EUROPEAN BANKING AUTHORITY

EBA/CP/2019/15

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Consultation Paper

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

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1. Responding to this consultation

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 13.02.2020. 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 (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

Article 78 of Directive 2013/36/EU (CRD IV) 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 against which individual institutions' risk parameters can be compared. These benchmark values are based on data submitted by institutions as laid out in EU Regulation 2016/2070 which specifies the benchmarking portfolios, templates and definitions to be used as part of the annual benchmarking exercises.

For the 2021 benchmarking exercise, changes to the reporting templates and instructions are necessary in particular to integrate the sub-set of templates dedicated to the IFRS 9 benchmarking.

The EBA supervisory benchmarking already served three major objectives, the first one being the abovementioned supervisory assessment of the quality of internal approaches. It also provides as well a powerful tool to explain and monitor RWA variability over time and the resulting implications for prudential ratios. In this role it triggered among others the development of EBAs Guidelines on PD and LGD estimation and the treatment of defaulted assets, published on the 17 November 2017. Lastly the Benchmarking results as well provide the banks with valuable information on their risk assessment compared to other banks assessment on comparable portfolios. These three objectives are better achieved with the integration of IFRS 9 benchmarking templates, where the most relevant sources of variability arising from the implementation of the new accounting standard and the respective consequences in terms of prudential ratios could be identified and monitored.

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.

The 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

1. Article 78 of Directive 2013/36/EU (CRD IV) requires competent authorities to conduct an annual assessment of the quality of internal approaches used for the calculation of own funds requirements. The same article requires the EBA to produce a report to assist competent authorities in this assessment.

2. The EBA's report is based on data submitted by institutions in accordance with EU Regulation 2016/2070, which specifies the benchmarking portfolios, templates, definitions and IT solutions that should be used as part of the annual benchmarking exercises by institutions using internal approaches for market and credit risk.

3. With the first application of IFRS 9 in January 2018 (the new accounting standard applicable to financial instruments), one of the most recent challenges for regulators and supervisors is to ensure a high-quality and consistent implementation of this standard, since the outcome of the expected credit loss (ECL) calculation will directly impact the amount of own funds and regulatory ratios. With this in mind, the EBA launched a number of initiatives[1] to monitor and promote a consistent application of IFRS 9 working as well on its interaction with prudential requirements.

4. The link with prudential requirements reinforces the need for scrutiny from regulators and supervisors to achieve a high-quality implementation of this new accounting standard. The concept of a benchmarking exercise for IFRS 9 modelling builds on the reasoning that regulators and supervisors can leverage on their expertise on the prudential models and on the benchmarking of these models. One of the main goals would be to identify the most relevant sources of variability and the respective consequences in terms of prudential ratios. It is important to note that this exercise is focused on the quality of parameters and modelling choices and not on the risk appetite of banks' management bodies.

5. Given the commonalities between IRB models for credit risk and IFRS 9 models, it is deemed appropriate to use the current benchmarking tool and therefore to build on the existing ITS on supervisory benchmarking in conducting the IFRS 9 benchmarking exercise. For this reason, changes are suggested to Regulation 2016/2070 in order to integrate in the current set of templates additional templates dedicated to IFRS 9, collecting information in terms of parameters to measure ECL and other relevant information. The changes are described separately in the following sections.

6. While the analysis of the submissions by the banks are still ongoing at the time of the publication of this CP, it is believed that the preliminary analysis gives already confidence about

[1] Please see IFRS 9 Roadmap published in July 2019 (https://eba.europa.eu/eba-publishes-its-roadmap-on-ifrs-9-deliverables-and-launches-ifrs-9-benchmarking-exercise)

the type of data to be collected. The analysis will continue during the consultation process, while the input from respondents to this consultation will also help finalizing the templates for this first amendment linked to IFRS9 and while more dedicated feedback will be ensured to the banks which participated in the ad hoc data collection. While only the quantitative templates would be integrated in the ITS as per the current format of the ITS, the EBA will reflect further how to associate the qualitative templates to the submission of the data when time comes.

7. As indicated in the published IFRS 9 Roadmap, the EBA launched a temporary ad hoc quantitative data collection, accompanied by a qualitative questionnaire on modelling aspects. This approach allowed the testing of the parameters to be collected before proposing its integration into the ITS, creating an opportunity to reflect on the appropriate calibration of the data collection specified in the ITS for IFRS 9 purposes.

8. As also indicated in the roadmap, the EBA will continue working on the integration of more parameters in the ITS, based on a staggered approach. Close discussions with all stakeholders will continue in this regard.

Questions for consultation *on the integration of IFRS 9*

Q1. Do you agree with the necessity to complement the quantitative data collection with qualitative templates?

Q2. In your view, which aspects, from a LDP perspective, are relevant to investigate from a qualitative perspective, where there might be different practices leading to different impact across institutions?

3.1 Credit risk IRB templates

9. No major change are proposed in the credit risk templates to the supervisory benchmarking ITS, apart from three changes:

    a. Some marginal changes have been applied to annex 1, in order to collect the counterparties treated under the standardized approach for the IFRS 9 template. This list of counterparties should not be reported in annex 3 and has therefore no impact on the IRB template.

    b. The temporal exemption to report the RWA calculated under the standardized approach have been deleted. As a background information, this data point has already been collected for the HDP (template C 103) since the 2019 exercise, and the majority of institutions did not use the exemption for the LDP (only 16 institutions did not report the RWA under the standardized approach in the template C102)

    c. The hypothetical RWA collected in template C103 (data points 250 – RWA-, 260 – RWA+, 270 – RWA--, 280– RWA++) are now also collected at the rating split level.

Explanatory box for consultation purposes

The data collection of hypothetical RWA is assessed by the EBA as adding very little burden on the intuition, since these numbers should already be computed (and therefore available) for each rating grade. On the benefits of this additional collection, the EBA notes that it would allow additional basic data quality checks and increase the number of possible analysis by adding an empirical risk based metric at the grade level.

However, the EBA is mindful that the reporting burden may still be substantial even if the data points required are already calculated by the institution, as it may require further IT reporting system changes. Therefore, the final decision to collect these hypothetical RWA will consider how this extension balance adequately the aim of ensuring stable reporting requirements, and thereby a low reporting burden, with the improvements in data quality and analytical use.

Questions for consultation

Q3 Do you have any concerns on the three changes applied to the credit risk IRB templates? In particular, do you believe the extension of the data collection for hypothetical RWA will add a significant burden to the exercise?

3.2 Market risk templates

10.No major change are proposed in the market risk templates to the supervisory benchmarking ITS. Some marginal changes have been applied in Annex 6, to improve the quality of the wording in the legal text.

11.2 Box added for consultation in annex 5, in order to collect information on two specific issues:

a. How and if the reference dates should be set in a more general terms

b. How to update the IBOR references in the ITS

12.With respect to the reference dates, the EBA is looking for a standardised manner in order to avoid to reset every year the market risk references date in the common instructions of annex V, point (b). The alternative drafting proposal for point (b) could be:

(b) The following dates shall apply for the exercise:

(i) The booking date shall be the 3rd Thursday of September of Year T-1;

(ii) the IMV reference date shall be 5 working days after the booking date referred to in point (i) at 5:30 pm CET - 4.30 pm GMT;

(iii) the IMV remittance date shall be the 1st Friday of October of year T-1;

(iv) the RM initial reference date shall be the 3rd Monday of January of Year T;

(v) the RM final reference date shall be 10 working days after the RM initial reference date referred to in point (iv)];

(vi) the RM remittance dates shall be the 4th Friday of February of Year T;

(vii) for (i-iii) IMVs references dates "year T-1" is equal to "every single calendar year". For the RMs reference dates shall be the year T where "year T" is equal the following year after the year T-1, as defined in (i) the booking date.

(viii) Where any of the dates specified in points (i) to (vi) is a festive day, the submitter shall use the first non-festive day after that date.

Questions for consultation

Q4: Stakeholders are invited to express their view on the new reference date specification with respect the precedent method to specify the reference dates for the exercise.

13. The EBA acknowledges the necessity to update the references to EURIBOR and LIBOR in the definition of the instruments in section 2, following the EU Benchmarks Regulation.

14. It is understood that for the IBORs, Competent Authorities are encouraging efforts to develop robust alternative benchmark rates while also pursuing current IBOR reforms, and it is recognised that the transition to such rates may take longer than 2021.

15. In order to consider EU Benchmarks Rate Regulation within the Benchmark exercise, EBA is considering this alternative drafting proposal for in the common instructions of annex V, point (aa):

(aa) The Euro Interbank Offered Rate ('EURIBOR') shall refer to the rate calculated by the European Money Markets Institute at different maturities for EURO interbank term deposit. The London Interbank Offered Rate ('LIBOR') is the rate calculated by the Intercontinental Exchange at different maturities for interbank term deposit in different currencies. Institutions shall apply the EU Benchmarks Regulation for the interest rate in order to substitute the reference rate ('EURIBOR') and ('LIBOR') stated in section 2 of this Annex. Institutions shall specify the alternative rate the use in place of the reference rate ('EURIBOR') and ('LIBOR') in the explanatory note at in point (d) and (e) of these instructions.

Questions for consultation

Q5: Stakeholders are invited to express their view on the implementation of the Benchmarks Regulation, in terms of which rate to apply in the instruments in the market risk exercise.

3.3 IFRS 9 templates

16. The IFRS 9 templates are based solely on low default portfolios (LDP). The IFRS 9 benchmarking exercise will follow a staggered approach and it was considered adequate to consider as a starting point the list of common counterparties previously defined for the purpose of the credit risk benchmarking exercise.

17. The main objective of the current set of templates is to collect quantitative data on the IFRS 9 ECL parameters and other relevant information that, combined with a qualitative questionnaire to be filled by the institutions separately, would allow to have a good understanding of the different methodologies, models, inputs and scenarios could lead to material inconsistencies in ECL outcomes, affecting own funds and regulatory ratios.

18. The initial focus on LDP is expected to allow an analysis of ECL without undue variability. It should create insights into the value of IFRS 9 parameters to which institutions have common exposures. Some additional IFRS 9 parameters will be collected for this purpose (e.g. probability of default (PD) under IFRS 9 by counterparty and by economic scenario/facility). In the first stage of the exercise, these new parameters will focus on PD, on three different aspect of the accounting framework:

    a. The analysis of the variability of the 12 months - PD parameters

    b. The analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curve and the macro economic scenarios

    c. The analysis of variability of practices in the SICR assessment

19. However, the template for the data collection leaves aside other risk parameters and other potential areas of interest. These include in particular the LGD and the outstanding amount, which may be included in the analysis in the medium term.

3.3.1 Analysis of the variability of the 12 month

20. During the conception of the template, the EBA has made itself aware of differences in PD philosophies behind regulatory and accounting modelling. Given that previous reports [2]have shown that most of the institutions leverage on their existing IRB models, the following concepts have been discussed in an attempt to work out the relationship between the regulatory (IRB) PD and the accounting (IFRS 9) PD:

    a. **PD IRB**: The PD IRB is the probability of default estimated in accordance with Article 180 CRR. Regulatory (IRB) PD estimates should be derived from long run averages of

[2] As mentioned in the EBA 2nd impact assessment on IFRS 9, page 25: Link

one-year default rates. Furthermore, regulatory PD parameters are subject to floors and margins of conservatism.

b. **PD TTC**: The through the cycle (TTC) PD reflects the risk of default occurring over the economic cycle. Through the cycle parameters respond smoothly to economic fluctuations and are less sensitive to short run changes of the cycle. Although PD TTC is not defined in any regulatory text (the CRR does not clearly set a requirement for the IRB PDs to be TTC), the requirement to estimate PDs from long run averages implies a certain regulatory objective towards TTC parameters[3]. In this sense, the definition builds on the PD IRB, for example defining it as PD IRB without conservative adjustment (such as input floors or supervisory add-ons)

c. **PD PIT**: The point in time (PIT) PD reflects the risk of default occurring considering the current macroeconomic situation. Point in time parameters are more volatile than through the cycle parameters as they move (up and down) with the economic cycle. Although PD PIT is not defined in any regulatory text the definition builds on the PD IFRS 9, for example defining it as PD IFRS 9 without forward looking adjustment

d. **PD IFRS 9 (PD FLI):** The IFRS 9 PD is an unbiased and probability-weighted estimate that is determined by evaluating a range of possible outcomes and reflects the risk of default considering reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. In this sense, the IFRS 9 PD is neither TTC nor PIT. The IFRS 9 PD should incorporate anticipated changes of macroeconomic conditions and as such may be described as a PIT PD plus an adjustment for forward looking information/ macroeconomic forecasts. However, banks' approaches for the application of FLI adjustments to the PIT PD may be different.

21. The EBA was also aware of the difficulties to fully decompose the changes in variability between the IRB and the IFRS 9 models, in particular due to the lack of definitions related to these intermediate steps. As a consequence, the data collection of the 12 Mouths PD is limited to key IFRS 9 data points, with only one intermediate step *("PD - IRB without conservative adjustments")*

Questions for consultation

Q6. Do you see any issues or lack of clarity in the definition of the data points of template 111.01?

[3] However, in practice regulatory PDs may not be truly TTC but rather of a "hybrid" nature, i.e. with characteristics of both TTC and PIT. Some banks may even see their regulatory PDs as PIT on the grounds of regulatory expectations to consider all relevant information in the PD calibration. Similar conclusions have been reached in the EBA "Report on the comparability of supervisory rules and practices" from December 2013, page 27-28. Against this background, it is important to keep in mind that banks may have a different starting point in terms of rating philosophy and this will have implications on the way they derive IFRS 9 PDs from regulatory PDs. In particular, banks may not be using the parameter TTC PD as an input in their IFRS 9 models if they do not regard their regulatory PDs as TTC.

Q7. Do you see the need to adjust or add any variable for the intended outcome? Please specify.

Q8. Would you see any particular problem in filling some of the data requested? For which reasons? *Please give your comments related to the PD 12month and the economic scenario in question 7.*

3.3.2 Analysis of the variability of the macroeconomic forecasts and the interaction between the lifetime PD curve and the macro economic scenarios

22. With respect to the analysis of the lifetime PDs, the EBA was in the view to split the analysis in two separate steps:

    a. First, in the template 111.04, the variability of the economic scenario is assessed via the variability of one macroeconomic variable forecast, namely the GDP.

    b. Second, in the template 111.02, the variability of the PD curve measured for each economic scenario defined in the previous step.

23. On the variability of the economic scenario, one of the key challenges is to balance simplicity and accuracy. While it is clear that forward-looking information cannot be captured by only one macroeconomic variable, the need for a manageable template size and the necessity to ensure a sufficient number of institutions forecasting the macroeconomic variables at stake prompted to collect only one macroeconomic forecast per countries of the counterparties used in the benchmarking exercise. In the case the institutions are not using a discrete number of macro-economic scenarios (for instance, because they are using Monte Carlo simulation for the PD), the template 111.04 should not be populated.

24. With respect to the PD curves, the EBA decided to collect not only the PD curves for each of the economic scenarios reported in template 111.04, but also the actual PD curve used for the calculation of the impairments. While it is expected that this PD can be recomputed based on the PD of each economic scenarios and the scenarios weights reported in the template 111.04, this data field is especially helpful for banks that do not use a discrete number of macro-economic scenarios.

Explanatory box and questions for consultation

The definition of the different concept of PDs is particularly important when performing a benchmarking analysis, as unclear definitions creates the risk of calculating biased benchmarks on values with a different economic meaning. In particular, two set of data points will be heavily analysed: the PD 12 month collected in the template 101.01, and the PD curves related to the economic scenario 1 (“baseline” scenario) and the economic scenario 0 (which is used to collect the PD considered in the application of the impairment requirement under IFRS 9). It is therefore very important to specify how these data points should be reported depending on the type of modelling approach used by the institutions in order to ensure that any benchmarking analysis

is based on comparable data. In this regard, on the basis of the evidences collected from the practices adopted by banks, three main approaches can be identified:

a. **Approach 1**: The ECL amount is calculated as a probability weighted ECL of each scenario via the calculation as an intermediate step of all risk parameters for each scenario. One additional relevant distinction is between models that use a low number of scenario (i.e. below 5) and those that use Monte Carlo like simulation. Under this approach, a weighted average PD is requested.
b. **Approach 2**: The PDs are developed only for a single forward looking economic scenario (i.e. the baseline scenario), and this number is not adjusted to take into account non-linearity effects in any further step. This is the case when the non-linearity effects are considered to have a non-material impact on ECL ([4]).
c. **Approach 3**: This approach differs from approach 1 and 2. The estimate of ECL is based on a forward-looking economic scenario (i.e. the baseline scenario) but, differently from Approach 2, an adjustment is applied to reflect the non-linearity effects. The EBA noted that different practices are applied by banks using such an approach. In particular, the EBA understands that in some cases the adjustment is applied at PD level, in order to include non-linear effects in the assessment of "significant increase in credit risk". However, other banks envisage the application of an adjustment only at the ECL level and it is not possible to allocate the ECL adjustments to the PDs without any assumptions and/or simplifications (for example due to the link with the LGD parameter). For those banks, the EBA will consider, on the basis of the feedback received from the public consultation, the approach to follow in reporting the data requested below, with the aim of ensuring that the data is collected on a consistent basis.

Based on these considerations, the EBA is proposing the following reporting of the data points, depending on the approach used by the institutions:

[4] As for instance in the case where there is a linear relationship between the range of forward looking economic scenarios and the resulting Expected Credit Losses.

	Approach 1		Approach 2	Approach 3
	Non linearity in ECL		*No non linearity in ECL*	*Non linearity in ECL*
	Low number of scenarios	*High number of scenarios*	*PD for one scenario available*	*PD for one scenario available*
PD sce 1 - 5 (template 111.02)	**Reported**	**Reported** ([5])	**Reported** *Only PD (scenario 1)*	**Reported** *Only PD (scenario 1)*
PD sce 0 (template 111.02)	**Reported** *= probability weighted average PD*	**Reported** ***= probability weighted average PD***	**Reported** *(= PD (scenario 1))*	**Reported** *(To be defined [6])*
PD 12M (template 111.01)	**Reported** = PD (scenario 0)	**Reported** = PD (scenario 0)	**Reported** *= PD (scenario 0)* *(= PD (scenario 1))*	**Reported** *(To be defined [7])*

The above categorisation is aimed at ensuring that the data reported by those banks in the scope of the ITS can be considered comparable, regardless of the approach used in incorporating forward looking information for the purpose of the ECL measurement. It is not intention of the EBA to create sub-categories for the benchmarking that could reduce the meaningfulness of the exercise. Therefore, the opportunity to keep such a classification would be re-considered by the EBA on the basis of the feedback received during the consultation period.

Q 6. Do you see any issues or lack of clarity in the definition of the data points of template 111.04? Please explain.

[5] If a mapping is possible. In case no relevant mapping can be done between bank's internal scenario and the 5 prescribed scenario, only scenario 0 should be populated

[6] If an add-on at the PD level can be defined. Where this add on is not defined at the PD level, the instructions in annex 9 of this CP currently envisage not to report this data point. Nevertheless, the EBA will further reflect on the most appropriate manner to report this data point using the feedback the consultation.

[7] Idem as in footnote [6].

Q9. Do you see any issues or lack of clarity in the definition of the data points of template 111.02? Please explain.

Q10. Do the categorisations reported above reflect the approach applied by your bank, in incorporating forward looking information? If not, please explain what are the main differences.

Q11. For banks applying Approach 3, what will be, in your view, an appropriate approach for reporting the data related to the PD in scenario 0 (i.e. the PD considered in the application of the impairment requirements under IFRS 9)? Do you think that, (if available) a probability weighted average PD represents an appropriate proxy? Do you think that the PD used for the SICR assessment represents an appropriate proxy? If not, what other approach do you suggest to report this data?

Q12. Do you believe that additional macro-economic variables should be tested in future exercises and if yes, which ones would be appropriate in the context of a benchmarking exercise?

3.3.3 analysis of variability of practices in the SICR assessment

25. The analysis of the variability in SICR assessment requires to collect information at facility level, hence template 111.03 is significantly expanded compared to 111.01. In order to simplify the data collection, it is proposed to limit the number of facilities reported to a maximum of five per counpterparties.

26. The SICR assessment is derived via a combinaison of quantitative and qualitative triggers. While the set of qualitative triggers are colleted via one data field which concentrates on the (assumed) three main triggers (30 days past due, watch list, forbearance), the quantitative trigger is assessed via four data points (Annualised originated PD, Annualised PD at reporting date, Quantitative Stage 2 trigger (in annualised PD) and LCR exemption threshold (if applicable)). The EBA believes this way of proceeding keeps a correct balance between reporting burden and the granularity necessary to produce a relevant analysis.

Questions for consultation

Q13. Do you see any issues or lack of clarity in the definition of the data points of template 111.03?

Q14. Do you believe the reduction of the number of facilities to five significantly reduces the burden of the data collection?

Q15. Do you agree with the list of the three qualitative triggers, or do you believe one indicator currently classified as "*5 other indicators*" is more important and should deserve a specific field?

EUROPEAN BANKING AUTHORITY

4. Draft implementing technical standards amending Commission Implementing Regulation (EU) 2016/2070 on benchmarking of internal models

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

amending Implementing Regulation (EU) 2016/2070 as regards benchmarking portfolios, reporting templates and reporting instructions

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 and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC[15], and in particular the third subparagraph of Article 78(8) thereof,

Whereas:

(a) Commission Implementing Regulation (EU) 2016/2070[16] specifies the information that institutions have to report to the European Banking Authority ('EBA') and to competent authorities in order to enable the assessments of internal approaches for calculating own funds requirements ('benchmarking exercise') in accordance with Article 78 of Directive 2013/36/EU.

(b) 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 the EBA's reports may change over time, exposures or positions that are included in the benchmarking portfolios, and therefore also reporting requirements, need to be regularly adapted accordingly. Therefore, it is appropriate to amend Annexes I to VII to Implementing Regulation (EU) 2016/2070.

(c) Further, recently a new international accounting standard was adopted, known as IFRS9[8]. This introduced new rules for the measurement of credit losses, and as a result directly impacts on the amount of own funds and regulatory ratios reported. It is therefore necessary to reflect such impact also on the reporting requirements under Regulation (EU) No 2016/2070 by adding two new Annexes, one with the templates for reporting and the other with the instructions for completing the templates.

(d) This Regulation is based on the draft implementing technical standards submitted by the EBA to the Commission.

(e) 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 requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/201017.

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[8] International Financial Reporting Standard 9 - Financial Instruments (IFRS9).

(f) Implementing Regulation (EU) 2016/2070 should be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

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

(1) The following points (f), (g), (h) are added to Article 1:

‘(f) the information specified in template 111.01 of Annex VIII, for the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C 111.01 of Annex II and Annex IX respectively;

(g) the information specified in template 101.02 of Annex VIII, for the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C 111.02 of Annex II and Annex IX respectively;

(h) the information specified in template 101.03 of Annex VIII, for the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C 111.03 of Annex II and Annex IX respectively;

(i) the information specified in template 101.04 of Annex VIII, for all the countries of the counterparties referred to in template 101 of Annex I, in accordance with the instructions referred to in Tables C101 and C111.04 of Annex II and Annex IX respectively’;

(2) Annex I is replaced by the text set out in Annex I to this Regulation;

(3) Annex II is replaced by the text set out in Annex II to this Regulation;

(4) Annex IV is replaced by the text set out in Annex IV to this Regulation;

(5) Annex V is replaced by the text set out in Annex V to this Regulation;

(6) Annex VI is replaced by the text set out in Annex VI to this Regulation;

(7) Annex VIII to this Regulation is added as Annex VIII;

(8) Annex IX to this Regulation is added as Annex IX.

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 I (Credit Risk Benchmarking)
Annex II (Credit Risk Benchmarking)
Annex IV (Credit Risk Benchmarking)
Annex V (Market Risk Benchmarking)
Annex VI (Market Risk Benchmarking)
Annex VIII (IFRS 9 Benchmarking)
Annex IX (IFRS 9 Benchmarking)

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

27. With the first application of IFRS 9 in January 2018 (the new accounting standard applicable to financial instruments), one of the most recent challenges for regulators and supervisors is to ensure a high-quality and consistent implementation of this standard, since the outcome of the expected credit loss (ECL) calculation will directly impact the amount of own funds and regulatory ratios. This link to prudential requirements reinforces the need for scrutiny from regulators and supervisors to achieve a high-quality implementation of this new accounting standard.

28. 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.

29. Given the commonalities between IRB models for credit risk and IFRS 9 models, it is deemed appropriate to use the current benchmarking tool and therefore to build on the existing ITS on supervisory benchmarking in conducting the IFRS 9 benchmarking exercise. For this reason, changes are suggested to Regulation 2016/2070 in order to integrate in the current set of templates additional templates dedicated to IFRS 9, collecting information in terms of parameters to measure ECL and other relevant information.

30. As per Article 15(1) of the ESAs regulation (Regulation (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010 of the European Parliament and of the Council), any implementing technical standards developed by the ESAs shall be accompanied by an Impact Assessment (IA) annexe which analyses 'the potential related costs and benefits' of the guidelines. 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.

31. The EBA prepared the IA included in this consultation paper analysing the policy options considered when developing the guidelines. Given the nature of the study, the IA is qualitative in nature.

A. Problem identification

32. The existing ITS on supervisory benchmarking currently includes templates to monitor risk parameters for credit and market risk. IFRS 9 parameters are currently not included in these templates.

33. In order to conduct the IFRS 9 benchmarking exercise additional templates are needed to collect information in terms of parameters to measure ECL and other relevant information. For this reason a modification to Regulation 2016/2070 is deemed necessary.

B. Policy objectives

34. Having in mind the impact of accounting ECL measurement in the regulatory capital, it is of the utmost importance to develop tools that would allow the identification of the main sources of variability when assessing the quality of parameters and modelling choices performed by the Institutions.

C. Baseline scenario

35. The baseline scenario is the existing Regulation 2016/2070 where only the collection of credit and market risk parameters is foreseen. If there are no changes applied to this regulation, any additional data collection on IFRS9 information should be done on an ad-hoc basis.

D. Options considered

36. When drafting the present guidelines, the EBA considered several policy options under two main areas:

1) Scope of the IFRS9 benchmarking

When assessing the scope of the IFRS 9 benchmarking and which parts of the current ITS would be covered also for this purpose, two options were considered:

Option 1: All the counterparties currently covered for the purpose of the ITS would also be considered for the IFRS 9 benchmarking;

Option 2: Only the counterparties of the low default portfolios (LDP) would be considered for the IFRS 9 benchmarking at this stage and the exercise would follow a staggered approach.

2) IFRS 9 parameters to be collected

Option 1: To collect all the relevant parameters considered for ECL measurement purposes under IFRS 9;

Option 2: To focus on PD, that would allow already the collection of relevant information on Institutions' practices and choices made regarding the ECL measurement, in particular on the staging assessment required by IFRS 9.

E. Cost-Benefit Analysis

37. To proceed with due regard to proportionality aspects and the complexity of the exercise, it was assessed whether in the first stages only some parts of the ITS would be used for the IFRS 9 benchmarking. In particular, it was analysed whether collecting data only for low default portfolios (LDP) would provide enough information to perform a first assessment on the main potential reasons that could explain variability on the ECL measurement. The main limitation identified with this approach is the representativeness of the common sample in relation to the actual portfolio of each institution.

38. Ultimately, it would be more meaningful to focus on high default portfolios (HDP), in particular in relation to loans to small and medium-sized enterprises (SMEs). However, collecting data on HDP involves a comparison of the model outputs not for common counterparties but instead for commonly defined portfolios. This approach requires in depth reflection and an appropriate time for implementation due to its greater complexity.

39. Also in light of complexity and time for a proper implementation, it was concluded that at this stage focus on one of the parameters (PD) would already provide a good basis for the benchmarking analysis. The relevant information on other parameters (e.g. EAD and LGD) would be separately collected in qualitative terms and be used for their future integration.

F. Preferred option

40. It is suggested that in the first stage of the IFRS 9 benchmarking exercise only some parts of the ITS are used. For this reason, only LDP would be considered for this purpose. Given that risk parameters on the same counterparties are collected (i.e. the risk is the same), the outcomes from the banks' models should give a direct insight into the non-risk-based variability.

41. Additionally, it is suggested that the new parameters focus solely on PD. The integration of additional parameters (loss given default (LGD) and exposure at default (EAD)) will follow in due course, also making use of the qualitative information collected separately.

5.2 Overview of questions for consultation

Q1. Do you agree with the necessity to complement the quantitative data collection with qualitative templates?

Q2. In your view, which aspects, from a LDP perspective, are relevant to investigate from a qualitative perspective, where there might be different practices leading to different impact across institutions?

Q3 Do you have any concerns on the three changes applied to the credit risk IRB templates? In particular, do you believe the extension of the data collection for hypothetical RWA will add a significant burden to the exercise?

Q4: Stakeholders are invited to express their view on the new reference date specification with respect the precedent method to specify the reference dates for the exercise.

Q5: Stakeholders are invited to express their view on the implementation of the Benchmarks Regulation, in terms of which rate to apply in the instruments in the market risk exercise.

Q6. Do you see any issues or lack of clarity in the definition of the data points of template 111.01?

Q7. Do you see the need to adjust or add any variable for the intended outcome? Please specify.

Q8. Would you see any particular problem in filling some of the data requested? For which reasons? *Please give your comments related to the PD 12month and the economic scenario in question 7.*

Q9. Do you see any issues or lack of clarity in the definition of the data points of template 111.02? Please explain.

Q10. Do the categorisations reported above reflect the approach applied by your bank, in incorporating forward looking information? If not, please explain what are the main differences.

Q11. For banks applying Approach 3, what will be, in your view, an appropriate approach for reporting the data related to the PD in scenario 0 (i.e. the PD considered in the application of the impairment requirements under IFRS 9)? Do you think that, (if available) a probability weighted average PD represents an appropriate proxy? Do you think that the PD used for the SICR assessment represents an appropriate proxy? If not, what other approach do you suggest to report this data?

Q12. Do you believe that additional macro-economic variables should be tested in future exercises and if yes, which ones would be appropriate in the context of a benchmarking exercise?

Q13. Do you see any issues or lack of clarity in the definition of the data points of template 111.03?

Q14. Do you believe the reduction of the number of facilities to five significantly reduces the burden of the data collection?

Q15. Do you agree with the list of the three qualitative triggers, or do you believe one indicator currently classified as "*5 other indicators*" is more important and should deserve a specific field?