German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments on

the “ITS new FRTB reporting” EBA/CP/2023/03

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General remarks

The reporting templates proposed in the consultation paper for the Alternative Standardised Approach (A-SA) are largely understandable. In principle, very many of the data points required for this purpose are available as input variables or natural interim results in the context of the risk calculation. The proposed granularity is comparable with the granularity of the existing templates for the Simplified Standardised Approach.

Because of the model-related higher complexity and the large number of data points, relevant deployment effort is nevertheless to be expected for the expansion of the delivery routes.

We welcome the proposed retention of quarterly reporting for the A-SA.

We assume that institutions will still be applying the previous approaches for calculating own funds requirements at the time of the planned first application of the ITS on FRTB Reporting that is the subject of the consultation (30 September 2024), as CRR III is not yet applicable. To avoid additional effort and a high degree of complexity, it must be ensured that only the existing template C91 will continue to be reported as part of the parallel reporting of the FRTB SA; the new A-SA detailed templates C 92.x, C 93 and C 94.x should only be reported once the old approaches for calculating own funds requirements have been replaced and parallel reporting has been discontinued.

We welcome the EBA's proposal that FRTB IMA banks will report the A-SA metrics to be determined in parallel at trading desk level as a single figure only, i.e. without populating the A-SA templates in the same way. FRTB IMA banks will also have to calculate the capital requirement under the A-SA for the non-IMA trading desks as well as the A-SA capital requirement for all trading desks/bank-wide (including for the output floor) and report it as a total figure using template C 95. We would like to point out that disproportionate duplication of effort resulting from the A-SA templates should also be avoided for these metrics. In particular, we do not believe that a full report of all A-SA templates is necessary for the capital requirement at the level of the bank as a whole; summary template C 91 appears to be sufficient.

Modifications to the existing templates for the Simplified Standardised Approach are not the focus of this consultation. Nevertheless, we would like to point out that, in this context, the objective should be to make modifications as pragmatically as possible without increasing complexity, and to announce them as early as possible.

As a matter of principle, reporting requirements that are not based on existing metrics or that exceed the scope of the regulatory capital calculation should be avoided or designed as efficiently as possible in order to avoid unnecessary effort. This relates in particular to template C 99.00 for reporting P&L information and the potential template for presenting the trading book boundary that has been proposed.

The description of the items to be reported is generally understandable. We will address individual exceptions in our answers to the questions.

Specific comments on the templates and answers to the questions

You will find our comments on the templates in our answers to individual questions.

<u>**Questions regarding the amendments to the ITS on FRTB reporting (see section 3.4)**</u>

Question 1 – Offsetting group-based reporting

a) Did you identify any issues regarding the implementation and use of the offsetting group-concept of Article 325b CRR in the context of these ITS?

Comments on the "ITS new FRTB reporting" EBA/CP/2023/03

b) Are instructions regarding the reporting by offsetting group clear? If you identify any issues, please include suggestions how to rectify them.

We agree with the proposal that market risks of institutions within an offsetting group should be aggregated and then reported in a single report per offsetting group. We also agree with the proposal that the overall result will only be reported as a "sum of all offsetting groups" in summary templates C 91 MKR ASA SUM and C 95 MKR IMA SUM.

It is not clear how the standalone capitalisation of any potentially introduced Internal Risk Transfer (IRT) desk should be reflected in this context. The IRT desk operates in a similar way to an offsetting group; however, any similarity in presentation could lead to a significant increase in offsetting groups. Even if the results per offsetting group are generally available as an interim result in the course of the capital calculation, a large number of different offsetting groups could lead to very complex reporting in certain constellations. We would ask you to clarify this.

For the "Scope" field that is also located in the Z-axis, we recommend adding concrete illustrative examples to be populated for SA and IMA banks.

Question 2 – CIU reporting

Is it clear how positions in CIUs are to be reflected in the three template groups (SBM, RRAO, DRC) of the A-SA templates? If you identify any issues, please suggest how to clarify their treatment in the templates and/or instructions.

From the perspective of effort, we welcome the fact that no separate templates for CIUs will be introduced. As the templates for the Alternative Standard Approach (A-SA) essentially ask for interim results of the A-SA calculation, we believe that correct reflection of CIUs will happen naturally, depending on the way they are specifically included in the calculation of the A-SA. We therefore do not believe that any detailed presentation for CIUs is necessary.

Question 3 – Comments on the overall A-SA reporting

a) **Did you identify any issues regarding the representation of A-SA (policy) framework in the reporting templates?**

b) **Are**
   - **the scope of application of the requirement to report the different templates,**
   - **the scope of positions/instruments/ etc. included in the scope of every template,**
   - **the template itself and**
   - **the instructions**

clear? If you identify any issues, please clearly specify the affected templates and instructions, and include suggestions how to rectify the issues.

In general, the new A-SA templates C 92.01 to C 94.03 include a description of the input variables and the naturally existing interim results in the calculation of the A-SA results reported in template MKR ASA SUM. Additionally, the planned granularity is comparable to the granularity of the existing COREP templates C 18.00 to C 23.00 for the Simplified Standard Approach, which means that the data requirement still appears to be reasonable despite the overall high data volume and corresponding deployment effort.

The intention behind the "Own funds requirements in the different scenarios" columns in the new detailed templates is unclear at first glance; Article 325h of the CRR mentioned in the template guidance describes the calculation of own funds requirements at the level of risk classes (GIRR, CSR, etc.); these are already

Comments on the "ITS new FRTB reporting" EBA/CP/2023/03

reported in the summary template MKR ASA SUM. As we understand it, the presentation of capital requirements at bucket level (K_b) is what is meant here. If this is the case, the description should be specified in greater detail. In addition, including the specific A-SA notation (S_b, K_b, CVR_{k-}, CVR_{k+}, etc.) in the column headings of the templates would enhance clarity.

In the RRAO template C 93.00, a breakdown of the gross notional amount by asset class is required to be presented in columns 0060 – 0100. The asset class is not relevant for the risk assessment and is not an existing data point. This presentation should be dropped to save time and effort.

Question 4 – Comments on the overall A-IMA reporting

a) Did you identify any issues regarding the representation of A-IMA (policy) framework in the reporting templates?

b) Are
- **the scope of application of the requirement to report the different templates,**
- **the scope of positions/instruments/profits and losses etc. included in the scope of every template,**
- **the template itself and**
- **the instructions**

clear? If you identify any issues, please clearly specify the affected templates and instructions and include suggestions how to rectify the issues.

Please refer to our comments on A-SA simplifications for A-IMA banks in Question 9.

Question 5 – Profit and loss data

The objective of this template is to obtain (economic) profit and loss values, that can be compared to the own funds requirements calculated on the basis of the FRTB approaches, i.e. which are, at least to some extent, conceptually compatible with the latter. Against this background, and as explained above, the instructions specify only certain 'minimum requirements' regarding the profit and loss data to be reported. Beyond those minimum requirements, institutions are free to make their own methodological choices.

Does this approach work for you? Or do you need any further, or different, guidance regarding the elements of the P&L and the scope of the positions to be covered by that P&L? Which additional specifications could facilitate your compliance with this reporting requirement? Which general methodology would you envisage to allocate P&L to the risk classes of the sensitivities-based method?

A regulatory requirement for the back-testing or reporting of corresponding P&L metrics currently exists only for institutions that apply an IMA. There is currently no requirement in the CRR to implement back-testing or corresponding reporting, including for A-SA banks. The provision of daily P&L metrics, in particular also for each offsetting group, represents a significant additional effort, especially since the breakdown of P&L metrics by risk class actually exceeds the current requirements for internal models and the new back-testing reporting templates C 96.04.x of the FRTB IMA. The deployment effort is also expected to be significantly higher for A-SA banks that do not currently use an IMA. Please refer to our answer to question 9 with regard to the planned reporting of qualitative information (comments).

We generally welcome the proposed pragmatic design of the reporting requirement (e.g. freedom of choice for the non-trading book or reporting existing P&L metrics without further requirements) because this will save unnecessary effort. However, the EBA itself comes to the conclusion that this approach may result in metrics that are not comparable. We would like to point out that inconsistencies resulting from this could lead to undesirable side effects, especially at the horizontal level.

From a technical point of view, it also seems questionable to what extent the back-testing of quarterly A-SA risk ratios with P&L metrics calculated on a daily basis can be implemented. As a rule, the underlying trading book portfolio is likely to change over the course of a quarter, with the result that P&L metrics and A-SA metrics are not necessarily comparable.

To avoid unnecessary effort, the actual usability of the required data must be assessed or ensured before any such data delivery is initiated

Question 6 – Reporting on reclassifications between books

a) **Did you identify any issues regarding the representation of the prudential framework for reclassifications and the associated own funds requirement in the reporting template?**

b) **Are the scope of application of the reporting requirement, the scope of transactions to be reported in the template, the template itself and the instructions clear? If you identify any issues, please include suggestions how to rectify them.**

The reporting requirements described are generally understandable.

As the reclassification issues to be presented are usually subject to prior permission, they are, in principle, already known to the supervisory authority. In addition, in accordance with question 8, the capital add-on resulting from the reclassifications is presented in aggregated form in C 02.00, so that the total amount and its relevance per bank are transparent. In light of this, the added value of this template appears questionable when measured against the additional effort. The need for this reporting should be reviewed.

At any event, a review is necessary to assess whether the template needs to be populated separately for each transaction as set out in Annex IV – Instructions on Template C 24.01. We do not consider this approach to be either practicable or reasonable in cases where, for example, a portfolio or quantity of transactions is reclassified together for a single reason (for example, an equity that is now no longer listed and an associated hedging derivative). The template should allow aggregated presentations across multiple transactions to be included in appropriate cases in this respect. In principle, the format of the template already appears suitable for this.

Question 7 – Reporting on the boundary between trading and banking book

a) **With regard to the data to be provided in such a template, which measures (book value, notional value, market value, other measure) do you deem most appropriate for the monitoring of the boundary between the books? Which measures do you use or plan to use for your monitoring of the allocation between the two books and can you therefore provide, considering possible breakdowns by instrument type or element of the boundary framework (as per Article 104 of the draft CRR3), accounting treatment and allocation to regulatory books? Which breakdowns do you monitor internally, and are there any constraints regarding the use of certain metrics for certain breakdowns?**

b) **Which benefits and challenges do you foresee as regards this reporting? Which issues should be taken into account or addressed, to maximise the benefit and reduce the cost of compliance with this particular reporting requirement?**

Since the trading book/banking book classification depends on the criteria in Articles 102 and 104, any presentation of notional values, market values or book values does not appear to be expedient: they are irrelevant for the classification. A practical design of such reporting for monitoring the trading book boundary that can be evaluated efficiently would appear to be very challenging overall because of the heavily qualitative criteria, and a high level of cost and effort can be expected. Furthermore, there is already periodic reporting for the dimension of market risk in the trading and banking book using template C 90.

Cost-effective reporting must be ensured at all events in this context.

In terms of the statement that *"the EBA is considering the possibility of introducing a template (or templates) that capture the composition of the banking and trading books*", we would like to point out that reporting the composition of the banking book would also affect all banks without a trading book whose business model is often designed well away from any trading intent. This sort of reporting does not appear acceptable to us from aspects of proportionality. Reporting the complete composition of the banking book of all banks still does not appear to be expedient from a content perspective. We are therefore proposing to dispense with the reporting of the composition of the banking book as far as possible, or as a minimum to heavily limit it.

Question 8 – Interactions between the ITS on Supervisory Reporting and these ITS

a) Do you have any comments on the considerations regarding the interactions and links between the ITS on FRTB reporting and the ITS on Supervisory Reporting presented above?

Reporting the new Alternative Standard Approaches is complex and represents an additional requirement in the transitional period until the application of the FRTB for calculating capital requirements. The simultaneous preparation of both the previous market risk reporting in accordance with the ITS on Supervisory Reporting and the reporting of the (new) Alternative Approaches under the ITS on FRTB Reporting must be performed by the same units at the institutions, which is difficult to achieve using existing resources.

It should therefore be ensured that, for the existing parallel reporting, the FRTB SA continues to use the existing reporting format (i.e. templates C 90 and C 91). Additional reporting of the new A-SA detailed templates C 92.x, C 93 and C 94.x should be required once the old approaches have been replaced and parallel reporting has been discontinued.

We are also proposing the provision of an extended submission deadline for the additional reporting of the Alternative Approaches in accordance with the ITS on FRTB Reporting for the transitional period until the application of the Alternative Approaches for determining own funds requirements, and hence the discontinuation of the previous reporting obligations. This will allow the institutions initially to prepare the periodic reporting under the ITS on Supervisory Reporting and thereafter to finalise their reporting of the Alternative Approaches in accordance with the ITS on FRTB Reporting.

b) Did you identify any other issues regarding the interactions and conceptual links between the ITS on FRTB reporting and the ITS on Supervisory Reporting, either resulting from the CRR or the discussion on the CRR3, that should be considered? If yes, please also include suggestions how to rectify those issues.

Articles 3, 3a and 3b of the "Draft ITS on specific reporting requirements for market risk" are addressed in each case to institutions that apply one of the (new) Alternative Approaches. We assume that, at the time of the planned first application of the ITS on FRTB Reporting that is the subject of the consultation (30 September 2024), institutions will still be applying the previous approaches for calculating own funds requirements, as CRR III is not yet applicable.

From our perspective, it is not clear from the ITS on FRTB Reporting which templates are to be submitted in the interim period until the application of CRR III. We would ask you to clarify this. In particular, situations should be avoided in which an institution is required to temporarily report templates for an approach that it will not use when CRR III comes into force.

Reporting the relevant offsetting group as an additional column in template C 06.02. appears to be pragmatic and expedient. The modifications within template C 02.00 also only reflect the necessary structural changes due to the future three-tier design of capital backing for market risk and are therefore understandable.

It is not clear in template C 06.02 how the risk exposure amount (REA) for market risk for entities within an offsetting group should be populated. To avoid additional effort, it may make sense to enter the REA of an offsetting group in a representative of this offsetting group; the other members of this offsetting group are then populated with zero. This presentation should be understandable thanks to the above-mentioned information on the offsetting group in an additional column. An additional standalone calculation for the purposes of this template should be avoided.

With regard to the existing templates for the Market Risk Standardised Approach (MKRSA), we are expecting at least minor modifications in the course of the transition to the Simplified Standardised Approach (S-SA). To avoid additional effort and for planning purposes, we are asking, on the one hand, for pragmatic amendments and no further increase in the complexity of the MKRSA templates and, on the other hand, for an indication of the planned amendments as quickly as possible, in particular for the proposed inclusion of the new risk type-specific scaling factors in accordance with point (2a) of Article 325 (e.g. factor of 3.5 for equity risks).

Question 9 – Cost of compliance with the reporting requirements

Is or are there any element(s) of this proposal for new and amended reporting requirements that you expect to trigger a particularly high, or in your view disproportionate, effort or cost of compliance? If yes, please

- **specify which element(s) of the proposal trigger(s) that particularly high cost of compliance,**
- **explain the nature/source of the cost (i.e. explain what makes it costly to comply with this particular element of the proposal) and specify whether the cost arises as part of the implementation, or as part of the on-going compliance with the reporting requirements,**
- **offer suggestions on alternative ways to achieve the same/a similar result with lower cost of compliance for you.**

In principle, very many of the data points required are available as input variables or natural interim results in the context of the risk calculation. Because of the model-related higher complexity and the large number of data points, relevant deployment effort is nevertheless to be expected for the expansion of the delivery routes.

For example, according to Article 3(2) of the ITS that is the subject of the consultation, institutions that partially or fully apply the A-IMA will also be required to prepare and submit the templates for the Standardised Approach (as a fall-back approach). This is generally understandable, including in light of the arrangements governing the output floor. We welcome the EBA's proposal that FRTB IMA banks will report the A-SA metrics to be determined in parallel at trading desk level as a single figure only, i.e. without populating the A-SA templates in the same way. FRTB IMA banks will also have to calculate the capital requirement under the A-SA for the non-IMA trading desks as well as the A-SA capital requirement for all trading desks/bank-wide (including for the output floor) and report it as a total figure using template C 95. We would like to point out that disproportionate duplication of effort resulting from the A-SA templates should also be avoided for these metrics. In particular, we do not believe that a full report of all A-SA templates is necessary for the capital requirement at the level of the bank as a whole; summary template C 91 appears to be sufficient.

Reporting requirements that are not based on existing metrics or that exceed the scope of the regulatory capital calculation will generate significant additional effort here and should be avoided or designed as efficiently as possible. This relates in particular to template C 99.00 MKR PL for reporting P&L information and the potential template for presenting the trading book boundary that has been proposed.

The integration of qualitative information is especially problematic in practice. Columns 25 and 95 "Comments & explanations" of template C 99.00 MKR PL require qualitative information on how the institution has determined the data or what information the institution considers to be necessary to interpret the data. Including qualitative explanations has a different quality than the information currently linked to the reporting systems via data interfaces (business data, financial data, master data, etc.), which is sourced from other banking/upstream systems. By contrast, qualitative explanations can only be captured after the actual report itself has been finalised. The supervisory authorities (ECB and NCA) already require explanations or comments on reported items for various reasons. However, this is done subsequent to the actual preparation and submission of the report. From our point of view, it makes no sense from a process-related perspective to include qualitative explanations directly in the reporting process. In this respect, comments or qualitative explanations should be sought outside the actual reporting data and overall downstream of the reporting submission process.

For numerous smaller banks, a continued use of the existing approaches as a Simplified Standardised Approach (S-SA) was permitted for reasons of proportionality. The same proportionality should be taken into account in future reporting. In our view, the existing MKRSA templates should therefore be modified as pragmatically as possible without increasing complexity any further; for planning purposes, corresponding modification proposals should also be communicated as soon as possible. On the other hand, the "model-independent" templates should be designed in such a way that the effort for the banks referred to remains very low. This applies in particular to the reporting on the composition of the trading and banking books already addressed in Question 7.