Comments

Betreff

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Comments: On ITS on Supervisory Benchmarking framework for 2019 (EBA / CP / 2017 / 23)

I. General remarks

We thank the EBA for giving us the opportunity to comment on its consultation paper EBA/CP/2017/23 "ITS on Supervisory Benchmarking framework for 2019".

We support EBA's objective of reducing differences between capital requirements calculated by institutions using own risk estimates, which can not be attributed to differences in the risk profiles of institutions. Nevertheless, we would like to point out that the reports on supervisory benchmarking place a significant burden on institutions. Therefore, it should be discussed how this burden could be reduced in the future. We suggest to keep the requirements for the benchmarking exercise stable for a reasonable number of periods, and to avoid changes in the definitions of the various portfolios. If changes whatsoever turn out to be unavoidable, they should be marked track change-mode.

In addition, we would like to suggest that after the provision of the EBA report, which contains a number of evaluations anonymised at the level of the institution, participating institutions shall be given their own institution number. Only in this way can the institutions make meaningful use of the results of the EBA report.

II. Specific remarks

Consultation paper

Separation of on and off-balance sheet exposures:
Exposures are to be split into on-balance sheet exposures and off-balance sheet exposures (or not applicable). Is it intended to report transactions subject to counterparty credit risk such as derivatives and securities financing transactions in the "not applicable" portfolios only? - In this case the sum of on and off-balance sheet exposures would not be equal to the sum of not applicable.
Proposal: Only split credit risk portfolios into on and off-balance sheet exposures.

Annex 1, credit risk portfolios

We do not understand why Specialised Lending (cf. Annex 1, template 103, col. „Type of Exposures") is excluded in the Advanced IRB Approach (AIRBA). Within the Basel IV requirements, Specialised Lending can be included in the AIRBA.

Specialised Lending (102.00) / Consistency between C101 and C102:
Specialised Lending exposures in the Large Corporate Sample portfolios are explicitly excluded from C101 (Type of Exposures = "Exposures other than specialised lending" in Annex I, C101). In C102, however, there is no such exclusion for the Large Corporate Sample portfolios (Type of Exposures = "not applicable" in Annex I, C102). However, according to the Consultation Paper: 'Specific portfolios covering all specialised lending exposures will be defined in table 102 of Annex 1. No other portfolios will include specialised lending exposures'. Please be more precise in Annex I, C102, Large Corporate Sample Portfolios, if the reporting of Specialised Lending exposures is not required by setting Type of Exposures = "Exposures other than specialised lending" for the Large Corporate Sample portfolios).

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Annex 2, credit risk portfolio definitions

If different ratings exist for one counterparty in template C101 (e.g. due to consideration of the transfer risk), according to Q & A 2017_3215 the rating in column 040 of template C 101.00 should be left blank. Since taxonomy 2.6 for the template C101 requires the combination of counterparty code and rating as a key, these fields must not be left blank. Thus, it is not clear how to proceed in this case. This should be clarified.

We believe that the manifestation (j) in column 120 of template 102 (Drawn credit facility) can be omitted, because the breakdown by facility type only has to be done for off-balance sheet items.

When specifying the exposure class in column 070 of template 102, we believe that the manifestation "not applicable" should be added (used in Annex I, C102 for Large Corporate Sample). The same holds for the default status in column 090.

In our opinion, column 20 of template C103 lacks the manifestations CORP, SMEC, SMER and Mortgages. In addition, under 1.2.1.2, 1.2.2.2, 2.2.1.2, 2.2.2.2, 3.2.1.2, 3.2.2.2, 4.2.1.1 and 4.2.1.2 values are given which are not used in Annex I. Instead, Annex I contains the manifestation "Mortgages Non-defaulted Secured" and "Unsecured".

Annex 3, credit risk reporting templates

We suggest to harmonize wordings and labels with the benchmarking exercise 2018: Annex 3, template 102 and 103, Pos. 160: „Provisions defaulted exposures" in 2018 and „Provisions non-performing exposures"in 2019.

Annex 4, credit risk reporting instructions

According to point 4 of the "General Instructions" to Annex IV, the institutions should report an exposure value of zero even for rating grades in which they have no exposures. For these portfolios, only the probability default (PD) of the rating grade is reported. This requirement would greatly inflate the number of portfolios to be reported. In addition, as for all other rating grades in which the institution has exposures the other parameters would have to be reported, the reporting of these portfolios would, thus, result in a technical break which would complicate the implementation. We, therefore, suggest refraining from reporting these "empty portfolios" and instead introducing a reporting form in which the allocation of the rating levels to the PD is reported.

C102, 103, 180
First of all, once the Basel I-Floors expires on 31 December 2017, the information on CRSA will no longer have to be calculated by all IRBA institutions. Institution, which started to use the IRB approach before 1 January 2010 never had an obligation to calculate CRSA figure (see Article 500, 3 CRR). From our understanding, it should be intended to start reporting of CRSA-RWA simultaneously with the implementation of the revised CRSA-framework (i.e. with "CRR III"). All IRBA Banks today have no legal obligation to calculate CRSA. Therefore we strongly reject any kind of reporting of CR-SA-RWA numbers. What is more, CRSA figures are not appropriate benchmarks for IRB figures.

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Furthermore, it is not clear how the RWA Standardized is to be apportioned in the case of portfolios using collateral splitting. The methods of collateral allocation differ between the SA and IRBA (different collateral values, recognisability and prioritization of collateral allocation). This should be clarified. Alternatively, the disclosure of the RWA Standardized should be waived for the portfolios with collateral splitting.

We would like to point out that in the instructions to column 106 of the C102 under "Label" "Provisions non-performing exposures" are mentioned, while the "Instructions" refer to "Defaulted exposures". It should be clarified what is meant.

C103, 190
Default Rate latest year: Remark: This definition is different from the definition given in the December-Update of the instructions for 2017-12-31. The one from the consultation paper is more easily understandable, but it seems to be different.

Annexes 5-7, changes to market risk benchmarking portfolios

The ITS proposes a change in the dates for the submissions in order to facilitate a more efficient process.

- The new proposal changes the timelines for the specific steps significantly and states that the objective is to give the institutions more time to check the Initial Market Valuations (IMVs) before submission. However the new timing reduces the overall timeframe from booking date to IMV submission date from three weeks to 2.4 weeks. We propose not to shorten the overall time between booking date and submission date for IMV. We are however supportive of moving the valuation date closer to the trade inception date as this gives institutions more time to verify the overall setup.
- The new proposed timelines move the calculation dates for the risks very close to year end. As this period is in high demand of resources and in some banks the same teams may be involved for year-end reporting and for the benchmarking exercise, this timing is unfortunate. In addition Competent Authorities might also prefer to have more time to follow up on any deviations they observe in IMVs. We propose to keep the calculation dates at least three weeks apart from year end i.e. not start prior to 21st Jan 2019.
- The new proposed timelines reduce the time between the calculation dates for the risks from 7.6 weeks to 1.8 weeks. This together with the significant increase in count of portfolios to be reported will put significant additional pressure on institutions, thus increasing the risk of operational errors. In addition institutions may use test environments to conduct the benchmarking to prevent any unwanted impacts from booking hypothetical trades into live systems. Using such test environments in such a short timeframe might not be feasible. We propose to keep a period of at least four weeks between the calculation dates and the expected submission to the respective competent authorities.

The ITS proposes requesting more detailed information about SVaR models and a change in the benchmarking portfolios that allows more values for supervisory purposes. This new set of market risk benchmarking portfolios has the following three-layer structure:

- The first layer consists of a set of financial instruments for which IMV ("Initial Market Valuation") shall be computed.

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- The second layer consists of individual portfolios defined by combining different instruments, for the purpose of assessing the effect of grouping instruments as well as the effect of partial or full hedging.
- The third layer consists of the definition of the aggregated portfolios, for the purpose of assessing the diversification effects and the implied capital requirements.

We welcome the approach to value the instruments individually as this allows for a more granular alignment of trade bookings and more timely identifications of sources for deviations. However the count of instruments is quite significant and might be a challenge for some institutions.

The change in the portfolio compositions seems to over-achieve its stated objectives. It would appear sufficient to only change one asset class per year rather than changing all the portfolios at the same time. This would allow the institutions to at least check for plausibility by comparing to the previous year's portfolios, which is particularly useful in cases where staff responsible for performing the EBA calculation change during the course of a year and avoids operational errors.

The significant increase in count of portfolios puts a significant additional operational burden on institutions - more than double the current cost for this exercise. We would therefore suggest limiting the increase in the count of portfolios to the minimum necessary to achieve the objectives of the exercise.

Instruments 18, 23 and 47 appear comparatively complex and may not be straightforward to price for all institutions. In addition, they leave room for differing interpretations and hence carry increased and unnecessary operational risk. We propose removing these instruments.

Incremental Risk Charge (IRC) captures correlated migration and default events. As these events are discrete, portfolios consisting of only few issuers do not seem to produce a sufficiently granular loss distribution. Therefore, results created for such portfolios are of questionable value. We propose to design specific IRC portfolios that are exempt from the Value at Risk (VaR), stressed Value at Risk (SVaR) and All Price Risk (APR) calculations. Such specific portfolios should contain at least five different issuers each and target for example at:

- Investment grade sovereign issuers - long portfolio, i.e. long bond or sold protection Credit Default Swaps (CDS);
- Investment grade sovereign issuers – hedged portfolio, long bond hedged with bought protection CDS;
- Sub-investment grade sovereign issuers - long portfolio, i.e. long bond or sold protection CDS;
- Sub-Investment grade sovereign issuers – hedged portfolio, long bond hedged with bought protection CDS;
- Investment grade corporate issuers - long portfolio, i.e. long bond or sold protection CDS;
- Investment grade corporate issuers – hedged portfolio, long bond hedged with bought protection CDS;
- Sub-investment grade corporate issuers - long portfolio, i.e. long bond or sold protection CDS;
- Sub-Investment grade corporate issuers – hedged portfolio, long bond hedged with bought protection CDS;
- Vanilla CDS (sold protection) on ITRAX 125;
- Vanilla CDS (sold protection) on ITRAX Xover;
- All-in portfolios comprising above.