

The EBA logo consists of the letters 'EBA' in a bold, white, sans-serif font. The 'E' and 'B' are positioned on a dark blue background with a subtle grid pattern, while the 'A' is on a lighter blue background with a similar pattern. A vertical orange bar is located to the right of the 'E' and 'B'.

EBA

EUROPEAN
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AUTHORITY

CP on ITS on Supervisory benchmarking 2024

Public Hearing - 9 February 2023

Public hearing on the CP on the BM ITS 2024 - Process



Consultation process

- CP published on **08 December 2022**.
- Consultation runs until **28 February 2023**.
- Responses to the consultations can be sent to the EBA by clicking on the "send your comments" button on the [consultation page](#).

Suggestions for an efficient call

- Should you need assistance or would like to intervene:
 - ✓ Write on WebEx chat to any of the hosts or publicly;
 - ✓ Raise your hand on Webex.
- To avoid background noise, please stay muted unless you take the floor.
- To increase audio quality please turn off video streaming.
- Please identify yourself (if you don't use full name on Webex).

Public hearing on the CP on the BM ITS 2024 - Overview



☐ IFRS 9

- ✓ Inclusion of selected HDP portfolios and related data collection templates.

☐ Credit Risk

- ✓ Inclusion of a limited number of HDP portfolios in order to have the same portfolio universe between CR and IFRS 9 templates.
- ✓ Clarification regarding the value of the collateral to be reported, which shall be equal to the market value.

☐ Market Risk

- ✓ Inclusion Default Risk Charge (DRC) and Residual Risk Add-On (RRAO) plus the sensitivities-based method (SBM) validation.

IFRS9 DATA COLLECTION

CP on ITS on Supervisory Benchmarking – IFRS 9 Part



Background

- ❑ **Benchmarking exercise** gradually **extended** to the accounting dimension to assess relevant drivers of **variability** and related **impacts** on the prudential ratios arising from the implementation of the **IFRS 9 ECL model**.
- ❑ **Ad-hoc data collections** launched on **LDPs** in 2019 and 2020 with publication of the **IFRS 9 Monitoring Report** in November 2021.
- ❑ **Regulation 2016/2070** amended (**ITS 2021 and ITS 2022**) to introduce **IFRS 9 templates on LDPs** leveraging to the extent possible on credit risk benchmarking infrastructure and methodology.
- ❑ **Third data collection** launched in H1 2022 to **test** new quantitative templates on **HDPs**. **Data analysis** is still in **progress (to be completed Q1 2023)**. **Preliminary findings** and **DQ issues** taken into account for **the CP**.
- ❑ **Bilateral meetings** held in Feb 2022 and **Roundtable with Industry** on Jun 22 to collect **preliminary comments/feedback** of the data-collection exercise.

Extension IFRS 9 Benchmarking to HDP – CP on ITS 2024

- ❑ Following the **staggered approach** presented in the IFRS 9 roadmap, **ITS 2024 is under consultation** to gradually extend the data collection - and following benchmarking analysis - to HDPs from the 2024 exercise.
- ❑ Purposes of the new ITS are: (i) to widen the scope of the IFRS 9 benchmarking analysis to a higher share of financial instruments subject to the IFRS 9 impairment requirements and (ii) to get a broader view of the existing variability of the ECL outcomes and the related impacts on the amount of own funds and regulatory ratios.
- ❑ Amendments to the Annexes of the ITS necessary to specify:
 - ✓ the **portfolios/scope** of the 2024 exercise.
 - ✓ the **quantitative templates and data points** to collect information on HDPs.
- ❑ **Full extension to HDPs** to be achieved with **ITS 2025**.

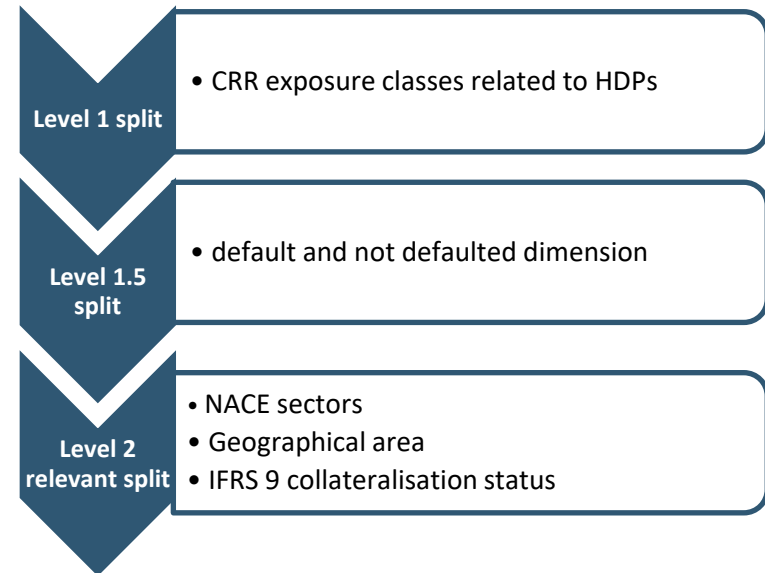
CP on ITS on Supervisory Benchmarking – IFRS 9 Part



Scope of the ITS 2024 data collection on HDPs

- ❑ **Staggered approach** to ensure proportionality.
- ❑ **Full data collection (L2 Split)** only for limited HDP asset classes (CORP, SMEC and SMOT).
- ❑ **Portfolio universe** defined ensuring alignment with CR IRB benchmarking but limited only to a subset of portfolios.

Issue	Consultation Paper
Scope	<ul style="list-style-type: none">- Full data collection (all portfolio L2 split) only for CORP + SMEC + SMOT- Other exposure classes: information collected only at aggregate level
Level 2 portfolio split	<ul style="list-style-type: none">- Materiality threshold for geographical area (for all countries)- NACE code- Secured/unsecured IFRS 9
Combination of level 2 portfolio	<ul style="list-style-type: none">- No combination of L2 portfolios
IFRS 9 staging	<ul style="list-style-type: none">- Collection of PD datapoints by IFRS 9 stage



IFRS 9 templates and data points - Overview

- ❑ Templates meant to collect data useful to make comparison of relevant data inputs and other relevant information for homogenous portfolio. The purpose is to **detect/explain** the main sources of **undue variability** (i.e., risk practice variability) of the outputs of the ECL IFRS 9 models.
- ❑ The design and structure of the template kept **similar** - to the extent possible - to the LDPs collection. Differences are due to the different perspective of the analysis (common portfolios for the HDPs instead of a list of common counterparties for LDPs).
- ❑ Four templates envisaged for HDPs to cover important dimension of analysis (similarly to LDPs):
 - ✓ The analysis of the **variability** of the **ECL and IFRS 9 risk parameters** (C.115.00).
 - ✓ The analysis of the **variability** of the **macroeconomic forecasts** and the interaction between **the lifetime PD curve** and the macroeconomic scenarios (C. 118.00 and C.116.00).
 - ✓ The analysis of **variability** of **practices** in the **SICR** assessment (C.117.00).

CREDIT RISK

CP on ITS on Supervisory Benchmarking – Credit Risk Part



❑ Inclusion of new HDP portfolios

- ❑ Proposal: Add for each of the non-defaulted BM portfolios CORP, SMEC and SMOT two portfolios to reflect the state of collateralisation for accounting purposes (10 new portfolios in Annex I).
- ❑ Rationale:
 - ✓ It will allow to understand the variability of own funds requirements, which may arise due to potentially **diverging reflection of credit protection** across jurisdictions and institutions.
 - ✓ It is of interest to supervisors to verify the **eligibility requirements for collateral and credit protection** applicable in both under the **accounting framework** and under the **prudential framework**.

❑ Clarification regarding collateral value

- ❑ Proposal: Continue to request the market value of the collateral in Annex III as the value of the collateral, deviating from the COREP which starting from 06/2023 requires the market value of a collateral capped to the outstanding relevant exposure value.
- ❑ Rationale:
 - ✓ For the assessment of the **quality of LGD models the market value is more relevant** than the same value capped to the outstanding amount, given that additional amounts could be claimed from the obligor in the course of a liquidation process.

MARKET RISK

1. MR – DRC & RRAO data collection 1/3

- ❑ ITS 2022 introduced the **sensitivities-based method (SBM)** component of the alternative standardised approach (ASA) / FRTB SA to the EBA BM exercise:
 - ✓ This included reporting of **SBM sensitivities (C106.01)** as of IMV date and **SBM sensitivities / OFR** as of end of risk measure period (**C120.01, .02, .03**).
 - ✓ Introduction of remaining **default risk charge (DRC)** and **residual-risk add-on (RRAO)** components was left to future revisions of the ITS.

- ❑ **DRC:** Proposal to draft and include reporting templates into ITS 2024 (C120.04, .05) and collect data as of end of risk measure period.

- ❑ **RRAO:** Proposal to add RRAO OFR to C120.06 (EX C120.03) for completeness. However, benchmarking RRAO using hypothetical portfolio may not be suitable approach; currently 0 hypothetical instruments with exotic underlyings and 7 instruments bearing residual risks.

1. MR – DRC & RRAO data collection 2/3 - DRC

- ❑ Design principles for DRC collection:
 - ✓ Close **alignment** of DRC collection with regulatory requirements in Chapter 1a (ASA), section 5 (OFR for default risk) CRR.
 - ✓ **Consistency** with SBM BM approach, i.e., obtain input data into DRC and resulting OFR to enable supervisor to understand calculation and sources of variability.
 - ✓ **Integration** of DRC collection with existing SBM collection where possible (OFR).
 - ✓ Retain **compatibility** with industry format.
- ❑ DRC is suggested to be added to risk measure collection (similar to VaR, SVaR, IRC), not IMV.
- ❑ Separate DRC approaches exist for three types of instruments:
 - ✓ Non-securitisation (Art. 325w –y)
 - ✓ Securitisation not in alternative correlation trading portfolio (non-ACTP) (Art. 325z-aa)
 - ✓ Securitisation in ACTP (Art. 325ab-ad)
- ❑ Drafts of Annex 6 and 7 include suggestion to obtain information for the three DRC approaches across two unique templates:
 - ✓ C 120.04 - DRC. Market values and gross JTD amounts by Instrument/Portfolio
 - ✓ C 120.05 - DRC. OFR COMPOSITION by Bucket/Portfolio

1. MR – DRC & RRAO data collection 3/3 - DRC

- ❑ Proposed template **C 120.04** - DRC. Market values and gross JTD amounts by Instrument/Portfolio
 - ✓ is reported for each **portfolio**,
 - ✓ **follows closely regulatory inputs** required in the DRC calculation given in the CRR,
 - ✓ contains a **single exposure per row**, following the principle applied in C120.01 for SBM,
 - ✓ uses **shared columns for the three DRC approaches** acknowledging the commonalities in the calculation.

- ❑ Proposed template **C 120.05** - DRC. OFR COMPOSITION by Bucket/Portfolio
 - ✓ is reported for each **portfolio** and **shared for three DRC approaches**,
 - ✓ includes **bucket-specific OFR**.

2. SBM Validation portfolios

Annex 5 – suggestion to introduce a new type of instrument/portfolio to validate SBM calculation

- ❑ Background: Industry benchmarking has used a unit test to eliminate implementation errors as a source of variability in SBM results.
- ❑ Purpose: Validate banks' implementations of SBM (risk weights, correlations, aggregation formulae).
- ❑ “Instruments” defined as sensitivities in familiar format of C120.01, values are random, non-duplicate numbers allocated to regulatory risk factors; ex-ante expectation that all banks report identical OFR.
- ❑ Current proposal **starts small**, defining sensitivity-based instruments/portfolios only for **general interest rate risk/Delta**.
- ❑ No reporting of IMVs, only templates C120.02/C120.06 expected.

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