

EBA/CP/2021/43

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17 December 2021

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# Consultation Paper

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Draft Implementing Technical Standards on amending Commission  
Implementing Regulation (EU) 2016/2070 with regard to  
benchmarking of internal models

# Contents

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|   |           |
|---|-----------|
| <b>1. Responding to this consultation</b>   | <b>3</b>  |
| <b>2. Executive Summary</b>   | <b>4</b>  |
| <b>3. Background and rationale</b>  | <b>5</b>  |
| <b>4. Draft implementing standards</b>  | <b>14</b> |
| <b>5. Accompanying documents</b>  | <b>17</b> |
| 5.1 Draft cost-benefit analysis for changes related to credit and market risk SVB | 17        |
| 5.3 Overview of questions for consultation  | 21        |

# 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 18.02.2022. 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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Article 78 of Directive 2013/36/EU (CRD) requires competent authorities to conduct an annual assessment of the quality of internal approaches used for the calculation of own funds requirements. To assist competent authorities in this assessment, the EBA calculates and distributes benchmark values that allows a comparison of individual institutions' risk parameters. These benchmark values are based on data submitted by institutions as laid out in Commission Implementing Regulation (EU) 2016/2070 which specifies the benchmarking portfolios, templates and definitions to be used as part of the annual benchmarking exercises.

For the 2023 benchmarking (BM) exercise the following changes are suggested:

- For credit risk, no changes are proposed with respect to the portfolio's definition or data collection templates. However, in order to improve further the data collection and benchmarking analysis, some further clarifications are included in the instructions.
- For market risk, in order to keep the exercise updated and informative for supervisors, the set of instruments is proposed to be extended. Therefore, to the previous set of instruments, which are mostly plain vanilla, the proposal is to add a more complex set of instruments, that could provide additional information and analysis insights to supervisors and banks.
- For IFRS 9, no changes to existing templates are envisaged.

### Next steps

The Annexes presented in this draft ITS replace or are added to the existing set of templates in order to create a consolidated version of the updated draft ITS package.

These draft ITS will be submitted to the Commission for endorsement before being published in the Official Journal of the European Union. The technical standards will apply 20 days after publication in the Official Journal.

## 3. Background and rationale

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### 3.1 Credit risk benchmarking

1. The templates for the data collection for credit risk (CR) benchmarking (BM) are specified in Annexes I-IV of the ITS. Annex I specify the benchmarking portfolios via a set of characteristics and Annex II provides the relevant definitions for this. Annex III contains the actual parameters and metrics that institutions are to report for the portfolios defined in Annex I. Finally Annex IV provides the definitions and descriptions relevant for Annex III. The proposed review of the ITS for the 2023 exercise has been developed with the objective to ensure that the CR BM data collection is:
  - a. Fit for purpose
  - b. Adjusted to the nature of the information
  - c. Specific to the analysis proposed, and
  - d. Expected to be stable for a foreseeable time horizon.
2. Starting from these objectives EBA proposes to keep the CR BM portfolios and metrics stable and shifting the focus to improving the clarity of the instructions. In this regard clarification is proposed for the reporting of default rates where the underlying definition of default has changed. In addition, a potential review of the data collection of loss-rates is discussed - which will however rather be used for future reviews of the ITS.

#### 3.1.1 Clarifications on the data collection in case of a change of the Definition of Default ('DoD')

3. As part of EBA's roadmap on the review of the IRB approach<sup>1</sup>, the relevant regulation for the identification of credit defaults has been reviewed. The deadline for the institutions for implementing both of the resulting policies, i.e. *"the guidelines on the definition of default (DoD) and the RTS on the materiality threshold is aligned with all other regulatory products developed as part of the EBA's regulatory review of the IRB approach, i.e. they apply at the latest from 1 January 2021 with regard to the application of the definition of default in default identification processes and have to be implemented in all rating systems by the end of 2021 or, in specific cases, the end of 2023. The final Guidelines on the application of the definition of default across the EU and the final draft RTS on the materiality threshold for credit obligations past due were published in September 2016<sup>2</sup>."*

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<sup>1</sup> [EBA publishes report on progress made on its roadmap to repair IRB models | European Banking Authority \(europa.eu\)](https://eba.europa.eu/eba-publishes-report-on-progress-made-on-its-roadmap-to-repair-irb-models)

<sup>2</sup> In this regard, the EBA also published an opinion on the national discretion to use 180 days past due, which proposes that the continued application of the exemption should be disallowed. See <https://eba.europa.eu/-/eba-advises-the-commission-to-disallow-the-application-of-the-180-day-past-due-exemption-for-material-exposures>

4. With the implementation of a common definition of default in institutions, the following clarifications are set out:
- a. Column c070 (“Default status”) in template C 101 in Annex I is to be reported in line with the implemented DoD as of the reporting reference date.
  - b. In templates C 102 and C 103 of Annex I, exposures shall be assigned to Portfolio-IDs based on their default status in line with the implemented DoD as of the reporting reference date.
  - c. For columns 0200 (Default rate past 5 years) and 0220 (loss-rate past 5 years) of template C103 in Annex III the institutions should reflect in the averages the defaults of a respective year with respect to the DoD that was in place in that year, i.e., defaults and default dates must be recorded under the DoD applicable at the time of the event. There is no expectation that banks report in these columns averages which relate to annual rates based on a newly (i.e., after the relevant reference date) implemented DoD for each year considered. Hence no backwards simulation of the new definition of default is expected.
  - d. However, if for these columns 0200 and 0220 institutions are able to report average default and loss-rates with respect to a consistent new DoD then the template allows this to be done on a voluntary basis. To allow to disentangle the potential difference in the reference of the relevant DoD among institutions, EBA will collect this information via a separate questionnaire.
  - e. Similarly, for columns c0160 of C 102 and C 103, one-off credit risk adjustments in connection with the implementation of the new DoD should be reported as recorded in the bank’s data base. Backward simulations should not be applied.
  - f. Finally, columns c050 – c090 of template C 105.01 should be reported reflecting the implemented and approved rating systems at the reference date.

**Question 1 for consultation:** For the purpose of reporting the above-mentioned fields, would you make use of the possibility to report the default and loss rate in template C 103 of Annex III with respect to a consistent but back-simulated definition of default or would you report these fields with respect to the definition of default that was in production at the time of the event? Please shortly explain the underlying reasons and your motivation.

### 3.1.2 Benchmarking of LGD

5. EBA has in addition to this started a discussion on a potential review of the currently used definition of loss-rate in template C 103 of Annex III. Due to the complexity of specifying a data collection related to historical losses, there is **no concrete proposal for the ITS 2023**. EBA rather seeks industry views on a number of issues and proposals that have been discussed in this regard. However, the

input on this aspect may feed into a review of the ITS 2024. The feasibility of such changes will therefore need to be explored further, before any changes are introduced, but preliminary views on how to ensure the reporting of robust and representative loss-rates are welcome.

6. Both - the breakdown of institutions IRB portfolios into more homogeneous benchmarking sub-portfolios and the use of the ratio of loss-rate over LGD as a benchmarking metric aim at ruling out business related differences over modelling choices when benchmarking LGD estimates. A direct comparison of LGD-estimates (instead of the before-mentioned ratio) would rather reflect differences in the business (i.e., different markets, different collection procedures, different collateralization etc.) than differences in the quality of the IRB approaches. Therefore, the current benchmarking for high default portfolios ('HDP') portfolios assesses the quality of the model by benchmarking the ratio between the average loss-rate and the average estimated LGD parameter per benchmarking portfolio. This methodology aims to limit the impact of business-related variability.
7. There are at least 3 reasons to consider a review of the current loss-rate definition:
  - a. ("Potentially insufficient normalisation capacity): Institutions may be assessed as outliers in the comparison of the ratio between the average loss-rate and the average estimated LGD parameter for a benchmarking portfolio due to the discrepancy in definition between the currently used loss-rate and the average LGD estimates. Specifically, the average LGD for the non-defaulted portfolios is based on all non-defaulted exposures as of the reference date whereas the currently used loss-rate (for the same portfolio) is defined only with respect to exposures which defaulted within the year before the reference date.
  - b. ("Potential back-testing capacity") The loss-rate could potentially (if defined in relation to the required calibration target for LGD estimation) serve as well to analyse how well the estimates forecast the later realised economic loss (back-testing).
  - c. ("Overlap with IFRS9 BM") EBA has recently started to benchmark in addition accounting models. As the currently used loss-rate provides the ratio between the sum of write-offs and provisions to the outstanding exposure at default for cases that defaulted in the year preceding the reference date, this metric seems to be better suited for the assessment of accounting models than for IRB models.

8. EBA is mindful that any data collection related to realised LGD might touch upon historic data (i.e., contracts and according information which is not available in the current operational systems anymore) and thus potentially create overproportionate operational burden. Any potential future solution will therefore need to take this into account.

**Question 2 for consultation:** To evaluate the complexity as well as the costs and benefits of a change in the definition of loss-rate in the context of the CR BM data collection the EBA seeks views on enhancing the CR BM exercise with respect to its ability to reveal significant underestimation of LGD on portfolios with comparable characteristics.

Industry views are welcome as regards the following questions:

- a) Please comment on the expected operational burden if a reporting of realised losses/realised LGDs with respect to closed cases would be required (e.g., either by benchmarking portfolio as specified in c103 of Annex 1 or by LGD model as specified in C105 of Annex III).
- b) Which alternative metrics could be used for the benchmarking of LGD estimates?

Responses to this question will not have a direct impact on the 2023 ITS. The input will therefore only be used as input for future reviews of the ITS.

**Question 3 for consultation:** In addition to the above discussed issues related to the reporting of a specific information, the EBA welcomes general comments where the clarity of the instructions could be improved.



## 3.2 Market risk

9. This year's update to the market risk benchmarking exercise extends the existing set of instruments and portfolios. This step is considered a natural upgrade of the exercise, as there has been stability in the composition of instruments and portfolios since 2019 exercise. This extension of the exercise ensures that the exercise is kept informative and to provide new insights for the supervisors and banks.

### 3.2.1 Change in reference numbering for instruments

10. The proposed changes in the CP 2023 introduce additional instruments to all asset classes in the exercise (EQ, IR, Fx, Cmd, CS and CTP). Since the proposal focuses on the new instruments (and new portfolios), there will be no fundamental change to the previous structure of the templates, i.e. only minor updates to Annex 6 (MR Template Instruction) and no update to Annex 7 (MR template). The main changes therefore solely relate to Annex 5, where new instruments are included.

11. In addition, there is a renumbering of the instruments. In the previous exercise, the instruments were identified by sequential numbers (e.g. 1 to 81) irrespectively of the asset class. This numbering implied that any addition or deletion of an instrument in the past led to a subsequent renumbering of the instruments. Hence identification numbers and associated risk classes of previously existing instruments also changed. Such changes led to confusion and possible mistakes in submissions.

12. To rectify this issue, this year's proposal introduces a new numbering, such that the instruments so that the numbers reset for any assets class. Hopefully, this change will help in the future in case the EBA wants to amend/improve the composition of the instruments of a specific asset class, it could do so without changing the reference of the others. The EQ asset class will be identified by the number 100, and the IR will be 200, Fx will be 300, Cmd will be 400, CS will be 500, and CTP will be 600. The description of the instruments remains unchanged for the old instruments. This stability will help keep continuity in the exercise and avoid interpretation mistakes, providing a stable core of information to EBA on the market model benchmarking. The table below will support the visualisation of the changes in the numbering of the portfolio.

| Instruments - Assets classes |           |            |  |           |            |     |
|------------------------------|-----------|------------|--|-----------|------------|-----|
|                              | EQ        |            |  | IR        |            |     |
| ITS 2022                     | 1 - 18    |            |  | 19 - 38   |            |     |
| ITS 2023                     | 101 - 118 | 119 - 124* |  | 201 - 220 | 221 - 224* |     |
|                              | Fx        |            |  | Cmd       |            |     |
| ITS 2022                     | 39 - 47   |            |  | 48 - 51   |            |     |
| ITS 2023                     | 301 - 309 | 310 - 311* |  | 401 - 404 | 405*       |     |
|                              | CS        |            |  | CTP       |            |     |
| ITS 2022                     | 52 - 79   |            |  | 80        |            | 81  |
| ITS 2023                     | 501 - 528 | 529 - 534* |  | -         | 601 - 610* | 611 |

\*added instruments (Industry input)

**3.2.2 New Instruments**

13. From the table above, it should be clear that there are a substantial number of new instruments in the exercise. To be specific: six new EQ instruments, four new IR instruments, four new Fx instruments, one new Cmd instruments, six new CS instruments, and ten new CTP instruments. For a total of 31 new instruments are added to the exercise.

14. The expansion of the instruments in the exercise is needed to increase the scope of the observation provided to competent authorities on the performance of the market risk model.

15. Also, this increases the significance and representativeness of the instruments in the exercise, which have been criticised in the past to be too simple to represent an accurate composition of the assets in the banks’ trading books.

16. It should be noticed, that EBA has also been in contact with the ISDA industry group, which is conducting a benchmarking exercise<sup>33</sup> alongside EBA’s exercise, which was based initially on the EBA set of instruments. The ISDA benchmarking exercise evolved with time, from the Market Risk standardised method to SACCR and CVA, and so it evolved in the instruments’ composition of the exercise. Therefore, in order to increase the variety of the instruments, the EBA decided to adapt the new instruments to some of the instruments already applied by the industry.

<sup>33</sup> <https://www.isda.org/2020/06/17/isda-sa-benchmarking/>

17. By adapting existing portfolios, this should facilitate the introduction of new instruments, as institutions will already be familiar with these instruments. Moreover, these instruments have already shown at least some degree of consensus on their significance among banks.

18. It is however clear that not all of the instruments can be directly replicated, as there is an EU-focus in the EBA exercise, which should prevail when choosing specific instruments. Therefore, where needed, these industry instruments were updated while keeping the substantial structure of the instruments, but adapting it to the EU market (e.g., the underlying index or issuer were substituted with a European equivalent where needed).

19. In this regard, as it can be seen in Annex 5, sections 2 and 5 for the details, the following instruments are new with respect to the previous exercise.

**a. Equity instruments**

20. Instrument 119 - Long Call on Euro Stoxx 50; Instrument 120 - Long Call on Euro Stoxx 600; Instrument 121 - Long Call on VIX; Instrument 122 - Long Capped Index Variance Swap; Instrument 123 - Long Total Return Swap and Instrument 124 - Short position in EU equity.

**b. Interest Rate instruments**

21. Instrument 221 – 10 YS IR Swap on ESTER; Instrument 222 – Inflation link bond; Instrument 223 – 5-year Zero Coupon Inflation swap; Instrument 224 – Two-year EUR swaption (OTM) on 5-year interest rate swap.

**c. FX instruments**

22. Instrument 310 - 6-month EUR/DKK forward contract; and Instrument 311 - 6-month EUR/BRL Non deliverable forward contract.

**Commodities instruments**

23. Instrument 405 – Long Call on gold.

**CS instruments**

24. Instrument 528 – Long CDS on iTraxx Europe; Instrument 529 – Short Put on iTraxx Europe; Instruments 530 - 534 – Long positions on callable bonds with different maturities.

**CTP instruments**

25. Instrument 601 - 610 – A series of positions on iTraxx Europe and CDS on iTraxx Europe.

### 3.2.3 New portfolios, with updated numbering and Annex 6 amendment

26. As noted in the previous sections, a series of instruments were added to all assets classes. Moreover, the numbering of the old (i.e., same as the previous exercise) instruments were updated. Consequently, the references of instruments in the portfolios had to be updated.

27. The reference number of the portfolios is also updated, following the same logic of the instruments. The numbering of the individual and aggregated portfolios is now defined in “thousands” and restarts from 1 for each assets class (i.e., the first portfolio of Equity instruments is 1001, the first portfolio of IR instruments is 2001 etc.).

28. Also, new portfolios had to be added to reflect the new instruments, as described in the previous section. Moreover, a few portfolios were added to reflect some hedging strategies as suggested in the EBA 2014 CP<sup>4</sup>.

29. The new individual portfolios’ reference numbers compared to the old ones (ITS 2022) are reported in the table below.

30. Finally, In Annex 6, in the section “C 108.00 - Profit & Loss Time Series” of Annex VI, in the second table, in the first row of the fourth column (Instructions), the date ‘28 January 2022’ is replaced by the more general provision ‘the RM (and final SBM) final reference date, Annex 5, Section 1 letter (b)(v) of this Implementing Regulation’. In a nutshell, every year, banks with historical simulation models are required to provide a series of one-year P&L, to allow EBA to generate a VaR and ES comparable with the data submitted by the banks. Since this date merely roll-over from one year to another with respect to the remittance dates of the Risk measure of the exercise, it simplifies the ITS amendment process to just put the reference to the date specified in Annex 5.

| Portfolios - Assets classes |             |               |               |               |             |               |               |
|-----------------------------|-------------|---------------|---------------|---------------|-------------|---------------|---------------|
|                             | EQ          |               |               |               | IR          |               |               |
| ITS 2022                    | 1 - 10      |               |               |               | 11 - 27     |               |               |
| ITS 2023                    | 1001 - 1010 | 1011 - 1013*  | 1014 - 1018** |               | 2001 - 2017 | 2018 - 2019*  | 2020 - 2024** |
|                             | Fx          |               |               |               | Cmd         |               |               |
| ITS 2022                    | 28 - 32     |               |               |               | 33 - 35     |               |               |
| ITS 2023                    | 3001 - 3005 | 3006 - 3007** |               |               | 4001 - 4003 | 4004**        |               |
|                             | CS          |               |               |               | CTP         |               |               |
| ITS 2022                    | 36 - 53     |               | 37 - 59       |               | 54          |               | 55 - 56       |
| ITS 2023                    | 5001 - 5018 | 5019*         | 5020 - 5022   | 5023 - 5027** | -           | 6001 - 6005** | 6006 - 6007   |

\*added instruments (EBA 2014 CP input)

\*\*added instruments (Industry input)

<sup>4</sup> [Annex VII.a - EBA Market benchmark portfolios.pdf \(europa.eu\)](#)

**Questions 4-6 for consultation:**

**Question 4:** Do you agree with the new instruments added, according to section 3.3.2? Please provide any issues specified by instruments and provide an actual suggestion of potentially missing information in the instruments' descriptions (as provided in Sections 2 and 5 of the Annex 5 of these ITS).

**Question 5:** Do you agree with the new portfolios added, according section 3.3.3? Please provide any issues specified by portfolio and provide an actual suggestion to clarify the potentially misspecification in the portfolios' composition (as provided in Sections 3 and 4 of the Annex 5 of these ITS).

**Question 6:** Do you agree with the current wording provided in the Instruction of Annex 5, Section 1 in the letter (aa)? Please provide any suggestion that would be required, in your opinion, to update the instruction.

## 4. Draft implementing standards

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EBA/GL-REC/20XX/XX

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DD Month YYYY

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Draft implementing technical standards  
amending Commission Implementing  
Regulation (EU) 2016/2070

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on benchmarking of internal models



**COMMISSION IMPLEMENTING REGULATION (EU) No .../...  
of [date]**

**amending Implementing Regulation (EU) 2016/2070 as regards benchmark portfolios,  
reporting templates and reporting instructions to be applied in the Union for the  
reporting referred to in Article 78(2) of Directive 2013/36/EU of the European  
Parliament and of the Council**

THE EUROPEAN COMMISSION,

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

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC<sup>1</sup>, and in particular Article 78(8) the third subparagraph thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) 2016/207<sup>2</sup> specifies the reporting requirements for institutions to enable the European Banking Authority ('EBA') and competent authorities to monitor the range of risk weighted exposure amounts or own funds requirements for the exposures or transactions in the benchmark portfolio resulting from the internal approaches of those institutions and to assess those approaches as required by Article 78(3) of Directive 2013/36/EU.
- (2) Considering that, pursuant to Article 78(1) of Directive 2013/36/EU, the benchmarking exercise is of at least annual duration and that the focus of the competent authorities' assessments and of EBA's reports has changed over time, in order to identify areas where further regulatory guidance is needed exposures or positions that are included in the benchmark portfolios, and therefore also reporting requirements, need to be adapted accordingly. It is therefore appropriate to amend Annexes IV, V and VI to Implementing Regulation (EU) 2016/2070.
- (3) Implementing Regulation (EU) 2016/2070 should be amended accordingly.
- (4) This Regulation is based on the draft implementing technical standards submitted to the Commission by the EBA.
- (5) EBA has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and

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<sup>1</sup> OJ L 176, 27.6.2013, p. 338–436.

<sup>2</sup> Commission Implementing Regulation (EU) 2016/2070 of 14 September 2016 laying down implementing technical standards for templates, definitions and IT-solutions to be used by institutions when reporting to the European Banking Authority and to competent authorities in accordance with Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council (OJ L 328, 2.12.2016, p.1).



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>3</sup>.

HAS ADOPTED THIS REGULATION:

*Article 1*

Implementing Regulation (EU) 2016/2070 is amended as follows:

- (1) Annex IV is replaced by the text in Annex IV to this Regulation;
- (2) Annex V is replaced by the text in Annex V to this Regulation;
- (3) Annex VI is replaced by the text in Annex VI to this Regulation.

*Article 2*

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*

*On behalf of the President*

*[Position]*

**ANNEX**

Annex IV (Credit Risk Benchmarking)  
Annex V (Market Risk Benchmarking)  
Annex VI (Market Risk Benchmarking)

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<sup>3</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).



## 5. Accompanying documents

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### 5.1 Draft cost-benefit analysis for changes related to credit and market risk benchmarking

Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal model approaches, used for the calculation of own funds requirements, and requires the EBA to produce a report to assist them in this assessment. The report of the EBA relies on data submitted by institutions in accordance with EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions to be used by the institutions as part of the annual benchmarking exercise, when using internal model approaches for market and credit risk.

The current draft ITS aim to update the previous ITS for the benchmarking data collection with the purpose of improving the exercises and adapting to the relevant policy changes which will be applicable by end 2022 and thus relevant for the 2023 exercise.

With regard to the EBAs market risk benchmarking data collection, the purpose is to extend the set of instruments to keep the exercise relevant and informative for banks and supervisors joining the exercise.

With regard to the credit risk and IFRS9 benchmarking data collection no new portfolios or metrics have been introduced. Therefore, no in-depth impact assessment is considered relevant.

As per Article 15(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any ITS developed by the EBA shall be accompanied by an Impact Assessment (IA) annex which analyses 'the potential related costs and benefits' before submitting to the European Commission. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

For the purposes of the IA section of the Consultation Paper, the EBA prepared the IA with cost-benefit analysis of the policy options included in the regulatory technical standards described in this Consultation Paper. Given the nature of the study, the IA is mainly high-level and qualitative in nature including quantitative analysis when possible.

#### A. Problem identification

With regards to the market risk benchmarking data collection, the previous ITS for benchmarking data collection has remained substantially stable, in terms of set of instruments in scope of the exercise, since the change in the instruments/portfolios definition for the 2019 exercise.



## B. Policy objectives

The general objective of the current ITS is to update the previous ITS for benchmarking data collection.

The main objective of the implementation of the current draft Benchmarking ITS is the The specific objective for market risk is to extend the set of instruments and portfolios to be benchmarked, to keep them relevant and informative for banks and supervisors participating to the exercise, without changing the framework of the data collection.

harmonisation of the current reporting framework rules amongst EU institutions. This would foster the strategic objective is to create a supervisory and reporting environment to ensure that institutions apply consistent modelling and valuation techniques. The following sections examine the options that could create such an environment, as well as the net impact that the implementation of such solutions implies.

## C. Baseline scenario

For the market risk part of the exercise, for most EU institutions, the current status of reporting the results of modelling and valuations implies the usual potential operational costs and miscalculations, which lead to over- or under- valuation of the reported values for the purposes of the benchmarking exercises. Since the extent and magnitude of over- or under-valuations cannot be identified, the impact assessment focuses on the assessment of the net impact on the institutions' operations.

## D. Options considered

When developing the draft ITS, the EBA considered the following options:

### **Option 1: “do-nothing”**

This option implies that credit institutions continue reporting data for the benchmarking exercise:

- Using just the same hypothetical portfolios as defined for the exercises up to date.
- Using the current guidance, templates and portfolios for the credit risk exercise.

For the market risk part of the exercise, the continuation of application of just the previous set of instruments, assumes that credit institutions and the EBA have the usual operational cost assigned to providing clarifications and ensuring the consistent submission of data.

The ‘do nothing’ option would imply leaving the Implementing Regulation on market risk benchmarking unchanged, Annex V, would result in obtaining almost the same results of the previous exercise, with a loss of relevance and significance for banks and competent authorities in the data collection.



## Option 2: revision of the guidance related to the benchmarking exercises

The main arguments that support the revision of the composition of the instruments in the benchmarking exercises are:

- (i) to enhance the significance of the benchmarking exercises across all EU credit institutions,
- (ii) potentially providing new insights in the different functioning of the market risk model

For the market part of the exercise, the current ITS could achieve the objective by expanding the set of instruments and portfolios collected. With some new additional instruments, slightly more complex of the usual set of plain vanilla instruments, the data collection could be more relevant, in terms of be closer to the instruments the banks actually trade in their trading book, and more informative, providing new element of analysis, for banks and competent authorities.

### E. Cost-Benefit Analysis

The principle of proportionality applies to all aspects of the impact assessment, including methodology, depth of analysis, level of detail and necessity of quantitative analysis. Being consistent with this principle, the EBA Staff follows the principle of proportionality when conducting of the cost-benefit analyses. Given that the implementation of the current ITS would not have a detrimental impact, the following analysis focuses on the qualitative characteristics. In doing so, it provides rough estimations on the net monetary impact that relates to the conduct of benchmarking exercises.

The net impact on capital requirements, implied by the implementation of the current guidelines, cannot be precisely assessed because, substantially, it would depend on further actions agreed by institutions with NCAs in response of the benchmarking exercise results; however, it is expected to be on average close to zero due to the hypothetical market portfolio exercise framework.

#### Market risk:

##### *Option 1*

**Costs:** a possible loss of informativeness in the data collection, that would be substantially identical to the previous one.

**Benefits:** one-off benefits (reduction of the existing operational costs) of not dedicating human resources to the drafting the present ITS.

##### *Option 2*

**Costs:** the one-off cost of dedicating EBA staff to the drafting of the ITS. There is also a source of negligible cost that relates to the need the EBA to explain the new set of instruments to the national competent authorities and, through them, the participating credit institutions. However, it is to be



noted that the data requested with the new instruments could not be too burdensome, since the instruments are not too exotic and some banks already know them well because some banks apply them (or very similar instruments) in the industry benchmarking exercise.

**Benefits:** the benefits of this option arise from providing new information and data on new instruments, that would trigger the provision of additional insights to competent authorities, and would keep relevant the exercise for the banks involved.

#### F. Preferred option

The EBA considers that although these benefits are not directly observable and are spread in time, they are not negligible and they are considered more important than the costs enumerated above. For this reason, the preferred option is Option 2.



### 5.3 Overview of questions for consultation

**Question 1:** For the purpose of reporting the above-mentioned fields, would you make use of the possibility to report the default and loss rate in template C 103 of Annex III with respect to a consistent but back-simulated definition of default or would you report these fields with respect to the definition of default that was in production at the time of the event? Please shortly explain the underlying reasons and your motivation.

**Question 2:** To evaluate the complexity as well as the costs and benefits of a change in the definition of loss-rate in the context of the CR BM data collection the EBA seeks views on enhancing the CR BM exercise with respect to its ability to reveal significant underestimation of LGD on portfolios with comparable characteristics.

Industry views are welcomed as regards the following questions:

- a) Please comment on the expected operational burden if a reporting of realised losses/realised LGDs with respect to closed cases would be required (e.g., either by benchmarking portfolio as specified in c103 of Annex 1 or by LGD model as specified in C105 of Annex III).
- b) Which alternative metrics could be used for the benchmarking of LGD estimates?

Responses to this question will not have a direct impact on the 2023 ITS. The input will therefore only be used as input for future reviews of the ITS.

**Question 3:** In addition to the above discussed issues related to the reporting of a specific information, the EBA welcomes general comments where the clarity of the instructions could be improved?

**Question 4:** Do you agree with the new instruments added, according to section 3.3.2? Please provide any issues specified by instruments and provide an actual suggestion of potentially missing information in the instruments' descriptions (as provided in Sections 2 and 5 of the Annex 5 of these ITS).

**Question 5:** Do you agree with the new portfolios added, according section 3.3.3? Please provide any issues specified by portfolio and provide an actual suggestion to clarify the potentially misspecification in the portfolios' composition (as provided in Sections 3 and 4 of the Annex 5 of these ITS).

**Question 6:** Do you agree with the current wording provided in the Instruction of Annex 5, Section 1 in the letter (aa)? Please provide any suggestion that would be required, in your opinion, to update the instruction.