

EBA/CP/2023/41

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14 December 2023

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## Consultation Paper

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Draft Regulatory Technical Standards amending delegated regulations on profit and loss attribution requirements, risk factor modellability assessment, and the treatment of FX and commodity risk in the banking book

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# 1. Responding to this consultation

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The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

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 **14.03.2024**. 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 (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the Legal notice section of the EBA website.

## 2. Executive Summary

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The amendments to CRR made as part of the CRR3 legislative process introduced a number of changes to the fundamental review of the trading book framework (FRTB) as implemented in the EU via the CRR2. As a result, the EBA has been mandated in CRR3 to recast regulatory technical standards that it has developed in the past years on FRTB, where the underlying CRR legal basis has been amended.

Namely, the EBA has been mandated to re-develop standards in relation to:

- (i) The profit and loss attribution requirements in accordance with Article 325bg CRR3;
- (ii) The modellability assessment of risk factors to be classified as modellable or as non-modellable in accordance with Article 325be CRR3;
- (iii) The treatment of foreign-exchange and commodity risk in the banking book in accordance with Article 325 CRR3.

The existing delegated regulations covering for the three abovementioned aspects have been the result of a consultation process where, among others, several market participants were involved. Furthermore, several EU credit institutions have already implemented the provisions included in the existing delegated regulations to obtain the approval from the competent authority to use the internal model approach for computing the own funds requirements for market risk in relation to some trading desks. For these reasons, the recast of the RTS is limited to what is strictly needed for the provisions included therein to fit with the new CRR text (i.e. the text as resulting from the CRR3 legislative process).

In relation to the RTS on profit and loss attribution requirements<sup>1</sup>, the CP proposes amendments that just aim at reflecting the new wording included in Article 325bg CRR, as well as at removing the formulae for aggregating the own funds requirements for market risk from the delegated regulation as it now been included directly in Article 325ba CRR.

In relation to the RTS on modellability assessment<sup>2</sup>, the CP proposes amendments including documentation requirements supporting the competent authority in assessing which are the risk factors for which data from third-party have been used. This has been introduced in line with the new provision in Article 325be stating that competent authority may allow institutions to use market data from third-party vendors to perform the modellability assessment.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022R2059>

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022R2060>

In relation to the RTS on FX and Commodity risk in the banking book<sup>3</sup>, the CP proposes amendments including requirements ensuring that institutions can identify positions that are subject to FX risk only because of the translation risk resulting from the consolidation process, and ensuring that the institutions has clear policies in place clarifying which are the positions that are managed by classical trading desks, and which are instead positions that are managed in the context of a notional trading desk.

## Next steps

The consultation period for these RTS will last three months. Following the feedback received from the consultation, the EBA will revise the draft RTS proposed for consultation where appropriate, and send them in their final form to the European Commission for adoption.

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<sup>3</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R1577>

### 3. Background and rationale

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1. In the past years, the EBA has developed several RTS implementing in EU law the fundamental review of the trading book (FRTB) framework. This followed the approach set out in the EBA roadmap on FRTB<sup>4</sup> and allowed credit institutions to prepare for the implementation of the FRTB in EU in accordance with the recently agreed CRR3 package. This package transformed the FRTB reporting requirements into own funds requirements and transposed in EU law the building blocks of the so-called Basel III reforms.
2. In this context, in March 2020, the EBA finalised the development of regulatory technical standards (RTS) on back-testing and profit and loss attribution requirements, and RTS on risk factor modellability. The two were subsequently adopted by the European Commission and published on the EU Official Journal<sup>5</sup> in June 2022. Furthermore, in December 2020, the EBA finalised the development of RTS on the treatment of non-trading book positions subject to foreign risk or commodity risk. The RTS have been published on the official journal in August 2023.
3. As part of CRR3, the EBA has received a set of mandates in the area of market risk. Among them is mandates de-facto requiring the EBA to review those three mandates in light of the changes that have been made to the CRR2 text as part of the CRR3 legislative process.
4. Considering that those RTS have been the result of a consultation process, and that they deal with key elements of the FRTB framework that several institutions have already implemented, it is important that the review of such RTS is limited to what is strictly needed for them to fit with the new CRR text (i.e. the text as resulting from the CRR3 legislative process). Not doing so, would risk undermining the significance effort that institutions already did to comply with those regulations, and would question overall the stability of the regulatory framework.
5. Accordingly, the background section highlights the changes made to the CRR text that are relevant in the context of the three RTSs, and the amendments made to make the RTS fit with the new text.

#### RTS on Back-testing and PLAT

6. The provisions dealing with the composition of actual and hypothetical changes in back-testing, as included in article 325bf CRR, have not been subject to changes as part of the CRR3 process. Accordingly, articles in the delegated regulation on back-testing and PLAT requirements detailing out the technical details to be included in actual and hypothetical changes as referred to in article 325bf(9) CRR are not to be amended.

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<sup>4</sup> <https://www.eba.europa.eu/eba-publishes-its-roadmap-for-the-new-market-and-counterparty-credit-risk-approaches-and-launches-consultation-on-technical-standards-on-the-ima-under>

<sup>5</sup> The RTS as published on the official journal can be found here: <https://www.eba.europa.eu/regulation-and-policy/market-risk/draft-technical-standards-on-the-ima-under-the-frtb>

7. Article 325bg dealing with the profit and loss attribution test (PLAT) requirements instead has been amended as follows:
- (i) It clarifies that where the hypothetical P&L (HPL) and risk-theoretical P&L (RTPL) are either close or sufficiently close, the PLAT requirements are met. When not met, a desk falls in the standardised approach, as specified in Article 325az(2)(d) CRR.
  - (ii) It specifies that where the hypothetical P&L (HPL) and risk-theoretical P&L are not close, but they are sufficiently close, an add-on applies (PLA<sub>addon</sub>).
8. Accordingly, the RTS should be revised to make clear that:
- (i) Green and yellow desk (as allocated in accordance with the rules prescribed in the delegated regulation dealing with PLAT and back-testing requirements), are considered to have HPL and RTPL to be close or sufficiently close – and hence, to pass the PLAT. Amber and red desk should be considered instead to have HPL and RTPL neither close nor sufficiently close – and hence, not to pass the PLAT.
  - (ii) Yellow desks are those characterized by sufficiently close (but not close) hypothetical P&L (HPL) and risk-theoretical P&L, and hence triggering the PLA<sub>addon</sub>
9. Furthermore, the RTS should be amended so to remove the formulae to aggregate the own funds requirements for market risk, as it now provided in Article 325ba(3) CRR.

#### RTS on FX and COM in BB

10. Article 104b CRR has been amended by introducing the following two paragraphs:

*'5. To calculate their own funds requirements for market risk, institutions shall assign each of their non-trading book positions that are subject to foreign exchange risk or commodity risk to trading desks established in accordance with paragraph 1 that manage risks that are similar to those positions.*

*6. By way of derogation from paragraph 5, institutions may, when calculating their own funds requirements for market risk, establish one or more trading desks to which they assign exclusively non-trading book positions subject to foreign exchange risk or commodity risk. Those trading desks shall not be subject to the requirements set out in paragraphs 1, 2 and 3.'*

11. The introductions make clear that institutions can decide to map foreign exchange and commodity risk positions to a so-called “notional trading desk” – this trading desk is indeed not subject to the governance requirements applicable to classical trading desks.
12. Furthermore, CRR3 also introduced, as per article 104c, the structural FX waiver also in the context of the FRTB methods. The EBA is set to deliver an RTS specifically on that provision.
13. Finally, article 325b(4) now clarifies that translation risk is to be captured as part of own funds requirements for foreign-exchange risk, given that *“institutions and undertakings [...] shall use the*

*same reporting currency as the reporting currency used to calculate the own funds requirements for market risk in accordance with this Title on a consolidated basis for the group”, where by consolidated basis, it is meant the highest level of consolidation within the EU.*

14. The delegated regulation on foreign exchange and commodity risk in the banking book does not need substantive amendments to cover for these new aspects. However, additions have been made to ensure that the bank can identify positions that are subject to FX risk only because of the translation risk resulting from the consolidation process, as well as clarify in its policy which are the positions that are managed by classical trading desks, and which are instead positions that are managed in the context of a notional trading desk.

#### RTS on modellability assessment

15. In the context of the modellability assessment, the CRR3 made more explicit the possibility for competent authorities to allow institutions to use market data provided by third-party vendors. Such possibility was already foreseen in delegated regulation on modellability assessment, and more specifically in Article 2(4).

16. Accordingly, there is no need to make substantive amendments. However, for making the delegated regulation more explicit in this regard, and considering that competent authority may decide to not allow a bank to use data from a given source (for example, because the third-party vendor is found incompliant with the RTS), it is important that, for a given source, the institution can provide the competent authority with an assessment about the number of risk factors whose modellability assessment depend on data coming from that source.

17. Furthermore, the definition of third-party vendor is now removed for the delegated regulation on modellability assessment, given that the term “third party vendors” has been now introduced in the Level 1 text (in article 325be(1) as amended by CRR3), and hence it cannot be defined in Level 2 legislation. Such clarification could however be introduced via a Q&A.



## 4. Draft regulatory technical standards

COMMISSION DELEGATED REGULATION (EU) .../...

of **XXX**

**amending the regulatory technical standards laid down in Delegated Regulation (EU) 2022/2059, Delegated Regulation (EU) 2022/2060 and Delegated Regulation 2023/1577 as regards the technical details of back-testing and profit and loss attribution requirements, the criteria for assessing the modellability of risk factors, and the treatment of foreign-exchange risk and commodity risk in the non-trading book**

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

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

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012<sup>6</sup>, and in particular Article 325(9), third subparagraph, Article 325be(3), third subparagraph, Article 325bf(9), third subparagraph, Article 325bg(4), third subparagraph, thereof,

Whereas:

- (1) Regulation (EU) XXX/YYYY [CRR3] of the European Parliament and of the Council of DD Month YYYY<sup>7</sup> amended some provisions of Regulation (EU) No 575/2013 on which existing Delegated Regulations have been built. It is therefore necessary to amend Commission Delegated Regulation (EU) 2022/2059 of 14 June 2022<sup>8</sup>, Commission Delegated Regulation (EU) 2022/2060 of 14 June 2022<sup>9</sup> and

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<sup>6</sup> OJ L 176, 27.6.2013, p. 1.

<sup>7</sup> [FULL NAME WITH REFERENCE TO THE OJ TO BE INSERTED].

<sup>8</sup> Commission Delegated Regulation (EU) 2022/2059 of 14 June 2022 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the technical details of back-testing and profit and loss attribution requirements under Articles 325bf and 325bg of Regulation (EU) No 575/2013 (OJ L 276, 26.10.2022, p. 47).

<sup>9</sup> Commission Delegated Regulation (EU) 2022/2060 of 14 June 2022 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the modellability of risk factors under the internal model approach (IMA) and specifying the frequency of that assessment under Article 325be(3) of that Regulation (OJ L 276, 26.10.2022, p. 60).

Commission Delegated Regulation 2023/1577 of 20 April 2023<sup>10</sup>, accordingly. However, to ensure stability in the regulatory framework and to ensure that institutions that are currently compliant with the existing Delegated Regulations are not disproportionately affected, the amendments to Delegated Regulation (EU) 2022/2059, Delegated Regulation (EU) 2022/2060, and Delegated Regulation (EU) 2023/1577 should not go beyond what is needed to ensure consistency with the amendments introduced by Regulation (EU) XXX/YYYY [CRR3].

- (2) To ensure compliance with the international standards, it is necessary to amend Delegated Regulation (EU) 2022/2059, to specify that green trading desks as allocated in accordance with that Regulation should be considered to have close theoretical and hypothetical changes in the portfolio's value, and yellow trading desks to have sufficiently close, but not close, theoretical and hypothetical changes in the portfolio's value. Red and orange desks should instead be considered to have theoretical and hypothetical changes in the portfolio's value that are neither close nor sufficiently close.
- (3) It is necessary to amend Delegated Regulation (EU) 2022/2059 by removing the aggregation formula, as it has now been included in Article 325ba(3) of Regulation (EU) No 575/2013.
- (4) It is necessary to adjust the documentation requirements in Delegated Regulation (EU) 2022/2060, to support competent authorities in their assessment on whether to allow institution to use market data provided by third-party vendors in the assessment of modellability of risk factors in accordance with Article 325be(1), second subparagraph, of Regulation (EU) No 575/2013.
- (5) To guarantee an appropriate calculation of the own funds requirements for market risk in relation to non-trading book positions, institutions should have clear policies outlining which are the trading desks in charge of managing those positions, and be able to identify whether the foreign exchange positions just relate to translation risk. Accordingly, it is necessary to amend Delegated Regulation (EU) 2023/1577, to ensure that those objectives are achieved.
- (6) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (7) The European Banking Authority has conducted open public consultations on the draft regulatory 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 Council<sup>11</sup>,

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<sup>10</sup> Commission Delegated Regulation (EU) 2023/1577 of 20 April 2023 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards on the calculation of the own funds requirements for market risk for non-trading book positions subject to foreign exchange risk or commodity risk and the treatment of those positions for the purposes of the regulatory back-testing requirements and the profit and loss attribution requirement under the alternative internal model approach

<sup>11</sup> 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).

HAS ADOPTED THIS REGULATION:

*Article 1*

DELEGATED REGULATION (EU) 2022/2059 is amended as follows:

(1) in Article 6, paragraph 1 is replaced by the following:

‘1. For the purposes of Article 325bg(1) of Regulation (EU) No 575/2013, institutions shall calculate, for a given trading desk’s portfolio, the Spearman correlation coefficient laid down in Article 7 of this Regulation, and the Kolmogorov-Smirnov test metric laid down in Article 8 of this Regulation and, based on the results of those calculations, apply the criteria referred to in Article 9 of this Regulation. Where, according to those criteria, the theoretical changes and the hypothetical changes in the value of a trading desk portfolio are not sufficiently close, institutions shall be subject to the consequence set out in Article 10 of this Regulation.’;

(2) Article 9 is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. For the purposes of Article 325bg(1) of Regulation (EU) No 575/2013, institutions shall classify each of the trading desks as a green, orange, yellow or red zone desk in accordance with paragraphs 2 to 5.’;

(b) the following paragraphs are added:

‘6. For the purposes of Article 325bg(1) Regulation (EU) No 575/2013, a trading desk that has been classified as a green zone desk shall be considered to have theoretical changes in the value of that trading desk's portfolio close to the hypothetical changes in the value of that trading desk's portfolio.

7. For the purposes of Article 325bg(1) Regulation (EU) No 575/2013, a trading desk that has been classified as a yellow zone desk shall be considered to have theoretical changes in the value of that trading desk's portfolio sufficiently close, but not close, to the hypothetical changes in the value of that trading desk's portfolio.

8. For the purposes of Article 325bg(1) Regulation (EU) No 575/2013, a trading desk that has been classified as either an orange desk or a red zone desk shall be considered to have theoretical changes in the value of that trading desk's portfolio neither close nor sufficiently close to the hypothetical changes in the value of that trading desk's portfolio.’;

(3) Article 10 is replaced by the following: ‘

1. The additional own fund requirement referred to in Article 325bg(2) shall be equal to:

$$PLA_{addon} = k \cdot \max \{ASA_{aima} - AIMA; 0\}$$

Where:

$PLA_{addon} = PLA_{addon}$  as defined in Article 325ba(3) of Regulation (EU) No 575/2013;

$k$  = as specified in paragraph 2;

$ASA_{aima} = ASA_{aima}$  as defined in Article 325ba(3) of Regulation (EU) No 575/2013;

$AIMA = AIMA$  as defined in Article 325ba(3) of Regulation (EU) No 575/2013.

2. For the purposes of paragraph 1, the coefficient  $k$  shall be calculated in accordance with the following formula:

$$k = 0.5 \cdot \frac{\sum_{i \in y} ASA_i}{\sum_{i \in aima} ASA_i}$$

Where:

$ASA_i$  = the own funds requirements for market risks as calculated in accordance with the alternative standardised approach set out in Part Three, Title IV, Chapter 1a of Regulation (EU) No 575/2013 for all the positions attributed to trading desk ‘ $i$ ’;

$i \in y$  = the indices of all trading desks that have been classified as yellow zone desks in accordance with Article 9 of this Regulation among those for which the own funds requirements for market risks are calculated in accordance with the alternative internal model approach set out in Part Three, Title IV, Chapter 1b of Regulation (EU) No 575/2013;

$i \in aima$  = the indices of all trading desks for which the own funds requirements for market risks are calculated in accordance with the alternative internal model approach set out in Part Three, Title IV, Chapter 1b of Regulation (EU) No 575/2013.’;

(4) Section 3 is deleted.

**Question for consultation**

Q1. Do you agree with the changes proposed in the context of the RTS on profit and loss attribution requirements? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.

*Article 2*

DELEGATED REGULATION (EU) 2022/2060 is amended as follows:

(1) Article 2, paragraph 4, is deleted;

(2) in Article 7(1), the following subparagraph is added:

‘Where an institution’s sources of verifiable price information referred to in point (b) include third-party vendors, the institution shall document in addition for each third-party vendor the number of risk factors that have been classified as modellable on the basis of the verifiable prices provided by that third party vendor, and a materiality assessment of those risk factors.’.

**Question for consultation**

Q2. Do you agree with the changes proposed in the context of the RTS on risk factors’ modellability assessment? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.

*Article 3*

DELEGATED REGULATION (EU) 2023/1577 is amended as follows:

(1) in Article 1, the following paragraphs are added:

‘6. Institutions shall document, as part of their internal policies, whether non-trading book positions subject to foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, or to a trading desk managing both

trading and non-trading book positions. Where some non-trading book positions subject to foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, and some others are assigned to a trading desk managing both trading and non-trading book positions, the internal policies shall specify the criteria and the rationale for the assignment to a trading desk exclusively managing non-trading book positions or to a desk managing both trading and non-trading book positions.

7. When calculating the own funds requirements for market risk on a consolidated basis, in accordance with Article 325b of Regulation (EU) No 575/2013, institutions shall be able to identify, in their internal risk-measurement systems, the positions that are included in the foreign exchange risk exposure of the institution, because of the translation risk resulting when translating the positions of each institution or undertaking of the group into the same reporting currency in accordance with that Article.’;

(2) Article 2 is replaced by the following:

*‘Article 2*

**Calculation of the own funds requirements for market risk for non-trading book positions subject to commodity risk in accordance with the alternative standardised approach**

1. When calculating the own funds requirements for non-trading book positions subject to commodity risk under the sensitivities-based method in accordance with Part Three, Title IV, Chapter 1a, Section 2, of Regulation (EU) No 575/2013, institutions shall use as a basis the latest available fair value of those positions.

Institutions shall measure those positions at fair value at least on a monthly basis.

2. Institutions shall document, as part of their internal policies, whether non-trading book positions subject to commodity risk or both to commodity and foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, or to a trading desk managing both trading and non-trading book positions. Where some non-trading book positions subject to foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, and some others are assigned to a trading desk managing both trading and non-trading book positions, the internal policies shall specify the criteria and the rationale for the assignment to a trading desk exclusively managing non-trading book positions or to a desk managing both trading and non-trading book positions.’;

(3) in Article 3, the following paragraphs are added:

‘7. Institutions shall document, as part of their internal policies, whether non-trading book positions subject to foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, or to a trading desk managing both trading and non-trading book positions. Where some non-trading book positions subject to foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, and some others are assigned to a trading desk managing both trading and non-trading book positions, the internal policies shall specify the criteria and the rationale for the assignment to a trading desk exclusively managing non-trading book positions or to a desk managing both trading and non-trading book positions.

8. When calculating the own funds requirements for market risk on a consolidated basis, in accordance with Article 325b of Regulation (EU) No 575/2013, institutions shall be able to identify, in their internal risk-measurement systems, the positions that have been included in the foreign exchange risk exposure of the institution because of the translation risk resulting when translating the positions of each institution or undertaking of the group into the same reporting currency in accordance with that Article.’;

(4) in Article 4, the following paragraph is added:

‘4. Institutions shall document, as part of their internal policies, whether non-trading book positions subject to commodity risk or both to commodity and foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, or to a trading desk managing both trading and non-trading book positions. Where some non-trading book positions subject to foreign exchange risk are assigned to a trading desk managing exclusively non-trading book positions in accordance with Article 104b(6) of Regulation (EU) No 575/2013, and some others are assigned to a trading desk managing both trading and non-trading book positions, the internal policies shall specify the criteria and the rationale for the assignment to a trading desk exclusively managing non-trading book positions or to a desk managing both trading and non-trading book positions.’.

**Question for consultation**

Q3. Do you agree with the changes proposed in the context of the RTS on the treatment of FX and Commodity risk in the non-trading book? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.



*Article 4*

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.

Done at Brussels,

*For the Commission*  
*The President*

*[For the Commission*  
*On behalf of the President*

## 5. Accompanying documents

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### 5.1 Draft cost-benefit analysis / impact assessment

Article 325bg of the CRR3 requires the EBA to develop draft RTS to implement in the EU the Profit and Loss attribution (PLA) requirement. In addition, under article 325be of the CRR3, the EBA is mandated to develop draft RTS to specify the criteria for assessing the modellability of risk factors, including where market data are used. Finally, under article 325 of the CRR3, the EBA is required to develop draft RTS to specify how institutions are to calculate the own funds requirements for market risk for non-trading book positions that are subject to foreign exchange risk or commodity risk.

As per Article 10(1) of Regulation (EU) No 1093/2010 (EBA Regulation), any regulatory technical standards developed by the EBA shall be accompanied by an Impact Assessment (IA), which analyses ‘the potential related costs and benefits’.

This section presents the cost-benefit analysis of the provisions included in the RTS. The analysis provides an overview of identified problems, the proposed options to address those problems and the costs and benefits of those options. Given the nature and the scope of the RTS, the IA is high-level and qualitative in nature.

#### A. Problem identification

In January 2019, the Basel Committee on Banking Supervision (BCBS) finalised the standards on “Minimum capital requirement for market risk”. The CRR2 implemented the FRTB into the EU and required the EBA to develop a series of mandates, including the RTS on back-testing and profit and loss attribution requirements, RTS on risk factor modellability and the RTS on the treatment of non-trading book positions subject to foreign risk or commodity risk. The EBA has delivered on these mandates, which have been subsequently adopted by the European Commission and published on the official journal.

CRR3 amended some provisions related to these RTS, requiring the EBA to review them as these were previously developed based on the CRR2. The lack of such revision would result in a misalignment between the CRR3 and RTS.

#### B. Policy objectives

The specific objective of the RTS is to:

- harmonise the implementation of the PLA requirement;
- harmonise the criteria for assessing the modellability of risk factors;

- establish common requirements on how to calculate the own funds requirements for market risk for non-trading book positions that are subject to foreign exchange risk or commodity risk.

Generally, the RTS aim to create a level playing field, promote convergence of institutions practices and enhance comparability of own funds requirements across the EU. Overall, the RTS are expected to promote the effective and efficient functioning of the EU banking sector.

### C. Baseline scenario

The baseline scenario aims to describe the regulatory environment and regulatory developments, as well the institutions' practices.

In terms of regulatory environment, the baseline assumes the entry into force of the CRR3. It is also expected that institutions are compliant with the key elements included in the existing RTS adopted under CRR2.

### D. Options considered, Cost-Benefit Analysis and Preferred Options

This section presents the main policy options discussed during the development of the CP, the costs and benefits of these options, as well as the preferred options included in the CP.

**Option 1a:** Limiting the changes to the RTS to only those needed to align with the amendments in CRR3

**Option 1b:** Consider additional changes to the RTS going beyond what would be strictly needed to reflect the amendments in CRR3

Option 1a takes into account that several institutions have already implemented these RTS and ensures regulatory stability in the framework. Under this option, banks would not need to make significant changes in their existing implementation but rather very limited ones to align with the few changes made in CRR3 compared to CRR2. In addition, supervisors would start on-site inspections to grant the internal model approval with a stable regulatory framework against which the implementation of the institution can be assessed.

In contrast, Option 1b will require banks to implement new regulatory requirements and possibly undo changes already implemented, impairing the phase-in towards the new IMA approvals. Supervisors would not have a stable RTS to rely on in on-site inspections and would need to wait until the final adoption to have predictability in what the final requirements will be.

Given that the existing RTS have already been developed after an extensive consultation with the industry, it would be counterproductive and disproportionate to repeat the same process for provisions that are not related to the amendments in CRR3. Hence, option 1a is preferred.

## 5.2 Overview of questions for consultation

**Q1.** Do you agree with the changes proposed in the context of the RTS on profit and loss attribution requirements? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.

**Q2.** Do you agree with the changes proposed in the context of the RTS on risk factors' modellability assessment? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.

**Q3.** Do you agree with the changes proposed in the context of the RTS on the treatment of FX and Commodity risk in the non-trading book? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.