recommendation 2003/361/EC³ and shall refer to the year ending one year before the reporting reference date.</p>
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17. In the BM 2019 and 2020 it has been observed that this information on turnover seems to be unavailable for a material share of counterparties. Therefore it seems some banks excluded exposures from the benchmark reporting as no annual turnover is available. The missing corporates result into a gap in the COREP breakdown making some of the analysis impossible. Therefore EBA aims to explore the reasons for the missing information on annual turnover with the objective to understand whether additional portfolios need to be created.

Question 4 for consultation: Which obstacles hinder the reporting of homogeneous portfolios in terms of annual turnover as specified in Annex I? Does this lead to exclusion of a material share of the IRB portfolio?

³ Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36).

3.2 IFRS 9 templates

18. In line with the EBA previous communications related to the monitoring of the effective implementation of IFRS 9 in the Union, particularly with reference to the published roadmap in July 2019 on IFRS 9 deliverables⁴, a new set of templates related to IFRS 9 risk parameters was integrated in the ITS on supervisory benchmarking for the exercise 2021.⁵ Based on the staggered approach developed in the IFRS 9 roadmap, these templates were focused on the collection of the PD parameters (including metrics related to the significant increase in credit risk) affecting the estimation of the ECL for low default portfolios (LDPs).⁶

19. As mentioned in the previous consultation paper, the main objective of the current set of templates is to collect quantitative data on the IFRS 9 ECL parameters and other relevant information that, combined with a qualitative questionnaire to be filled by the institutions separately, would allow to have a good understanding of the different methodologies, models, inputs and scenarios that could lead to material inconsistencies in ECL outcomes, affecting own funds and regulatory ratios.

20. During the second half of 2020, a second *ad hoc* data collection for common counterparties for IRB banks was conducted, in order to test selected additional IFRS 9 parameters. It is now proposed in this consultation paper to introduce these new data points in the ITS for the 2022 supervisory benchmarking exercise. The new data points are mainly related to the LGD risk parameter, with other minor adjustments introduced in relation to forecast of future economic conditions.

21. In details, on the LGD side, the data collection is extended in a way that ensures comparability across institutions. As a matter of fact, while the PDs for the same obligors are directly comparable as related to the same default risk, it is not the same for the LGD, since the characteristics of the facility (e.g. existence of a collateral or a guarantee) could lead to different values for the same obligor. Therefore, the data collection is based on the same logic introduced in the template C101.00 on the IRB side, i.e. on “hypothetical LGD”. Contrary to PD values which are only based on parameters actually assigned by the institutions (and hence only for obligors for which the institution has an exposure towards them), the hypothetical LGD may differ from the parameter actually used for the purpose of the ECL calculation, since it is based on hypothetical assumptions.

22. In practice, the hypothetical LGD values are the LGD values that would be applied “as if” the exposure toward the counterparty was senior and unsecured, with no negative pledge clause in place. This concept is used for:

- a. LGD IFRS 9 unsecured 12M (Hypothetical);

⁴ <https://eba.europa.eu/sites/default/documents/files/documents/10180/2551996/ccbf23ae-4b1a-4af7-bb5e-44d51ae58dfb/Roadmap%20for%20IFRS%209%20deliverables.pdf?retry=1>

⁵ <https://eba.europa.eu/its-package-2021-benchmarking-exercise>

⁶ https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Consultations/2019/EBA/CP/2019/15/CP%20on%20amended%20ITS%20on%20benchmarking%20of%20internal%20models%20-%20almost%20FINAL.pdf

- b. LGD IRB without conservative adjustments Unsecured (Hypothetical), defined as the hypothetical own estimates of loss given default that would be applied by the institution to the counterparty, without any Margin of Conservatism (MoC), regulatory floors, downturn adjustment, supervisory add-ons and any other conservative measures or adjustments, except those that are retained for the purpose of IFRS 9 12-month LGD estimation;
- c. LGD per time horizon (0-12M ; 12-24M; 24-36M; 36-48M; 48-60M; 60-72M; 72-84M; 84-96M; 96-108M; 108-120M).

23. In addition to the hypothetical LGD under IFRS 9, two other set of data points are added:

- d. Gross carrying amount: according to IFRS 9, the gross carrying amount of a financial instrument corresponds to its amortised cost, before adjusting for any loss allowance. In the context of these ITS, for each counterparty, the sum of the gross carrying amount over all on-balance sheet exposures, which are in the scope of application of impairment requirements under IFRS 9 shall be reported.
- e. Scenario weights per time horizon (0-12M; 12-24M; 24-36M; 36-48M; 48-60M; 60-72M; 72-84M; 84-96M; 96-108M; 108-120M).

Questions 5-7 for consultation

Q5: Would you be able to report the hypothetical LGDs as described above?

Q6: Would you be able to report the hypothetical LGD IRB without conservative adjustments unsecured as described above?

Q7: Do you see the need to collect weights of economic scenario per time horizon?

3.3 Market risk templates

24. In the 2022 CP BM ITS EBA is proposing to extend the data collection to Sensitivities Based Method, extending the existing Reporting framework to the instruments and portfolio in the benchmarking exercise. This step is considered a natural step of the BM exercise toward the full implementation of the FRTB. Moreover, a series of minor updates to the list of instruments have been proposed to keep the list of instruments updated, without changing the overall structure of the portfolios, with respect to the previous exercises.

3.3.1 SBM data collection

25. The proposed changes in the CP 2022 introduce additional templates (106.01 and 120.1-3) requesting information relating to the sensitivities-based method (SBM) of the alternative standardised approach (ASA).

26. While the currently applicable market risk framework and the related existing reporting requirements will remain unchanged in the near future, Regulation (EU) 2019/876 amending Regulation (EU) No 575/2013 introduced the first elements of the Fundamental Review of the Trading Book (FRTB), initiated by the Basel Committee on Banking Supervision (BCBS), into the prudential framework of the EU. Despite not yet being binding in terms of own funds requirements, the framework is implemented by means of a reporting requirement, constituting the first step towards the full implementation of the FRTB framework in the EU.

27. The first applicable reference date for the reporting in accordance with Article 430b CRR is envisaged to be the 30 September 2021, which has been officially announced by the European Commission⁷.

28. The EBA has submitted draft implementing technical standards (ITS) specifying reporting requirements on the new market risk framework to the Commission for endorsement before being published in the Official Journal of the European Union⁸. The technical standards will apply from 1 September 2021. In this ITS, the EBA took a gradual approach mindful of the importance of expanding the reporting requirements resulting from the FRTB in a proportionate manner, as institutions will also continue to be subject to the current market risk framework and the associated reporting requirements.

29. Following this gradual approach, this BM ITS proposal includes an extension of the market risk templates of the supervisory benchmarking ITS in light of the changes in the market risk framework, more specifically the alternative standardised approach (ASA) that is risk-sensitive and is designed and calibrated to serve as a credible fall-back to the internal model approach.

⁷ https://ec.europa.eu/info/law/banking-prudential-requirements-regulation-eu-no-575-2013/amending-and-supplementary-acts/implementing-and-delegated-acts_en

⁸ <https://eba.europa.eu/regulation-and-policy/supervisory-reporting/draft-its-specific-reporting-requirements-market-risk>

30. The proposed changes introduce additional templates requesting information relating to the sensitivities-based method of the alternative standardised approach. The further two elements default risk charge (DRC) and the residual risk add-on (RRAO), that together with the SBM compose the ASA, are planned to be included in the benchmarking exercise in a future revision of the ITS following the gradual approach already adopted for the implementation of the reporting requirements for the new market risk framework.
31. The proposed templates for the collection of sensitivity data for the SBM (C 106.01 and C 120.01) are closely aligned with the regulatory definition of the relevant risk factors of the ASA and shall only request information that is required as part of the ASA calculation in a clear and concise manner. The information requested in these templates shall aid competent authorities in investigating the sources of potential variability in the reported ASA Own Funds Requirements (OFR) as the fall-back to the internal model approach (e.g. by reconciling the reported risk factors, the bucketing and the amounts of the calculated sensitivities).
32. The proposed templates for the collection of OFR data for the SBM (C 120.02 and C 120.03) follow the draft implementing standards on specific reporting requirements for market risk under Article 433b of Regulation (EU) No 575/2013 (CRR) (EBA/ITS/2020/01).
33. It is proposed to collect data relating to the SBM at two points in time. The first point in time relates to the IMV reference date and includes the reporting of sensitivity information relating to the risk factors specified in the SBM at the level of instrument. The collection referring to the IMV reference date shall enable competent authorities to perform an early data quality analysis of the sensitivity data and support performing the assessment of institutions' IMV submissions. The second point in time refers to the RM final reference date, the last day of the two weeks risk measurement period generally applied in the exercise. At this second point in time, the collection of both sensitivity (at the level of instrument-portfolio combinations) and OFR data (at portfolio level) is proposed.
34. In the current market risk benchmarking framework, institutions are asked to provide IMV values for instruments and risk measures for portfolios in a specified base currency in the ITS. For the collection of data relating to the ASA, sensitivity information and resulting own funds requirements shall be reported in both the specified base currency (EBA base currency) and the institution's own reporting currency.

Explanatory box for consultation purposes and questions 8-11 for consultation

The format of the proposed data collection for the ASA and more specifically the SBM is, as far as possible, aligned with the existing framework of the current market risk benchmarking exercise.

Q8: Do you see any issues or lack of clarity in the definition of the data points of template C 106.01 and C 120.01? Do you see any issues in the format of the templates C 106.01 and C 120.01 to report all relevant risk factors and sensitivities for the SBM in an appropriate way?

The proposed templates for the collection of OFR data for the SBM (C 120.02 and C 120.03) follow the draft implementing standards on specific reporting requirements for market risk under Article 433b of Regulation (EU) No 575/2013 (CRR) (EBA/ITS/2020/01).

Q9: Do you agree with the proposed format for the collection of OFR data for the SBM in templates C 120.02 and C 120.03?

Q10: Do you agree with the two proposed points in time for the collection of sensitivity data in relation to the ASA? Do you agree with the proposed point in time for the collection of OFR data? How significant do you deem the additional reporting burden if the collection was extended to additional days in the risk measurement period?

Q11: Do you agree with the proposed collection of ASA sensitivity data and own funds requirements data in both the instrument / portfolio base currency specified in the ITS and the institution's own reporting currency?

3.3.2 The Instrument updates, Portfolio structure and Instructions (Annex 5 and Annex 6)

35. Overall design of instruments and portfolios structure of the ITS has not been substantially amended.
36. A number of instruments, after three exercises (2019-2021), are outdated. Therefore, the ITS 2022 replaces a number of instruments by comparable instruments with longer maturities (instruments 24 – 35, 58, 59, 68, 70 – 73).
37. Instruments and portfolios range was marginally expanded, in a way to add several longer-dated sovereign bonds and CDS instruments (instruments 74 – 79, portfolios 57 – 59).
38. The portfolio structure was simplified by setting the number of instruments (quantity) in any given portfolio to one and amending the instrument definitions to include the quantity. Instruments 1, 3-17, (section 2) were amended to include the quantity formerly stated in section 3 of Annex 5. Moreover, the contract sizes and notional values were harmonised to reduce operational booking errors (instruments 24-26, 28-35).
39. Moreover, in the section "C 108.00 - Profit & Loss Time Series" of Annex VI, in the second table, in the first row of the fourth column (Instructions), the date '31 January 2020' is replaced by the date '28 January 2022'. This instruction was not correctly updated in previous ITS updated (2021 ITS update) and the 2020 reference remained, despite the EBA intention to also update the reference to 2021 in the ITS 2021 update. Therefore the date '29 January 2021' is the date that banks should apply to provide P&L series going backward, for the 2021 exercise, such that the reference is linked to the year of the exercise.

Questions 12-14 for consultation

Q12: Do you see any issues or lack of clarity in the definition in the changes and updates introduced in the list of instruments and portfolio of Annex 5?

The EBA contemplates a portfolio overhaul for future BM update, which would aim to better align the range of instruments and risk considered in the benchmarking portfolio with banks' actual trading book portfolios and aim to better capture specific features of ASA.

Q13: Which types of instruments, specific risks, etc. play a particularly important role in your portfolio but are misrepresented / underrepresented in the EBA portfolio?

Q14: Which instruments, risk factors and portfolio constellations are considered particularly relevant for benchmarking the ASA and should be included in the benchmarking portfolio (distinguishing by SBM, DRC and RRAO)?

3.3.3 Use of standard for the processing of trade instruments

40. The EBA is aware of the existence of standard protocols for the processing of trade information's such as FpML⁹, but also as ISO20022¹⁰, which is already used in MiFIR, and it is adopted also by ESMA, in its technical standards on access to data and aggregation and comparison of data across TR under Article 81 of EMIR¹¹.

41. In practical terms, the use of a standard language, indistinctively of the actual format chosen, can be applied to the instruments defined in Annex 5 of the Benchmarking ITS to better defining in a very granular manner, so that to reduce the ambiguity around the instruments' specification. The reduced ambiguity around the instrument booking definition would directly reduce the variance in the output (IMV and Risk Measures) provided, which would mostly depend on the actual model differences, and not any longer on different instruments interpretation.

42. Overall, the adoption of any of such protocol is far than straightforward within the range of EBA tools. For instance, introducing such languages protocol directly into the text of the BM IT, would probably engulf the legal process of ITS adoption into the Official Journal. The relative rigidity of the legal process would also likely prevent to have timely amendment and update of the framework when the composition of the portfolio would change. Moreover, the simple publication of specific data in the EBA website, concerning the BM exercise, e.g. strike price of the option in the exercise, can be seen as a breach in the confidentiality of proprietary data.

⁹ www.fpml.org

¹⁰ www.iso20022.org

¹¹ https://www.esma.europa.eu/sites/default/files/library/2016-422_final_report_rts_on_tr_data_under_art.81_emir.pdf

43. Nonetheless, even if well aware of these issues, in order to enhance the clarity in the instrument's specifications, the EBA is exploring the use of industry standards to harmonise instrument definitions for future benchmarking exercises.

Questions 15-18 for consultation

Q15: Do you currently make use of any industry standards to exchange instrument specifications in a standardised way? If yes, which standard or standards are most relevant?

Q16: Would you deem additional instrument specifications using industry standards beyond the current ITS instructions useful? If yes, how would you use them in the benchmarking exercise?

Q17: In your view, which would be the ideal process to integrate such instrument specifications in the benchmarking exercise (e.g. submission of instrument specification to CA for validation, publication of instrument specifications)?

Q18: Concerning instrument parameters depending on the level of risk factors on the booking date (e.g. strike prices), how helpful would you find additional information on these and which process would you envisage?

4. Draft implementing technical standards amending Commission Implementing Regulation (EU) 2016/2070 on benchmarking of internal models

COMMISSION IMPLEMENTING REGULATION (EU) No .../...
of [date]

**amending Implementing Regulation (EU) 2016/2070 as regards benchmark portfolios,
reporting templates and reporting instructions to be applied in the Union for the
reporting referred to in Article 78(2) of Directive 2013/36/EU of the European
Parliament and of the Council**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC¹⁵, and in particular the third subparagraph of Article 78(8) thereof,

Whereas:

- (a) Commission Implementing Regulation (EU) 2016/2070¹⁶ specifies the information that institutions have to report to the European Banking Authority ('EBA') and to competent authorities in order to enable to monitor the range of risk weighted exposure amounts or own funds requirements for the exposures or transactions in the benchmark portfolio resulting from the internal approaches of those institutions and to assess those approaches as required by Article 78(3) of Directive 2013/36/EU.
- (b) Considering that, pursuant to Article 78(1) of Directive 2013/36/EU, the benchmarking exercise is of at least annual duration and that the focus of the competent authorities' assessments and of EBA's reports may change over time, exposures or positions that are included in the benchmarking portfolios, and therefore also reporting requirements, need to be regularly adapted accordingly. Therefore, it is appropriate to amend Annexes I to VII to Implementing Regulation (EU) 2016/2070.
- (c) Further, a new international accounting standard, International Financial Reporting Standard 9 (IFRS9), was adopted through Commission Regulation (EU) 2016/2067¹². The last ITS amendment reflected such impact also on the reporting requirements under Implementing Regulation (EU) No 2016/2070 by adding two new Annexes to that Regulation, one with the templates for reporting and the other with the instructions for completing the templates. The annexes aimed at producing benchmarks for the probability of default for common counterparties. It is now necessary to complement these templates by adding the benchmarking of the loss given default (LGD) parameters. These amendments of the

¹²Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (OJ L 323, 29.11.2016, p. 1).

templates followed the timeline presented in the published roadmap in July 2019 on IFRS 9 deliverables by the EBA.

- (d) This Regulation is based on the draft implementing technical standards submitted to the Commission by the EBA.
- (e) EBA has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council¹³.
- (f) Implementing Regulation (EU) 2016/2070 should be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Implementing Regulation (EU) 2016/2070 is amended as follows:

- (1) Annex I is replaced by the text in Annex I to this Regulation;
- (2) Annex II is replaced by the text in Annex II to this Regulation;
- (3) Annex IV is replaced by the text in Annex IV to this Regulation;
- (4) Annex V is replaced by the text in Annex V to this Regulation;
- (5) Annex VI is replaced by the text in Annex VI to this Regulation;
- (6) Annex VIII is replaced by the text in Annex VIII to this Regulation;
- (7) Annex IX is replaced by the text in Annex IX to this Regulation.

Article 2

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

This Regulation shall be binding in its entirety and directly applicable in all Member States.

¹³ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).



Done at Brussels,

For the Commission

The President

On behalf of the President

[Position]

ANNEX

- Annex I (Credit Risk Benchmarking)
- Annex II (Credit Risk Benchmarking)
- Annex III (Credit Risk Benchmarking)
- Annex IV (Credit Risk Benchmarking)
- Annex V (Market Risk Benchmarking)
- Annex VI (Market Risk Benchmarking)
- Annex VII (Market Risk Benchmarking)
- Annex VIII (IFRS 9 Benchmarking)
- Annex IX (IFRS 9 Benchmarking)

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment for changes related to credit and market risk SVB

A. Problem identification

Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal model approaches, used for the calculation of own funds requirements, and requires the EBA to produce a report to assist them in this assessment. The report of the EBA relies on data submitted by institutions in accordance with EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions to be used by the institutions as part of the annual benchmarking exercise, when using internal model approaches for market and credit risk.

The current draft ITS aim to update the previous ITS for the benchmarking data collection with the purpose of improving the exercises and adapting to the relevant policy changes which will be applicable by end 2021 and thus relevant for the 2022 exercise.

With regard to the EBAs market risk benchmarking data collection, the purpose is to create a consistent framework that considers the draft ITS specifying reporting requirements on the new market risk framework, which the EBA has submitted to the Commission for endorsement before being published in the Official Journal of the European Union. The technical standards will apply from 1 September 2021.

With regard to credit risk benchmarking data collection, the objective of the proposed update is to provide a possibility to supervisors, regulators and banks to understand the impact of different levels of conservatism contained in the risk parameters and RWAs assessed in the benchmarking exercise. Furthermore some minor amendments are made e.g. in the portfolio definitions to ensure that the top level portfolios can be broken down appropriately in terms of sector of counterparty. However, for the purpose of this impact assessment only the proposed new data collection on conservatism is assessed as the other proposed changes are considered to be minor having non-material impact.

As per Article 15(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any ITS developed by the EBA shall be accompanied by an Impact Assessment (IA) annex which analyses 'the potential related costs and benefits' before submitting to the European Commission. Such annex shall provide the reader with an overview of the findings

as regards the problem identification, the options identified to remove the problem and their potential impacts.

For the purposes of the IA section of the Consultation Paper, the EBA prepared the IA with cost-benefit analysis of the policy options included in the regulatory technical standards described in this Consultation Paper. Given the nature of the study, the IA is mainly high-level and qualitative in nature including quantitative analysis when possible.

A. Problem identification

With regards to the market risk benchmarking data collection, the previous ITS for benchmarking data collection does not consider the latest regulations (ITS specifying reporting requirements on the new market risk framework). The current framework of the benchmarking exercises has remained substantially stable, in terms of information collected, since the beginning of the data collection, back in 2016. For market risk, the FRTB, now implemented in the CRR 2, and on its way to be complemented by the EBA RTS, is on track for its implementation. The first step toward the FRTB implementation is going to be on the Standardised Approach, in terms of reporting (expected to apply from September 2021)¹⁴.

With regards to the credit risk benchmarking data collection, the previous ITS for benchmarking data collection did not provide a possibility to supervisors, regulators and banks to understand the impact of different levels of conservatism contained and there were some drawbacks with regards to portfolio definitions. For credit risk, as for market risk, the information collected in relation to a BM-portfolio remained substantially stable in the recent years (although the number and structure of the BM-portfolios has been revised and reduced significantly). However, in 2019 the EBA finalised its regulatory review of the IRB approach, which aimed at harmonising terminology and concepts in the context of the IRB approach for the purpose of reducing and explaining the variability observed in risk parameter estimates and RWA across banks. This new definitions were not translated yet into the ITS for benchmarking data collection.

B. Policy objectives

The general objective of the current ITS is to update the previous ITS for benchmarking data collection.

The main objective of the implementation of the current draft Benchmarking ITS is the harmonisation of the current reporting framework rules amongst EU institutions. This would foster the strategic objective is to create a supervisory and reporting environment to ensure that

¹⁴ <https://eba.europa.eu/regulation-and-policy/supervisory-reporting/draft-its-specific-reporting-requirements-market-risk>

institutions apply consistent modelling and valuation techniques. The following sections examine the options that could create such an environment, as well as the net impact that the implementation of such solutions implies.

The specific objective for credit risk is to transpose the new terminology and concepts in the regulatory review of the IRB approach into the ITS on benchmarking data collection and the related exercise. In a first step, it is proposed to collect for the exercise 2022 information on the margin of conservatism (MoC) which is contained in the risk parameters PD and LGD used for RWA calculation and reported accordingly. The GL on PD and LGD¹⁵, which are applicable for HDP portfolios starting from the 01.01.2022 (and for LDP portfolios starting from 01.01.2024), harmonise the concept of MoC and include in particular a requirement on the ability to report MoCs.

The specific objective for market risk is to extend the data collection to the sensitivities based Method of the FRTB-SA, together with proposing amendments to the list of instruments in order to keep them updated, without changing the overall structure of the portfolios.

C. Baseline scenario

For the market risk part of the exercise, for most EU institutions, the current status of reporting the results of modelling and valuations implies the usual potential operational costs and miscalculations, which lead to over- or under- valuation of the reported values for the purposes of the benchmarking exercises. Since the extent and magnitude of over- or under-valuations cannot be identified, the impact assessment focuses on the assessment of the net impact on the institutions' operations.

For the credit risk part it is the level of conservatism included in over- or underestimations that cannot be assessed under the current exercise. The impact assessment for the inclusion of the data collection on conservatism focuses on the impact on the institutions implementation of such data request.

D. Options considered

When developing the current ITS, the EBA considered the following options:

Option 1: “do-nothing”

This option implies that credit institutions continue reporting data for the benchmarking

¹⁵ <https://eba.europa.eu/regulation-and-policy/model-validation/guidelines-on-pd-lgd-estimation-and-treatment-of-defaulted-assets>

exercise;

- Using the current guidance, templates and hypothetical portfolios as defined for the exercises up to date.
- Using the current guidance, templates and portfolios for the credit risk exercise.

For the market risk part of the exercise, the continuation of the current practice assumes that credit institutions and the EBA have the current operational cost assigned to providing clarifications and ensuring the consistent submission of data. Credit institutions would spend the usual amount of time in seeking clarifications on the exercise, while, on the other hand, the EBA would continue to work bilaterally with each of the competent authorities to clarify the preferred means of modelling and valuation of the reported values.

Equally for the current credit risk exercise there are operational costs for providing clarification for EBA and on submitting the data for the institutions. Institutions would spend the usual amount of time in seeking clarifications on the exercise and submitting the data, while, on the other hand, the EBA would continue to provide clarifications via Q&As and bilaterally with each of the competent authorities. EBA and competent authorities will continue to explore the “outliers” via interviews with the relevant institutions.

The ‘do nothing’ option would imply a high risk of inconsistent application relating to benchmarking exercises and/or incorrect implementation of modelling, which diverges from the EBA’s intended implementation.

Leaving the Implementing Regulation on benchmarking unchanged would also result in some instruments specified in Annex V becoming outdated, as the maturities do no longer align with the hedging instruments.

Further, by not amending the reporting templates, as specified in Annex VII, the scope of collected information in market risk would not reflect developments in the prudential framework, where the CRR2 introduced the first element of the FRTB through a reporting requirement on the Alternative Standardised Approach for market risk, applicable as of September 2021.

Equally for credit risk, by not amending the templates, as specified in Annex III and IV, the data collected on PD, LGD and RWA would not reflect the concepts and would not be consistent with the terminology (as regards conservatims) which was harmonised via EBA’s regulatory review of the IRB approach¹⁶.

Option 2: revision of the guidance related to the benchmarking exercises

The main arguments that support the revision of the guidance on the benchmarking exercises are

¹⁶ <https://eba.europa.eu/eba-publishes-report-on-progress-made-on-its-roadmap-to-repair-irb-models>

- (i) to enhance the harmonisation of the benchmarking exercises across all EU credit institutions,
- (ii) to reduce the operational cost assigned to the excessive communication amongst credit institutions, NCAs and the EBA,
- (iii) to reduce the operational cost assigned to the data quality check of the exercise,
- (iv) to harmonise concepts and terminology between the guidance provided in the regulation and the BM-data collection.

For the market part of the exercise, the current ITS could achieve the first objective by expanding information collected, in terms of sensitivities of the instruments in the exercise, together with updating the maturity of certain instruments. Sensitivities can provide the additional information needed in order to understand the differences in the data submitted by firms, and improve the Competent Authority feedback provided to them.

The **Sensitivities**-Based Method (SBM) information can then be directly related to Own Funds Requirements (OFR), in order to better understand the relative IMA variability.

This would also have an immediate positive impact on the third objective. Also, in terms of future full implementation of the FRTB, the gradual introduction of SBM elements in the framework can surely reduce the future data quality issues.

For the credit risk part the collection of information on the level of conservatism incorporated in the reported PD and LGD parameters and RWA links to the first objective e.g. by relying on the concept of MoC which was harmonised via the GL on PD and LGD. Adding information on conservatism to the data collection can provide the information needed to reveal variability due to different levels of conservatism (including conservatism imposed via supervisory measures). This links as well to the second goal as some deviations from the benchmarks may be explained by different levels of conservatism. Lastly it will be beneficial to align concepts and terminology between reporting and policy regulation, in particular with respect to the need for clarifications.

E. Cost-Benefit Analysis

The principle of proportionality applies to all aspects of the impact assessment, including methodology, depth of analysis, level of detail and necessity of quantitative analysis. Being consistent with this principle, the EBA Staff follows the principle of proportionality when conducting of the cost-benefit analyses. Given that the implementation of the current ITS would not have a detrimental impact, the following analysis focuses on the qualitative characteristics. In doing so, it provides rough estimations on the net monetary impact that relates to the conduct of benchmarking exercises.

The net impact on capital requirements, implied by the implementation of the current guidelines, cannot be precisely assessed because, substantially, it would depend on further actions agreed by institutions with NCAs in response of the benchmarking exercise results; however, it is expected to be on average close to zero due to the hypothetical market portfolio

exercise framework. It may be slightly positive for the credit risk part of the exercise, in case the exercise reveals some deficiencies in the models that need to be corrected by the institutions.

Market risk:

Option 1

Costs: a possible slight increase of the additional operational cost attributed to the bilateral oral or written communication of best practices. This on-going cost is expected to increase over time as a consequence of the increase in the complexity or requirements of the benchmarking exercises.

Benefits: one-off benefits (reduction of the existing operational costs) of not dedicating human resources to the drafting the present ITS.

Option 2

Costs: the one-off cost of dedicating EBA staff to the drafting of the ITS. There is also a source of negligible cost that relates to the need the EBA to explain the new framework to the national competent authorities and, through them, the participating credit institutions. However, it is to be noted that the data requested through the SBM templates should not be excessively burdensome, because the existing information is already collected by institutions, given the reporting requirement applicable as of September 2021.

Benefits: the benefits of this option arise from the harmonisation and transparency of the benchmarking exercises and the consistent modelling and valuation of the reported data. In addition it would allow for a better and targeted communication with the credit institution as it offers more insights in the submitted data.

Credit risk:

Option 1

Costs: the level of conservatism incorporated in the reported PD, LGD and RWA would remain unknown, implying minor on-going costs for the data quality check and communication for both institutions and CA, were significant unexplained deviation from the benchmark is observed and due to conservatism. However the probably more significant costs in this context are related to the quantification and validation of the MoC on the institutions side and the quantification and impact of supervisory measures on the supervisors side. A very high one off cost for institutions that would start the benchmarking exercise for the first time or do not have yet a fully automatized process. A significant running cost is also incurred for the training of all stakeholders participating in the exercise.

Benefits: no change would mean no additional IT cost for institutions already participating in the benchmarking exercise.

Option 2

Costs: There are one-off cost for dedicating EBA staff to the drafting of the ITS and specifying the relevant data fields for assessing the conservatism incorporated in PD, LGD and RWA and for updating the IT structure accordingly. For institutions which have already a fully automatic process there are as well one-off costs for specifying and building the IT structure for inclusion of these fields. These costs are assumed to be low as the GL on PD and LGD (which are applicable from 01.01.20200) require the ability to report MoC, including its subcategories. However the exact cost of this options is difficult to assess, and therefore this consultation paper asks feedback on this matter.

Benefits: the benefits of this option arise from the ability to disentangle the variability in risk parameter estimates and RWA stemming from different levels of conservatism. Moreover the additional fields proposed in this version of the ITS might allow providing supervisors and institutions with benchmarks for the level of conservatism incorporated in the reported PD, LGD and RWA and might thus significantly support and harmonise the complex task of quantification of the impact if deficiencies.

F. Preferred option

The EBA considers that although these benefits are not directly observable and are spread in time, they are not negligible and they are considered more important than the costs enumerated above. For this reason, the preferred option is Option 2.

Moreover, option 2 is consistent with the feedback and requests of the participating credit institutions, which sought clarifications on the methodology of conducting benchmarking exercises, as well as a simplification of the data collection for credit risk.

5.2 Draft cost-benefit analysis / impact assessment for changes to the benchmarking of ECL calculation under IFRS9

Following the first application of IFRS 9 in January 2018, one of the most recent challenges for regulators and supervisors is to ensure a high-quality and consistent implementation of this standard, since the outcome of the expected credit loss (ECL) calculation will directly impact the amount of own funds and regulatory ratios. This link to prudential requirements reinforces the need for scrutiny from regulators and supervisors to achieve a high-quality implementation of this new accounting standard.

Given the commonalities between IRB models for credit risk and IFRS 9 models, it was deemed appropriate to use the current benchmarking tool and therefore to build on the existing ITS on supervisory benchmarking in conducting the IFRS 9 benchmarking exercise. For this reason, as part of the ITS Package for the 2021 benchmarking exercise, additional templates on IFRS 9 parameters were introduced. In particular, these templates were focused on the collection of data on the PD parameters (including metrics related to the significant increase in credit risk) affecting the estimation of the ECL for low default portfolios (LDPs).

Based on the staggered approach developed in the IFRS 9 roadmap, changes are now suggested to Regulation 2016/2070 in order to introduce in the current set of templates additional data-points aimed at collecting information on other IFRS 9 parameters (and in particular on the LGD parameter), as well as other minor adjustments in relation to forecast of future economic conditions

As per Article 15(1) of the ESAs regulation (Regulation (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010 of the European Parliament and of the Council), any implementing technical standards developed by the ESAs shall be accompanied by an Impact Assessment (IA) annexe which analyses 'the potential related costs and benefits' of the guidelines. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

The EBA prepared the IA included in this consultation paper analysing the policy options considered when developing these ITS. Given the nature of the study, the IA is qualitative in nature.

A. Problem identification

The IFRS 9 templates currently included in the ITS on supervisory benchmarking are mainly aimed at collecting information on the PD parameter affecting the estimation of the ECL for low default portfolios (LDPs).

In line with the staggered approach developed in the IFRS 9 roadmap, these templates need to be amended in order to introduce additional data-points aimed at collecting information on other IFRS

9 parameters (and in particular on the LGD parameter). For this reason, a modification to Regulation 2016/2070 is deemed necessary.

B. Policy objectives

Having in mind the impact of accounting ECL measurement in the regulatory capital, it is of the utmost importance to develop tools that would allow the identification of the main sources of variability when assessing the quality of parameters and modelling choices performed by the institutions.

C. Baseline scenario

The baseline scenario is the existing Regulation 2016/2070 where, with specific reference to the IFRS 9 templates, the data collection is mainly focused on the PD parameter. If there are no changes applied to this regulation, any data collection related to the additional IFRS9 parameters (e.g. IFRS 9 LGD) should be done on an ad-hoc basis.

D. Options considered

The EBA considered the following policy options for the collection of data on the IFRS 9 LGD risk parameter.

Option 1: To collect data based on the actual LGD parameter used for the purpose of estimating ECL under IFRS 9, in line with the approach followed in the case of the IFRS 9 PD. In this case, for each of the common counterparties, the data collected would be based on the weighted LGD of all the exposures, which are subject to the IFRS9 impairment requirements.

Option 2: To base the data collection on LGD values developed on the basis of hypothetical assumptions (i.e. hypothetical LGD values).

E. Cost-Benefit Analysis

As a difference with the PD estimations that are directly comparable as they relate to the same default risk, in the case of the LGD risk parameter, the comparison is significantly affected by the characteristics of the different facilities (e.g. existence of a collateral or a guarantee). Therefore, leveraging on hypothetical LGD values would have the merit to contribute to ensure the comparability of the data collected. Moreover, such an approach would be also consistent with the logic applied for the purpose of the template C101.00 on the IRB side.

F. Preferred option

The preferred option is option 2 according to which the data collection would be based on hypothetical LGD values. In particular, under this options, institutions would be asked to report that LGD values that would be applied “as if” the exposure toward the counterparty was senior and unsecured, with no negative pledge clause in place.

5.3 Overview of questions for consultation

Credit Risk

Q1.1: Do you have any concerns on the proposed collection of data on conservatism in the PD and LGD estimates? In particular as regards the breakdown into Moc A, B and C?

Q1.2: What is, in your view, the appropriate level for assessing the risk exposure or RWA add-ons imposed due to deficiencies in the IRB approach?

Q1.3: Do you agree to the voluntary collection of the information for LDP portfolios?

Q1.4: What are the main challenges for institutions in this regard?

Q2.1: For which kind of portfolios would you expect that outdated ratings (or other missing information hindering the annual re-rating) are a material driver of variability when comparing institutions RWA on homogeneous benchmarking portfolios?

Q2.2: Assuming the aspect is a material driver of variability when comparing institutions RWA, do you have suggestions or preferences for the data collection on conservatism in application?

Q2.3: Do you see any major technical restrictions in providing these data points? If yes, which?

Q3: Do you agree that the added BM portfolios will serve the purpose of providing a full breakdown of COREP exposure classes into FINREP sectors?

Q4: Which obstacles hinder the reporting of homogeneous portfolios in terms of annual turnover as specified in Annex I? Does this lead to exclusion of a material share of the IRB portfolio?

IFRS 9

Q5: Would you be able to report the hypothetical LGDs as described above?

Q6: Would you be able to report the hypothetical LGD IRB without conservative adjustments unsecured as described above?

Q7: Do you see the need to collect weights of economic scenario per time horizon?

Market Risk

Q8: Do you see any issues or lack of clarity in the definition of the data points of template C 106.01 and C 120.01? Do you see any issues in the format of the templates C 106.01 and C 120.01 to report all relevant risk factors and sensitivities for the SBM in an appropriate way?

The proposed templates for the collection of OFR data for the SBM (C 120.02 and C 120.03) follow the draft implementing standards on specific reporting requirements for market risk under Article 433b of Regulation (EU) No 575/2013 (CRR) (EBA/ITS/2020/01).

Q9: Do you agree with the proposed format for the collection of OFR data for the SBM in templates C 120.02 and C 120.03?

Q10: Do you agree with the two proposed points in time for the collection of sensitivity data in relation to the ASA? Do you agree with the proposed point in time for the collection of OFR data? How significant do you deem the additional reporting burden if the collection was extended to additional days in the risk measurement period?

Q11: Do you agree with the proposed collection of ASA sensitivity data and own funds requirements data in both the instrument / portfolio base currency specified in the ITS and the institution's own reporting currency?

Q12: Do you see any issues or lack of clarity in the definition in the changes and updates introduced in the list of instruments and portfolio of Annex 5?

The EBA contemplates a portfolio overhaul for future BM update, which would aim to better align the range of instruments and risk considered in the benchmarking portfolio with banks' actual trading book portfolios and aim to better capture specific features of ASA.

Q13: Which types of instruments, specific risks, etc. play a particularly important role in your portfolio but are misrepresented / underrepresented in the EBA portfolio?

Q14: Which instruments, risk factors and portfolio constellations are considered particularly relevant for benchmarking the ASA and should be included in the benchmarking portfolio (distinguishing by SBM, DRC and RRAO)?

Q15: Do you currently make use of any industry standards to exchange instrument specifications in a standardised way? If yes, which standard or standards are most relevant?

Q16: Would you deem additional instrument specifications using industry standards beyond the current ITS instructions useful? If yes, how would you use them in the benchmarking exercise?

Q17: In your view, which would be the ideal process to integrate such instrument specifications in the benchmarking exercise (e.g. submission of instrument specification to CA for validation, publication of instrument specifications)?

Q18: Concerning instrument parameters depending on the level of risk factors on the booking date (e.g. strike prices), how helpful would you find additional information on these and which process would you envisage?