POSITION PAPER

ESBG response to the EBA consultation on benchmarking of internal models

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

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ESBG

Dear Sir/Madam,

Thank you for the opportunity to provide our feedback to the EBA consultation on ITS amending Commission Implementing Regulation EU 2016-2070 on Benchmarking. We would like to share with you the following reflections that we hope will be taken into account by the EBA.

<u>General Comments:</u>

With regard to the EBA benchmarking exercise on internal models, on a general note, ESBG would ask for more transparency and openness. In our view, in fact, it would be very useful for the banks participating into the exercise to know how they "score" relatively to the other banks also involved in the exercise.

<u>Questions in the EBA consultation paper:</u>

<u>Question 1</u>: Is the risk type split a significant burden for your institution (for LDP/HDP)? Are there level 2 portfolios for your institution, for which the deletion of the split into counterparty credit risk (CC) and credit risk (CR) would lead to the loss of information that is relevant for the benchmarking of internal approaches applied to that exposure class?

To reduce the number of portfolios to fill the deletion of the split into the risk types seems to be a good way to us. Also we don't see a loss of information from the deletion of the split.

<u>Question 2</u>: Do you agree with the introduction of a new template C105.04 (concerns only columns c010 – c068) in order to replace the reporting of "empty" rating portfolios" or do you envisage any other alternatives?

ESBG does not agree with the introduction of the new template C105.4 since detailed information on internal models can be taken from other templates. These changes entail high costs for the provision of the data basis, the adjustment of the portfolio derivations and for final tests. Sheet C103 is particularly complex. The adjustments of the data basis and the portfolio cuts must also be carried out retroactively for five years.

<u>Question 6</u>: Do you think the alternative portfolio split would provide for a higher explanatory power as regards RWA variability induced by differences in CRM usage?

ESBG believes that a homogenous split in terms of collateralization has an additional explanatory power for the RWA variability.

<u>Question 8</u>: Do you expect that the proposed ILTV buckets for HDP sub-portfolios secured by immovable property will provide more explanation for RWA variability for a material share of exposure? Do you expect that the separation of these exposures can contribute to explain RWA variability in the according HDP portfolios?

We do not expect a better explanation for RWA variability for a material share of exposures (i.e. real estate portfolio transactions: LTVs are calculated at the property level, but the impact on the RWA of the portfolio transaction depends on their share of the total exposure).

<u>Question 9</u>: Do you agree with the Additional pricing information requested? Please, provide detailed explanation for your answer.

According to our understanding, the revised proposal requires to provide a list of pricing factors used in the profit and loss (PnL) system as well as sensitivities based on this setup. Furthermore a mapping to risk factors used in the risk system shall be delivered. We assume that delivery of sensitivities (Annex VI, C 111.00) where Risk Factors and Risk Factor 2 are referred shall hold the sensitivities for this price factors.

In this regard, ESBG believes that this additional data request is overly-complex and will create significant additional operational burden and will broadly not meet the targets as set out in paragraph 31 to 36. Specifically, ESBG would have the following remarks to this proposal:

- There are operational challenges to provide the additional information of pricing factors and the respective sensitivities since there will be a very large information set to be delivered when applied on trade / instrument level.

- Furthermore the foreseen timeline between the initial market valuation (IMV) measurement- and reporting date is too short. Apart from the calculation efforts, in order to extend statutory reporting systems and their interfaces there are as well increased implementation / IT- efforts to be considered and necessary preparatory time to be taken into account.

- Since setups will significantly differ among Institutions and there is no unique identifier of pricing or risk factors, the comparison will be demanding. For this reason we would recommend to consider the standardized setup of sensitivities within FRTB SA and postpone the introduction to later exercise where FRTB application will be more mature.

- Furthermore the additional pricing information data will in general not improve the comparison of VaR variability among institutions because risk factors in VaR often differ from the PnL setup (e.g. in number, timing, data source) up to difference due to in methodological aspects (e.g. usage of spreads or factor representations). Furthermore VaR volatility conclusion will not be possible because the IMV sensitivities will already be outdated and have changed at the time of VaR reporting.

<u>Question 10</u>: Do you agree with the simplification introduced in the time setting of the references date for the instruments?

The extended specification of the time setting provides additions clarity. This is true for the newly introduced relative definition as well, which supports a continuous use of the instruments. However ESBG would appreciate an additional update with concrete dates to avoid potential remaining uncertainties (e.g. non business days).

<u>Question 11</u>: Do you have any concerns on the clarity of the instructions?

We expressed our understanding on the price and risk factors and to be reported sensitivities in the answer to question 9 (above in this position paper), but different interpretations may be possible, thus additional guidance would be appreciated.

In our view, a general topic for an extended guidance is the expected consideration of foreign exchange (FX) risk including treatment of past cash-flows.

Moreover, we would like to question the benefits and necessity of a split into a different standard notional for IMV purposes and different amounts in the VaR portfolio calculation.

<u>Question 12</u>: Can you please provide detailed explanation of the instruments that are not clear and a way to clarify the description?

As mentioned in the answer to question 11 (above in this position paper), ESBG sees the necessity for an extended guidance on the expected consideration of FX risk including past cash-flows.

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.

European Savings and Retail Banking Group – aisbl
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ■ www.wsbi-esbg.org

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