POSITION PAPER

ESBG first draft response to the EBA consultation on four draft Regulatory Technical Standards (RTS) on the Standardised Approach for Counterparty Credit Risk (SA-CCR)

ESBG (European Savings and Retail Banking Group)

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ESBG

Dear Sir/Madam,

Thank you for the opportunity to comment on the EBA consultation on four draft Regulatory Technical Standards (RTS) on the Standardised Approach for Counterparty Credit Risk (SA-CCR). We would like to share with you the following reflections that we hope will be taken into account by the EBA.

<u>Question 1</u>: Which one of the options do you think is more appropriate (option 1a : Y%=50% and Z%=25% or option 1b: Y%=60% and Z%=30%)? Please provide the rationale for the chosen option.

In our view, both options are fine. Both options should be provided in the final RTS. Some ESBG members tend to prefer option 1b, as it limits the inclusion of risk factors with small impact.

<u>Question 2</u>: What are your views about the general quantitative approach methodology, which hinges on FRTB SA sensitivities? Please provide examples of cases where computing FRTB SA sensitivities might raise some issues.

According to our opinion, a frequent reconfiguration of mappings based on sensitivities might raise operational concerns. This will depend on, among other things, the frequency with which transactions have to be mapped to the individual risk categories. However, aligning the sensitivities with FRTB makes sense to us.

Neither the draft RTS nor CRR Article 277, their legal basis, specify how often such mapping has to be carried out. In this context, ESBG calls for a sound, one-time assessment of risk drivers' materiality at product level that should take place no later than the next quarterly reporting date after close of business. Such an assessment would normally produce the same result as renewed computation on a daily basis, yet would significantly reduce the operational burden.

<u>Question 3</u>: Do you have any views on the appropriateness, for smaller institutions, of the alternative SA CCR add-ons approach (paragraph 2) in overcoming the issues (if any) raised by the general FRTB SA sensitivities approach?

ESBG welcomes that institutions with a small trading book business that do not need to compute any sensitivities under the FRTB rules are to be given an alternative approach for determining the material risk drivers. However, that application of the FRTB SA sensitivities approach can cause problems also for those institutions that are generally required to compute sensitivities for their trading book positions. Computation of FRTB SA sensitivities for banking book positions is not stipulated, for example. ESBG would therefore welcome a generally opening the alternative approach to all institutions. Should this proposal not prove acceptable, application of the alternative approach should be possible for all institutions at least for positions for which they have no FRTB SA sensitivities.

<u>Question 4</u>: Do you think the approach outlined here should be applied at currency level (option 3a) or transaction level (option 3b)?

For some ESBG members both options are fine, but option 3b reduces operational risks. This option would, firstly, be easiest to implement, since to determine the lambda for a specific transaction only parameters relating to precisely that transaction would be necessary. Secondly, the distortion accompanying the lambda shift would be minimised, since the shift would have to be applied only to those trades where really necessary and, in each case, only to the minimum extent required. Furthermore, SA CCR instability and thus unwanted volatility in the resulting capital requirements would be avoided.

Question 5: Which one of the three options (option 4a: 1 bp, option 4b: 0.1% or option 4c: 1%) do you think is more appropriate as a threshold? Please provide the rationale for the chosen option.

For some members, 0.1% or 1% are the best options, as it moves the interest regime a bit farther away from zero.
Some other members have not yet been able to accurately assess the impact on the exposure value resulting from the SA-CCR due to different thresholds. Also, as the impact will likely vary from institution to institution, the threshold should, if possible, be chosen by the institution itself. In this case, too, the threshold should be fixed once only and notified to supervisors so as to avoid cherry picking.

Question 6. Please provide examples of cases where the possibility to set the shift λ according to the prevalent market conditions (option 5) might:
- ☐ **Provide some benefits**
- ☐ **Raise some concerns**

Some ESBG members have operational concerns, e.g. a quoted value of lambda being below the strike of an entered trade.

Question 7: Do you consider necessary an adjustment to the supervisory volatility parameter *σ* as defined in Article 5? In the case an adjustment is considered necessary, how should it be carried out?

According our opinion, an adjustment is not needed as the prescribed volatility assumptions seems to be a much cruder approximation anyway.

Question 8: Do you think the specified method for determining whether a transaction is a long or short position in a material risk driver is adequate? If not, please provide an explanation.

The condition reading "where institutions apply the approach set out in Article 3(1)(a)" to determine long or short positions by assessing the cash flow or hedging purpose of the transaction should be deleted. Otherwise, the current wording means that FRTB sensitivities would have to be used for all other cases.
Overall, we tend to prefer the 1st approach proposed.

About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 20 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 1,000 banks, which together employ 780,000 people driven to innovate at 56,000 outlets. ESBG members have total assets of €6.2 trillion, provide €500 billion in SME loans, and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking.

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