EBA/ITS/2021/03

01 June 2021

Final Report

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

Contents

1. 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 Commission Implementing Regulation (EU) 2016/2070, where the benchmarking portfolios, templates and definitions to be used as part of the annual benchmarking exercises are specified in more detail.

For the 2022 benchmarking exercise, changes to the reporting templates and instructions are necessary:

- For market risk, in order to keep the exercise updated with respect to the Regulation in place, the framework is extended to allow the collection of new information, in particular as regards the collection of sensitivities measures. The inclusion of sensitivities prepares the exercise for the new framework for determining capital requirements for market risk in EU – the so-called Fundamental Review of the Trading Book. In addition, without changing the design of the portfolios, updates to some instruments of the exercise are needed to keep their maturities aligned with the underlying hedging instruments. Finally, the remittance dates have been exceptionally extended in light of the new MR (ASA)'s reporting requirements, which overlap with new SBM IMV submissions. The submission deadlines are extended by an additional two weeks (i.e. in total three weeks after the IMV reference date) for IMV and one week (in total five weeks after the RMs reference date) for the risk measures.

- For credit risk, in order to understand the level of conservatism incorporated in the risk estimates (PD and LGD) and the RWA via supervisory imposed add-ons and via the margin of conservatism [MoC]. In addition, some enhancements are proposed for the existing data requirements.

- For the IFRS 9 templates, in order to collect information on additional IFRS 9 parameters and, in particular, on the IFRS 9 LGD, in line with the staggered approach communicated in the IFRS 9 roadmap[1].

The EBA supervisory benchmarking serves three major objectives, the first one being the abovementioned supervisory assessment of the quality of internal approaches. It provides as well a powerful tool to explain and monitor RWA variability over time and the resulting implications for prudential ratios, which can serve to identify where further regulatory guidance is needed. Lastly, the benchmarking results also provide the banks with valuable information on their risk assessment compared to other banks' assessment on comparable portfolios. These three objectives are better achieved if information on the level of conservatism incorporated in risk parameter estimates or RWA

[1] https://eba.europa.eu/eba-publishes-its-roadmap-on-ifrs-9-deliverables-and-launches-ifrs-9-benchmarking-exercise

is available. In particular, it will be possible to analyse the share of variability that stems from different levels of conservatism.

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.

2. Background and rationale

2.1 Credit risk

2.1.1 Changes for the purpose of transparency on the level of conservatism included in risk parameter estimations

1. The objective of IRB benchmarking is to reveal unjustified variability in own estimates of risk parameters (PD, LGD, CCF) and RWA across IRB banks. Some of the observed variability will, however, be due to different levels of conservatism that institutions incorporate into the risk parameter estimates or RWA calculation. In greater detail, banks are required by Article 179 (f) of the CRR to *"add to its estimates a margin of conservatism that is related to the expected range of estimation errors. Where methods and data are considered to be less satisfactory, the expected range of errors is larger, the margin of conservatism shall be larger."* These draft final ITS therefore specify the information to be collected in the 2022 exercise in this regard.

2. The GL on PD and LGD[2] introduced a framework for the estimation of MoC. This is applicable to most IRB portfolios starting from 01.01.2022[3]. Therefore, information on MoC included in the risk parameter estimates will be collected – in a first step on a voluntary basis for the benchmarking exercise of 2022 (building on data as of 31.12.2021) where institutions are not able to isolate the relevant conservative adjustments in their PDs and LGDs used for the RWA calculation without disproportionate efforts.

3. The revised data collection in C102 and C103 will allow disentangling variability observed on the risk estimates used for RWA calculation and the variability observed on risk parameters net of the margin of conservatism and net of conservatism implied by supervisory multipliers or supervisory floors.

4. In Annex III, new columns have been added to collect information on the conservatism applied to the risk parameters considered in the RWA calculation that is

   a. due to supervisory imposed floors or multipliers (e.g. due to measures in accordance with Articles 146 or 164);

   b. due to the MoC component incorporated in those estimates;

   c. due to the downturn component as required by Article 181(1)(b) of the CRR.

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[2] See https://eba.europa.eu/regulation-and-policy/model-validation/guidelines-on-pd-lgd-estimation-and-treatment-of-defaulted-assets.

[3] See Progress report on the IRB roadmap: *"In the specific case, where institutions have stand-alone rating systems for exposures to institutions, financial institutions treated as corporates or large corporates as defined under the final Basel III framework, the deadline for the implementation of the changes in LGD and conversion factors models is postponed until the end of 2023. Within that period, institutions may also choose to apply for permission to return to a less sophisticated IRB approach or for the permanent partial use of the standardised approach for those portfolios, according to Articles 149 and 150 of the CRR".*

5. For C102, C103 the following columns have been added for MoC on PD:

PD without supervisory measures	PD without MoC and supervisory measures
0061	0062

6. For C102, C103 the following columns have been added for MoC on LGD:

LGD without supervisory measures	LGD without MoC and supervisory measures	LGD without MoC, supervisory measures and downturn component
0131	0132	0133

7. At this stage, since CCF has not been in the focus of the BM exercise, MoC information is not collected in relation to CCF. Moreover, as the breakdown into MoC A, B and C as foreseen by the GL on PD and LGD may not have been implemented yet, these data points will not be collected in the data for the exercise 2022 - in line with the consultation feedback.

8. The advantage of collecting the information on the conservatism included in the risk parameters at the level of the benchmarking portfolios is that the implied benchmarking analysis seems to be straightforward. E.g. calculating the benchmarks (and deviations) with and without conservatism will reveal outliers due to variability in conservatism. The main complexity of the proposed addition is its aggregated nature, as institutions will have to aggregate the risk parameters PD and LGD with and without conservatism.

9. In addition the data field "RWA Add-ons" has been added to C105.01 in order to collect potential RWA add-ons serving to address deficiencies in the IRB approach, which are not reflected in the risk parameter estimates reported for C102 and C103.

10. The EBA is mindful of the challenges that the new data collection entails and takes in particular note of the feedback provided to the consultation. Therefore the reporting of the newly introduced data fields relating to MoC and RWA add-ons will be voluntary for 2022 at least where this would create disproportionate efforts. However the requirement to add MoC to the estimates is founded on Article 179(f) of the CRR and as such EBA expects that reporting parameters with and without MoC should be feasible in many cases. Going forward, analysis on the ranges of MoC and the extent to which MoC drives variability of risk parameters and RWA is considered to be supportive information to supervisors as well as to institutions. Ideally such analysis would be linked to the underlying type of deficiencies, which however has been considered as too ambitious for now.

2.1.2 Other changes proposed for benchmarking (BM) IRB credit risk models

11. Completion of breakdown into FINREP sectors: for creating homogeneous portfolios, which provide for the possibility to benchmark credit risk parameters, the institutions' IRB and SA portfolios are broken down along certain characteristics. However, the experience from the 2019 and 2020 benchmarking exercise shows that it is necessary to review the split of attribute [080] "Sector of Counterparty", as some combinations have been observed that were not foreseen when designing the original split (and the associated quality checks). Therefore, the following additional portfolios have been created:

<u>4 portfolios for the Exposure class "CG and CB"</u>

GOVT_NFC_0220_CT_FIRB_x0_Rx0_ALL	Non-financial corporations
GOVT_NFC_0220_CT_AIRB_x0_Rx0_ALL	Non-financial corporations
GOVT_OFC_0221_CT_FIRB_x0_Rx0_ALL	Other financial corporations
GOVT_OFC_0221_CT_AIRB_x0_Rx0_ALL	Other financial corporations

2 portfolios for Exposure class "INST"

INST_NFC_0222_CT_FIRB_x0_Rx0_ALL	Non-financial corporations
INST_NFC_0222_CT_AIRB_x0_Rx0_ALL	Non-financial corporations

4 portfolios COSP (Credit Institutions and GOVIES)

COSP_GOV_0223_CT_FIRB_x0_Rx0_ALL	General governments
COSP_GOV_0223_CT_AIRB_x0_Rx0_ALL	General governments
COSP_CIN_0224_CT_FIRB_x0_Rx0_ALL	Credit institutions
COSP_CIN_0224_CT_AIRB_x0_Rx0_ALL	Credit institutions

4 portfolios LCOR (Credit Institutions and GOVIES)

LCOR_GOV_0225_CT_FIRB_x0_Rx0_ALL	General governments
LCOR_GOV_0225_CT_AIRB_x0_Rx0_ALL	General governments
LCOR_CIN_0226_CT_FIRB_x0_Rx0_ALL	Credit institutions
LCOR_CIN_0226_CT_AIRB_x0_Rx0_ALL	Credit institutions

12. It should be stressed that, in particular with the significant increase in the use of substitution of risk weights due to public guarantees in the COVID-19 crisis, portfolios from C102/ C103 where risk weights substitution is applied - such that the EAD after CRM [0090] and the RWA being zero or blank - need to be reported in C105.02 (and thus C105.01). This will enable transparency on the default rates which might be distorted in the coming years due to the public guarantees.

13. The sector of counterparty of IN_0001910_CX_XIRB (The European Investment Bank) in C 101 should be set to "general governments" for the purpose of allowing risk parameter substitution and applying a PD below the floor of 3 bps.

2.2 IFRS 9 templates

14. In In line with the previous EBA communications related to the monitoring of the effective implementation of IFRS 9 in the Union, particularly with reference to the published roadmap in July 2019 on IFRS 9 deliverables[4], a new set of templates related to IFRS 9 risk parameters was integrated in the ITS on supervisory benchmarking for the exercise in 2021[5]. Based on the staggered approach developed in the IFRS 9 roadmap, these templates were focused on the collection of the PD parameters (including metrics related to the significant increase in credit risk) affecting the estimation of the ECL for low default portfolios (LDPs).[6]

15. As mentioned in the previous Consultation Paper, 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 that could lead to material inconsistencies in ECL outcomes, affecting own funds and regulatory ratios.

16. During the second half of 2020, a second ad-hoc data collection for common counterparties for IRB banks was conducted, in order to test selected additional IFRS 9 parameters, with the aim of introducing these new data points in the ITS for the 2022 supervisory benchmarking exercise. The new data points are mainly related to the LGD risk parameter, with other minor adjustments introduced in relation to forecast of future economic conditions.

17. In detail, on the LGD side the data collection is extended in a way that ensures comparability across institutions. As a matter of fact, while the PDs for the same obligors are directly comparable as related to the same default risk, it is not the same for the LGD, since the characteristics of the facility (e.g. existence of collateral or a guarantee) could lead to different values for the same obligor. Therefore, the data collection is based on the same logic introduced in the template C101.00 on the IRB side, i.e. on "hypothetical LGD". Contrary to PD values which are only based on parameters actually assigned by the institutions (and hence only for obligors for which the institution has an exposure towards them), the hypothetical LGD may differ from the parameter actually used for the purpose of the ECL calculation, since it is based on hypothetical assumptions.

18. In practice, the hypothetical LGD values are the LGD values that would be applied "as if" the exposure toward the counterparty was senior and unsecured, with no negative pledge clause in place. This concept is used, in particular, for the LGD IFRS 9 unsecured 12M (Hypothetical).

19. In addition to the hypothetical LGD under IFRS 9, two other sets of data points are added:

    a. Gross carrying amount: according to IFRS 9, the gross carrying amount of a financial instrument corresponds to its amortised cost, before adjusting for any loss allowance. In the

[4] Roadmap for IFRS 9 deliverables.pdf (europa.eu)

[5] ITS package for 2021 benchmarking exercise | European Banking Authority (europa.eu)

[6] CP on amended ITS on benchmarking of internal models - almost FINAL.pdf (europa.eu)

context of these ITS, for each counterparty the sum of the gross carrying amount over all on-balance-sheet exposures which are in the scope of application of impairment requirements under IFRS 9 shall be reported.

b. Scenario weights per time horizon (0-12M; 12-24M; 24-36M; 36-48M; 48-60M; 60-72M; 72-84M; 84-96M; 96-108M; 108-120M).

2.3 Market risk templates

20. In the 2022 BM ITS, the EBA extends the data collection to the Sensitivities Based Method, extending the existing reporting framework to the instruments and portfolio in the benchmarking exercise. This step is considered a natural step of the BM exercise toward the full implementation of the FRTB. Moreover, a series of minor updates to the list of instruments has been proposed to keep the list of instruments updated without changing the portfolios' overall structure with respect to the previous exercises.

2.3.1 SBM data collection

21. The proposed changes in the ITS 2022 introduce additional templates (106.01 and 120.1-3) requesting information relating to the sensitivities-based method (SBM) of the alternative standardised approach (ASA).

22. While the currently applicable market risk framework and the related existing reporting requirements will remain unchanged in the near future, Regulation (EU) 2019/876 amending Regulation (EU) No 575/2013 introduced the first elements of the Fundamental Review of the Trading Book (FRTB), initiated by the Basel Committee on Banking Supervision (BCBS), into the prudential framework of the EU. Despite not yet being binding in terms of own funds requirements, the framework is implemented by means of a reporting requirement, constituting the first step towards the full implementation of the FRTB framework in the EU.

23. The first applicable reference date for the reporting in accordance with Article 430b of the CRR is envisaged to be 30 September 2021, which has been officially announced by the European Commission[7].

24. The EBA has submitted draft Implementing Technical Standards (ITS) specifying reporting requirements on the new market risk framework to the Commission for endorsement before being published in the Official Journal of the European Union[8]. The technical standards will apply from 1 September 2021. In this ITS, the EBA took a gradual approach mindful of the importance of expanding the reporting requirements resulting from the FRTB in a proportionate manner, as institutions will also continue to be subject to the current market risk framework and the associated reporting requirements.

25. Following this gradual approach, this BM ITS includes an extension of the supervisory benchmarking ITS market risk templates in light of the changes in the market risk framework. The alternative standardised approach (ASA) is risk-sensitive and is designed and calibrated to serve as a credible fall-back to the internal model approach.

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[7] https://ec.europa.eu/info/law/banking-prudential-requirements-regulation-eu-no-575-2013/amending-and-supplementary-acts/implementing-and-delegated-acts_en

[8] https://eba.europa.eu/regulation-and-policy/supervisory-reporting/draft-its-specific-reporting-requirements-market-risk

26. The changes introduce additional templates requesting information relating to the sensitivities-based method of the alternative standardised approach. The other two elements, default risk charge (DRC) and the residual risk add-on (RRAO) that together with the SBM compose the ASA are planned to be included in the benchmarking exercise in a future revision of the ITS following the gradual approach already adopted for the implementation of the reporting requirements for the new market risk framework.

27. The templates for collecting sensitivity data for the SBM (C 106.01 and C 120.01) are closely aligned with the regulatory definition of the relevant risk factors of the ASA. They shall only request information required as part of the ASA calculation in a clear and concise manner. The information requested in these templates shall aid competent authorities in investigating the sources of potential variability in the reported ASA own funds requirements (OFR) as the fall-back to the internal model approach (e.g. by reconciling the reported risk factors, the bucketing and the amounts of the calculated sensitivities).

28. The proposal for the collection of OFR data for the SBM (C 120.02 and C 120.03) follows the draft implementing standards on specific reporting requirements for market risk under Article 433b of Regulation (EU) No 575/2013 (CRR) (EBA/ITS/2020/01).

29. It is proposed to collect data relating to the SBM at two points in time. The first point in time relates to the IMV reference date and includes the reporting of sensitivity information relating to the risk factors specified in the SBM at the level of the instrument. The collection referring to the IMV reference date shall enable competent authorities to perform an early data quality analysis of the sensitivity data and support the performance of the assessment of institutions' IMV submissions. The second point in time refers to the RM final reference date, the last day of the two-week risk measurement period generally applied in the exercise. At this second point in time, the collection of both sensitivity (at the level of instrument-portfolio combinations) and OFR data (at the portfolio level) is proposed.

30. In the current market risk benchmarking framework, institutions are asked to provide IMV values for instruments and risk measures for portfolios in a specified base currency in the ITS. For the collection of data relating to the ASA, sensitivity information and resulting own funds requirements shall be reported in both the institution's own reporting currency and the specified instruments currency (EBA base currency of instruments and portfolios as specified in the exercise), which will be the reporting currency of the firms converted at the appropriate exchange rate to make it comparable with the others submitters by reporting in the same currencies (i.e. no additional re-computation of sensitivities will be needed with respect the reporting currencies selected by the bank, for benchmarking purposes).

31. Following the consultation suggestion, the remittance date for IMVs has been exceptionally extended to three weeks (it was originally one week) to allow banks more time to deal with the new set of data submission. And an additional week is also added to the Risk Measures submission to allow for more time for the usual data controls by CAs following IMVs' submissions and before RMs' submissions.

2.3.2 The instrument updates, portfolio structure and instructions (Annex 5 and Annex 6)

32. The overall design of instruments and portfolio structure of the ITS has not been substantially amended.

33. A number of instruments, after three exercises (2019-2021), are outdated. Therefore, the ITS 2022 replaces a number of instruments with comparable instruments with longer maturities (instruments 24–35, 58, 59, 68, 70–73).

34. The instruments and portfolios range was marginally expanded, in a way that adds several longer-dated sovereign bonds and CDS instruments (instruments 74–79, portfolios 57–59).

35. The portfolio structure was simplified by setting the number of instruments (quantity) in any given portfolio to one and amending the instrument definitions to include the quantity. Instruments 1, 3–17 (section 2) were amended to include the quantity formerly stated in section 3 of Annex 5. Moreover, the contract sizes and notional values were harmonised to reduce operational booking errors (instruments 24–26, 28–35).

36. Moreover, 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 "31 January 2020" is replaced by the date "28 January 2022". This instruction was not correctly updated in the previous ITS updated (2021 ITS update), and the 2020 reference remained, despite the EBA intention to also update the reference to 2021 in the ITS 2021 update. Therefore the date "29 January 2021" is the date that banks should apply to provide P&L series going backwards for the 2021 exercise, such that the reference is linked to the year of the exercise.

37. Following the consultation, the previous instrument 47 (Cross-currencies Swap) is now amended and placed among IR instruments, as instruments 38. Consequently, instruments 38–46 are now 39–47.

2.3.3 Use of standard protocols for the processing of trade instruments

38. The EBA is aware of the existence of standard protocols for the processing of trade information such as FpML[9], but also as ISO20022[10], which is already used in MiFIR, and it is also adopted by ESMA, in its technical standards on access to data and aggregation and comparison of data across TR under Article 81 of EMIR[11].

39. In practical terms, the use of standard language, irrespective of the actual format chosen, can be applied to the instruments defined in Annex 5 of the Benchmarking ITS to better define in a

[9] www.fpml.org

[10] www.iso20022.org

[11] https://www.esma.europa.eu/sites/default/files/library/2016-422_final_report_rts_on_tr_data_under_art.81_emir.pdf

very granular manner so as to reduce the ambiguity around the instruments' specification. The reduced ambiguity around the instrument booking definition would directly reduce the variance in the output (IMV and Risk Measures) provided, which would mostly depend on the actual model differences and not any longer on different instruments' interpretation.

40. Overall, the adoption of any such protocol is far from straightforward within the range of EBA tools. For instance, introducing such a language protocol directly into the text of the BM ITS would probably engulf the legal process of ITS adoption into the Official Journal. The relative rigidity of the legal process would also likely prevent having timely amendment and update of the framework when the composition of the portfolio would change. Moreover, the simple publication of specific data on the EBA website concerning the BM exercise, e.g. strike prices of the options in the exercise, can be seen as a breach of the confidentiality of proprietary data.

41. Nonetheless, even if well aware of these issues, in order to enhance the clarity in the instruments' specifications the EBA is exploring the use of industry standards to harmonise instrument definitions for future benchmarking exercises.

42. Following the consultation, the EBA, alongside the CAs, will keep exploring the possibility to apply these standard formats to reduce uncertainty/variability around instruments booking in the exercise.

3. Final draft implementing standard

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 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:

(1) 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 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 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.

(3) Further, a new international accounting standard, International Financial Reporting Standard 9 (IFRS9), was adopted through Commission Regulation (EU) 2016/2067[12] . The last ITS amendment reflected such impact also on the reporting requirements under Implementing Regulation (EU) No 2016/2070 by adding two new Annexes to that Regulation, one with the templates for reporting and the other with the instructions for completing the templates. The annexes aimed at producing benchmarks for the probability of default for common counterparties. It is now necessary to complement these templates by adding the benchmarking of the loss given default (LGD) parameters. These amendments of the templates followed the timeline presented in the published roadmap in July 2019 on IFRS 9 deliverables by the EBA.

[12]Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (OJ L 323, 29.11.2016, p. 1).

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

(5) The 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 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[13].

(6) 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) Annex I is replaced by the text in Annex I to this Regulation;

(2) Annex II is replaced by the text in Annex II to this Regulation;

(3) Annex III is replaced by the text in Annex III to this Regulation;

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

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

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

(7) Annex VII is replaced by the text in Annex VII to this Regulation;

(8) Annex VIII is replaced by the text in Annex VIII to this Regulation;

(9) Annex IX is replaced by the text in Annex IX 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.

[13] 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).

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 III (Credit Risk Benchmarking)
Annex IV (Credit Risk Benchmarking)
Annex V (Market Risk Benchmarking)
Annex VI (Market Risk Benchmarking)
Annex VII (Market Risk Benchmarking)
Annex VIII (IFRS 9 Benchmarking)
Annex IX (IFRS 9 Benchmarking)

4. Accompanying documents

4.1 Draft cost-benefit analysis / impact assessment for changes related to credit and market risk SVB

A. Problem identification

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 2021 and thus relevant for the 2022 exercise.

With regard to the EBA's market risk benchmarking data collection, the purpose is to create a consistent framework that considers the draft ITS specifying reporting requirements on the new market risk framework, which the EBA has submitted to the Commission for endorsement before being published in the Official Journal of the European Union. The technical standards will apply from 1 September 2021.

With regard to credit risk benchmarking data collection, the objective of the proposed update is to provide a possibility to supervisors, regulators and banks to understand the impact of different levels of conservatism contained in the risk parameters and RWAs assessed in the benchmarking exercise. Furthermore, some minor amendments are made e.g. in the portfolio definitions to ensure that the top-level portfolios can be broken down appropriately in terms of sector of counterparty. However, for the purpose of this impact assessment only the proposed new data collection on conservatism is assessed as the other proposed changes are considered to be minor, having a non-material impact.

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 an 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.

With regard to the market risk benchmarking data collection, the previous ITS for benchmarking data collection does not consider the latest regulations (ITS specifying reporting requirements on the new market risk framework). The current framework of the benchmarking exercises has remained substantially stable, in terms of information collected, since the beginning of the data collection, back in 2016. For market risk, the FRTB, now implemented in CRR2, and on its way to being complemented by the EBA RTS, is on track for its implementation. The first step toward the FRTB implementation is going to be on the Standardised Approach, in terms of reporting (expected to apply from September 2021)[14].

With regard to the credit risk benchmarking data collection, the previous ITS for benchmarking data collection did not provide a possibility to supervisors, regulators and banks to understand the impact of different levels of conservatism contained and there were some drawbacks with regard to portfolio definitions. For credit risk, as for market risk, the information collected in relation to a BM portfolio has remained substantially stable in recent years (although the number and structure of the BM portfolios has been revised and reduced significantly). However, in 2019 the EBA finalised its regulatory review of the IRB approach, which aimed at harmonising terminology and concepts in the context of the IRB approach for the purpose of reducing and explaining the variability observed in risk parameter estimates and RWA across banks. These new definitions were not translated yet into the ITS for benchmarking data collection.

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 harmonisation of the current reporting framework rules amongst EU institutions. This would foster the strategic objective 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.

The specific objective for credit risk is to transpose the new terminology and concepts in the regulatory review of the IRB approach into the ITS on benchmarking data collection and the related exercise. In a first step, it is proposed to collect for the 2022 exercise information on the margin of conservatism (MoC) which is contained in the risk parameters PD and LGD used for

[14] https://eba.europa.eu/regulation-and-policy/supervisory-reporting/draft-its-specific-reporting-requirements-market-risk

RWA calculation and reported accordingly. The GL on PD and LGD[15], which are applicable for HDP portfolios starting from 01.01.2022 (and for LDP portfolios starting from 01.01.2024), harmonise the concept of MoC and include in particular a requirement on the ability to report MoCs.

The specific objective for market risk is to extend the data collection to the sensitivities-based method of the FRTB-SA, together with proposing amendments to the list of instruments in order to keep them updated, without changing the overall structure of the portfolios.

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 overvaluation or undervaluation of the reported values for the purposes of the benchmarking exercises. Since the extent and magnitude of overvaluation or undervaluation cannot be identified, the impact assessment focuses on the assessment of the net impact on the institutions' operations.

For the credit risk part it is the level of conservatism included in overestimations or underestimations that cannot be assessed under the current exercise. The impact assessment for the inclusion of the data collection on conservatism focuses on the impact on the institutions' implementation of such a data request.

D. Options considered

When developing the current 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 the current guidance, templates and hypothetical portfolios as defined for the exercises 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 the current practice assumes that credit institutions and the EBA have the current operational cost assigned to providing clarifications and ensuring the consistent submission of data. Credit institutions would spend the usual amount of time in seeking clarifications on the exercise, while, on the other hand, the EBA would continue to work bilaterally with each of the competent authorities to clarify the preferred means of modelling and valuation of the reported values.

[15] https://eba.europa.eu/regulation-and-policy/model-validation/guidelines-on-pd-lgd-estimation-and-treatment-of-defaulted-assets

Equally for the current credit risk exercise there are operational costs for providing clarification for the EBA and on submitting the data for the institutions. Institutions would spend the usual amount of time in seeking clarifications on the exercise and submitting the data, while, on the other hand, the EBA would continue to provide clarifications via Q&As and bilaterally with each of the competent authorities. The EBA and competent authorities will continue to explore the “outliers” via interviews with the relevant institutions.

The do-nothing option would imply a high risk of inconsistent application relating to benchmarking exercises and/or incorrect implementation of modelling, which diverges from the EBA’s intended implementation.

Leaving the Implementing Regulation on benchmarking unchanged would also result in some instruments specified in Annex V becoming outdated, as the maturities no longer align with the hedging instruments.

Further, by not amending the reporting templates, as specified in Annex VII, the scope of collected information on market risk would not reflect developments in the prudential framework, where CRR2 introduced the first element of the FRTB through a reporting requirement on the Alternative Standardised Approach for market risk, applicable as of September 2021.

Equally for credit risk, by not amending the templates, as specified in Annex III and IV, the data collected on PD, LGD and RWA would not reflect the concepts and would not be consistent with the terminology (as regards conservatim) which was harmonised via the EBA’s regulatory review of the IRB approach[16].

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

The main arguments that support the revision of the guidance on the benchmarking exercises are

(i) to enhance the harmonisation of the benchmarking exercises across all EU credit institutions;

(ii) to reduce the operational cost assigned to the excessive communication amongst credit institutions, NCAs and the EBA;

(iii) to reduce the operational cost assigned to the data quality check of the exercise;

(iv) to harmonise concepts and terminology between the guidance provided in the regulation and the BM data collection.

For the market part of the exercise, the current ITS could achieve the first objective by expanding the information collected, in terms of sensitivities of the instruments in the exercise, together with updating the maturity of certain instruments. Sensitivities can provide the additional information needed in order to understand the differences in the data submitted by firms, and

[16] https://eba.europa.eu/eba-publishes-report-on-progress-made-on-its-roadmap-to-repair-irb-models

improve the Competent Authority feedback provided to them.

The Sensitivities-based Method (SBM) information can then be directly related to own funds requirements (OFR), in order to better understand the relative IMA variability.

This would also have an immediate positive impact on the third objective. Also, in terms of future full implementation of the FRTB, the gradual introduction of SBM elements in the framework can surely reduce future data quality issues.

For the credit risk part, the collection of information on the level of conservatism incorporated in the reported PD and LGD parameters and RWA links to the first objective e.g. by relying on the concept of MoC which was harmonised via the GL on PD and LGD. Adding information on conservatism to the data collection can provide the information needed to reveal variability due to different levels of conservatism (including conservatism imposed via supervisory measures). This links as well to the second goal, as some deviations from the benchmarks may be explained by different levels of conservatism. Lastly, it will be beneficial to align concepts and terminology between reporting and policy regulation, in particular with respect to the need for clarifications.

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 follow the principle of proportionality when conducting 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 to the benchmarking exercise results; however, it is expected to be on average close to zero due to the hypothetical market portfolio exercise framework. It may be slightly positive for the credit risk part of the exercise, in the event that the exercise reveals some deficiencies in the models that need to be corrected by the institutions.

Market risk:

Option 1

Costs: a possible slight increase in the additional operational cost attributed to the bilateral oral or written communication of best practices. This ongoing cost is expected to increase over time as a consequence of the increase in the complexity or requirements of the benchmarking exercises.

Benefits: one-off benefits (reduction of the existing operational costs) of not dedicating human resources to 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 for the EBA to explain the new framework to the national competent authorities and, through them, the participating credit institutions. However, it is to be noted that the data requested through the SBM templates should not be excessively burdensome, because the existing information is already collected by institutions, given the reporting requirement applicable as of September 2021.

Benefits: The benefits of this option arise from the harmonisation and transparency of the benchmarking exercises and the consistent modelling and valuation of the reported data. In addition, it would allow for a better and targeted communication with the credit institution as it offers more insights in the submitted data.

Credit risk:

Option 1

Costs: The level of conservatism incorporated in the reported PD, LGD and RWA would remain unknown, implying minor ongoing costs for the data quality check and communication for both institutions and CA, where significant unexplained deviation from the benchmark is observed and due to conservatism. However probably the more significant costs in this context are related to the quantification and validation of the MoC on the institutions' side and the quantification and impact of supervisory measures on the supervisors' side. A very high one-off cost for institutions that would start the benchmarking exercise for the first time or do not yet have a fully automated process. A significant running cost is also incurred for the training of all stakeholders participating in the exercise.

Benefits: no change would mean no additional IT cost for institutions already participating in the benchmarking exercise.

Option 2

Costs: There are one-off costs for dedicating EBA staff to the drafting of the ITS and specifying the relevant data fields for assessing the conservatism incorporated in PD, LGD and RWA and for updating the IT structure accordingly. For institutions which have already a fully automated process there are also one-off costs for specifying and building the IT structure for inclusion of these fields. These costs are assumed to be low as the GL on PD and LGD (which are applicable from 01.01.20200) require the ability to report MoC, including its subcategories. However the exact cost of this option is difficult to assess, and therefore this Consultation Paper asks for feedback on this matter.

Benefits: The benefits of this option arise from the ability to disentangle the variability in risk parameter estimates and RWA stemming from different levels of conservatism. Moreover the additional fields proposed in this version of the ITS might allow supervisors and institutions to be provided with benchmarks for the level of conservatism incorporated in the reported PD, LGD and RWA and might thus significantly support and harmonise the complex task of quantification of the impact of deficiencies.

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.

Moreover, Option 2 is consistent with the feedback and requests of the participating credit institutions, which sought clarifications on the methodology of conducting benchmarking exercises, as well as a simplification of the data collection for credit risk.

4.2 Draft cost-benefit analysis / impact assessment for changes to the benchmarking of the ECL calculation under IFRS9

Following the first application of IFRS 9 in January 2018, 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.

Given the commonalities between IRB models for credit risk and IFRS 9 models, it was 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, as part of the ITS package for the 2021 benchmarking exercise, additional templates on IFRS 9 parameters were introduced. In particular, these templates were focused on the collection of data on the PD parameters (including metrics related to the significant increase in credit risk) affecting the estimation of the ECL for low default portfolios (LDPs).

Based on the staggered approach developed in the IFRS 9 roadmap, changes are now suggested to Regulation 2016/2070 in order to introduce in the current set of templates additional data points aimed at collecting information on other IFRS 9 parameters (and in particular on the LGD parameter), as well as other minor adjustments in relation to forecasting future economic conditions.

As per Article 15(1) of the ESA 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) annex which analyses “the potential related costs and benefits” of the guidelines. Such an 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.

The EBA prepared the IA included in this Consultation Paper by analysing the policy options considered when developing these ITS. Given the nature of the study, the IA is qualitative in nature.

A. Problem identification

The IFRS 9 templates currently included in the ITS on supervisory benchmarking are mainly aimed at collecting information on the PD parameter affecting the estimation of the ECL for low default portfolios (LDPs).

In line with the staggered approach developed in the IFRS 9 roadmap, these templates need to be amended in order to introduce additional data points aimed at collecting information on other IFRS9 parameters (and in particular on the LGD parameter). For this reason, a modification to Regulation 2016/2070 is deemed necessary.

B. Policy objectives

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

The baseline scenario is the existing Regulation 2016/2070 where, with specific reference to the IFRS 9 templates, the data collection is mainly focused on the PD parameter. If there are no changes applied to this regulation, any data collection related to the additional IFRS 9 parameters (e.g. IFRS 9 LGD) should be done on an ad-hoc basis.

D. Options considered

The EBA considered the following policy options for the collection of data on the IFRS 9 LGD risk parameter.

Option 1: To collect data based on the actual LGD parameter used for the purpose of estimating ECL under IFRS 9, in line with the approach followed in the case of the IFRS 9 PD. In this case, for each of the common counterparties, the data collected would be based on the weighted LGD of all the exposures, which are subject to the IFRS9 impairment requirements.

Option 2: To base the data collection on LGD values developed on the basis of hypothetical assumptions (i.e. hypothetical LGD values).

E. Cost-benefit analysis

As a difference with the PD estimations that are directly comparable as they relate to the same default risk, in the case of the LGD risk parameter the comparison is significantly affected by the characteristics of the different facilities (e.g. existence of collateral or a guarantee). Therefore, leveraging on hypothetical LGD values would have the merit in helping to ensure the comparability of the data collected. Moreover, such an approach would be also consistent with the logic applied for the purpose of the template C101.00 on the IRB side.

F. Preferred option

The preferred option is Option 2 according to which the data collection would be based on hypothetical LGD values. In particular, under this option institutions would be asked to report that LGD values that would be applied “as if” the exposure toward the counterparty was senior and unsecured, with no negative pledge clause in place.

4.3 Feedback on the public consultation

The EBA undertook a public consultation on the draft proposal contained in this paper.

The consultation period lasted for nearly two months and ended on 15 February 2021. Overall four responses were received. However, one response was limited to the CR part one and one response was limited to the MR questions only.

The feedback tabled below presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments, and the actions taken to address them, if deemed necessary.

In some cases, several industry bodies made similar comments or the same body repeated its comments in response to different questions. In such cases, the comments and the EBA’s analysis are aggregated.

Changes to the draft ITS have been incorporated as a result of the responses received during the public consultation.

Summary of key issues and the EBA’s response

For what concerns the credit risk part, the respondents pointed out very clearly the difficulties in reporting PD and LGD with and without MoC and supervisory measures for 2022, in particular where the new models (developed for the purpose of compliance with the products of the IRB roadmap) are not approved at the relevant reference date. For the market risk part of the consultation, the feedback suggested a postponement of the sensitivities-based model data and clarification of the scope and data submission. Furthermore, some changes to the instruments were suggested. All the clarifications are reflected in the current final draft, as reported in the final table.

As regards the IFRS 9 templates, based on the evidence collected from the second ad-hoc exercise, the EBA noted that only a limited number of institutions were able to provide estimates on the hypothetical LGD IRB without conservative adjustments and that, given the assumptions used for determining the hypothetical estimates, collecting data on the hypothetical IFRS 9 LGD per time horizon would not result in meaningful information. In the light of this, and given the operational difficulties raised by the industry in providing hypothetical LGD estimates, the EBA decided to remove these data points from the final IFRS 9 templates.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments – credit risk			
Respondents criticised missing feedback from the EBA on their performance in the benchmarking exercise.	It was claimed that banks should know how they are doing compared to peers so that the banks can consider doing relevant adjustments. More specifically, it was stated that the EBA should report back to the banks on information such as: ▪ the bank's reported numbers compared to those of peers on an aggregate level, e.g. per asset class; ▪ the bank's reported numbers compared to those of other banks for common clients (for individual clients where possible, otherwise on an aggregated level where not possible due to anonymisation).	The benchmarks on aggregate portfolios are already returned as feedback to banks. The EBA acknowledges that there might be a need for improvement in communication. In fact banks that attend the EBA exercise (the list is available on the EBA website) receive a feedback file at the highest level of consolidation (i.e. the same level of the reporting to the EBA). These feedback files do only contain the relevant benchmarks; they do not contain the banks' reported figures as these should be known by the banks themselves. For the common clients the information is not shared on an individual level due to legal concerns. However aggregated reporting could be considered for the future.	No change
Question 1.1: Do you have any concerns on the proposed collection of data on conservatism in the PD and LGD estimates? In particular as regards the breakdown into Moc A, B and C?			
Reporting of MoC as proposed in the CP on the draft ITS on	One respondent pointed out that in its Final Report on the Draft ITS on Supervisory Reporting in June 2020, the EBA did not expect the institutions to provide information on margins of conservatism	Please note that the relevant first reporting date for the supervisory disclosure templates specified in EBA/ITS/2020/04 is 30.06.2021.	The reporting of PD and LGD without MoC and without supervisory

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
supervisory reporting has been dropped.	(MoCs) as of the 31 December 2021 reference date. And that the same reason should apply to benchmarking reports.	In addition, the EBA has decided to include the relevant data filed in benchmarking on a voluntary basis for 2022, where institutions are not able to isolate the associated conservative adjustments in their PDs and LGDs used for the RWA calculation without disproportionate efforts. Please note as well the methodological difference with respect to the information collected: the data field which was proposed in the draft ITS on supervisory reporting would have been calculated as an arithmetical average of percentage points added to the average best estimate of PD of a certain PD range.	measures will be voluntary for the 2022 exercise where it proves difficult to be reported.
Request for postponement of the MoC reporting since the GL are not in force at 31.12.2021.	Several respondents pointed out that (a) legally the GL only enter into force on 01.01.2022 which is one day after the reference date for the data collection; and (b) it is expected that a significant number of model changes (due to the IRB roadmap implementation) will still be awaiting regulatory approval by the end of 2021 and during 2022. Therefore these respondents ask for a postponement of the MoC reporting obligation.	The EBA acknowledges the fact that the implementation of the reporting of PD and LGD without MoC might be challenging and therefore for 2022 the reporting of the new data fields related to conservatism will be voluntary, where institutions are not able to isolate the associated conservative adjustments in their PDs and LGDs used for the RWA calculation without disproportionate efforts. However the requirement to add MoC to the IRB parameter estimates is founded on Article 179(f) of the CRR and it can hence be expected that banks are able to report IRB parameters with and without MoC. It should be noted that for C101 (common counterparties) the IRB PD without MoC is already requested in the associated IFRS 9 template.	The reporting of PD and LGD without MoC and without supervisory measures will be voluntary for the 2022 exercise where it proves difficult to be reported.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Request for dropping the requirement to provide the breakdown into type A, B and C MoC as specified in the GL on PD and LGD.	All respondent asked for a removal of the requirement to report the breakdown of MoC into the categories A, B and C as provided in the GL on PD and LGD. The respondents claim that (a) it is difficult to report breakdown of MoC categories due to the methodologies adopted (MoC are integrated in the calibration phase) and IT constraints; (b) they do not see the benefit of being able to compare MoC on the level of A, B and C, since this will mostly reflect what kind of individual challenges the different institutions have.	The EBA takes note of the difficulties in reporting the breakdown into categories A, B and C based on the current methodologies and IT solutions. It should however be noted that paragraph 51 of the GL on PD and LGD explicitly requires the ability to report this breakdown and as such the EBA expects that banks are able to report this once the new models are approved. However for the ITS 2022 this requirement is dropped. As regards the benefit of more information related to MoC it should be stressed that the quantification of MoC is an area that is particularly controversial and expected to be a driver of variability. This cannot be assessed based on the current data collection. It is however true that MoC covers for different deficiencies and as such they are hard to compare. The MoC categories A, B, and C would however allow a more homogeneous comparison. Thus the benefit will be for supervisors and for the institutions to know the range of MoCs for comparable portfolios and the same type of deficiencies.	The requirement to report information related to the breakdown of MoC into types A, B and C has been dropped for the ITS 2022.
Question 1.2: What is, in your view, the appropriate level for assessing the risk exposure or RWA add-ons imposed due to deficiencies in the IRB approach?			
Request to consider RWA or capital add-ons on a different level than by benchmarking portfolios	Two respondents pointed out that it can be difficult to ascribe the capital or RWA add-ons to specific models or portfolios. Therefore, the appropriate level would be the overall credit risk of the institution.	The EBA acknowledges that these add-ons may be applied on a more global level and has therefore dropped the requirement that such add-ons are reported in C102 or C103. Instead information on	Change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	Moreover one respondent requested clarity on the differences among “Other relevant risk exposures” and “RWA add-ons”.	such add-ons to RWA are now requested in C105.01, with detailed data description.	
Question 1.3: Do you agree to the voluntary collection of the information for LDP portfolios?			
None	Respondents expressed agreement to the proposal		No change
Q1.4: What are the main challenges for institutions in this regard?			
Respondent points out the operational burden related to the new data requirement.	One respondent claimed that the new requirement of reporting data related to MoC is burdensome, as it implies the calculation of parameters under different approaches (with conservatism and without it, removing a different level of conservatism under each scenario).	The EBA has taken note of this and limited the burden by taking out the breakdown into MoC categories.	Change
Difficulty in disentangling conservatism in RWA	Disentangling MoC in the RWA is difficult to do. If the EBA decides to include it in the benchmarking exercise, such data would only be possible to collect on a qualitative basis at this stage.	The EBA does not plan to disentangle MoC in RWA (as it is not required to recalculate RWA with the PDs, LGDs net of MoC or supervisory measures).	No change
Q2.1: For which kind of portfolios would you expect that outdated ratings (or other missing information hindering the annual re-rating) are a material driver of variability when comparing institutions’ RWA on homogeneous benchmarking portfolios? **Q2.2: Assuming the aspect is a material driver of variability when comparing institutions’ RWA, do you have suggestions or preferences for the data collection on conservatism in application?**			

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Q2.3: Do you see any major technical restrictions in providing these data points? If so, which?			
Conservatism in the rating assignment process	A majority of respondents do not expect that conservatism in application is a material driver of RWA variability. One respondent noted that this will mainly affect non-retail portfolios. Materiality will be dependent on the exposure size, the granularity of the credit rating system and the fallbacks applied. Another respondent notes that conservatism in the application of risk parameters may be treated in various ways, and would therefore be difficult to report in a standardised manner. Lastly, one respondent points out that collecting appropriate information on the conservatism in application may be a burdensome process which might require complementary analysis for the information collected e.g. a survey (for example, general level of outstanding ratings and the time periods over which these ratings are already overdue).		No change
Question 3: Do you agree that the added BM portfolios will serve the purpose of providing a full breakdown of COREP exposure classes into FINREP sectors?			

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Respondents expressed agreement.	Although respondents expressed general agreement they mentioned as well the difficulties in reconciling FINREP and COREP.		No change
Question 4: Which obstacles hinder the reporting of homogeneous portfolios in terms of annual turnover as specified in Annex I? Does this lead to exclusion of a material share of the IRB portfolio?			
Respondents explained issues in breaking down portfolios by the obligor's annual turnover.	Respondents explained that the difficulty in providing this breakdown is related to the given structures of data collection and maintenance in the bank. It is pointed out that specifically information on annual turnover is typically stored in credit approval systems whilst RWA information is included within financial and regulatory reporting systems. Adding this data point to the financial and regulatory reporting systems is perceived as overly burdensome.		No change
General comments - IFRS 9 templates			
Importance of feedback to participating institutions	Considering that an important purpose of this exercise is harmonised risk measurement, one respondent suggested that the EBA consider reporting back to the participating institutions with reference to the estimates provided by the institution in comparison to: - those reported by the other banks for common clients (for individual clients	The EBA agrees on the importance of providing feedback to those institutions participating in the ad-hoc exercise and would further reflect on the opportunity to enhance the type of feedback provided, within the limits of the legal framework linked to confidentiality issues.	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	whenever possible, otherwise at aggregate level); - those reported by peers on aggregate level (e.g. per asset class).		
Responses to questions in Consultation Paper EBA/CP/2020/25			
Question 5: Would you be able to report the hypothetical LGDs as described above?	One respondent highlighted that large institutions typically use actual LGD values for internal management reporting and statutory reporting under IFRS 9. For this reason, the same respondent stated that the calculation of hypothetical IFRS 9 LGD values is likely to be a one-off exercise for the purposes of submission of data to the EBA. In addition, it was highlighted that this calculation will have to be performed outside IFRS 9 databases, for each low default portfolio, and will require an exercise to identify the sub-set of senior unsecured instruments that have no negative pledge. For that reason, this will be operationally intensive, with the information related to the "LGD IFRS9 unsecured 12m hypothetical" not necessarily easy to extract. The same respondent finally proposed to only collect hypothetical IRB LGD values, as, in the opinion of the respondent, they would provide better risk insights for low default portfolios.	The purpose of collecting data on hypothetical IFRS 9 LGD estimates was to enhance comparability across institutions, to the extent possible, since in the case of the LGD parameter any comparison could be significantly affected by the characteristics of the different facilities (e.g. existence of collateral or a guarantee). However, the evidence from the second ad-hoc exercise showed that, given the assumptions used for developing the hypothetical LGD, the collection of data on the hypothetical IFRS 9 LGD per time horizon would not result in meaningful information. In the light of this, the EBA decided to limit the data collection to the IFRS 9 LGD hypothetical 12M. This would also contribute to reducing the operational burdens for the reporting institutions.	The columns from 0200 to 0290 of template C112.00 of Annex 8 of the ITS have been removed.
Question 6: Would you be able to report the hypothetical LGD IRB without	One respondent pointed out that reporting LGD IRB without conservative adjustments will be particularly burdensome for large institutions given the high number of portfolios and rating models to	Based on the feedback provided by the industry and on the evidence collected from the second ad-hoc exercise, the EBA decided to remove this data point, since only a limited number of institutions were able	Column 0560 of template C111.00 of Annex 8 of the ITS has been removed.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
conservative adjustments unsecured as described above?	be covered. Moreover, the same respondent emphasised the operational complexity of the calculation process and the IT challenges to extract the data for some institutions.	to provide information on the LGD IRB without conservative adjustments. Annex 8 of the ITS has been revised accordingly.	
Question 7: Do you see the need to collect weights of economic scenario per time horizon?	Two respondents would not see the need to collect economic scenario weights per time horizon as these are generally constant throughout the projection.	Different practices have been observed in this regard across EU institutions. Therefore, in the EBA view there are merits in collecting additional information on economic scenario weights per time horizon. Moreover, it is worth noting that, in order to limit the burden for the reporting institutions, the instructions of the IFRS 9 templates already clarify that if the probability weights for all the economic scenarios of a given country are the same over the different time horizons the columns from 201 to 209 of template C.114.00 may not be filled.	None
General comments – market risk			
Extension of the scope of the benchmarking exercise to Alternative Standardised Approach ("ASA") / timeline	One respondent is generally concerned about extending the IMA benchmarking exercise to cover the Alternative Standardised Approach (ASA). Although the information requested is not going beyond data necessary for the ASA calculation, the respondent highlights that the extension generally creates an additional burden for IMA institutions. Since the ASA serves as a credible fallback to the alternative internal model approach (A-IMA), the respondent proposes to postpone the extension of the benchmarking to ASA. The postponement should last until the reporting obligation is converted into a framework for calculating own	The EBA takes note of the concerns regarding the extension of the benchmarking exercise to the ASA. In addition to the ASA function as a fallback for the A-IMA, EBA highlights that the ASA – unlike the current standardised approach – can be considered a "hybrid approach". The ASA contains characteristics of a standardised approach (e.g. risk weights, correlations and bucket structure) and characteristics of an internal model approach (the determination of the sensitivities). Hence a transfer of the concept of benchmarking of internal models to the ASA is considered coherent from a risk perspective.	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	funds requirements, which in the view of the respondent would be the same date as the start of the reporting obligation of the alternative internal model approach.	The EBA takes note of the concerns w.r.t. the timing of the extension, but is of the view that the starting point of the benchmarking of the ASA is not directly connected with the decision to convert the reporting obligation of the ASA into a framework for the calculation of own funds requirements. The EBA is of the view that the benchmarking of the ASA in the next years´ exercise might provide important insights for supervisors and institutions; hence a general postponement of the ASA benchmarking is rejected. Additionally, the date of converting the reporting obligation into a framework for calculating OFR is unknown at the moment. Therefore this proposal would create additional uncertainties for the start of the ASA benchmarking. Furthermore, the templates to be completed for the benchmarking of the ASA have to be submitted end of February 2022, hence there is no direct overlap with the implementation of the templates for the ASA for the reporting obligation in Q3/2021. Finally, the same type of data collection (i.e. additional data collection of standardised data from internal model approved banks) has already been run for the credit risk part of the benchmarking exercise.	
Definition of risk factors / usage of industry standard SA-CRIF	One respondent proposes that sensitivity amounts should be submitted at the risk factor level based on ASA definition. To alleviate the reporting burden, the respondent proposes the usage of the industry-	The EBA agrees to use the ASA definitions of risk factors for the benchmarking. The EBA takes note of the proposal to use the SA-CRIF standard. Although it could be easier to adopt an	No change

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	standard Common Risk Interchange Format (SA-CRIF) as this format has been widely tested and used by industry participants.	external technical solution for collecting the data (e.g. the proposed SA-CRIF), the EBA considers it more appropriate to preserve the control over the template applied to collect information. Moreover, adopting an alternative template format is not a viable option for the EBA for the BM 2022 exercise. The reporting template must be consulted on before its finalisation so that the institutions participating have time to prepare for the new taxonomy to be adopted. For this reason, the EBA adopted a risk factors definition and template format that should be easily applicable by all the institutions. In any case, the EBA will monitor the adoption of the proposed template format, and welcome the dialogue with stakeholders about efficient solutions to collecting data to minimise the reporting burden for institutions and competent authorities.	
Potential issue once the A-IMA is implemented	One respondent points to potential future problems when the alternative internal models approach will be the basis for the scope of application for the benchmarking exercise. The respondent is unsure how to treat trading desks which fail the P&L attribution test – those desks are capitalised using the ASA. The current legal basis in Article 78 of the CRD requires only desks to be within the scope of benchmarking where OFR are calculated using an internal model. Consequently, the respondent	The EBA takes note of this issue and will clarify it in the instructions once the A-IMA is the basis for the benchmarking exercise.	No change for the current ITS, the issue will be clarified in the instructions once the A-IMA is included in the benchmarking exercise.

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	assumes that ASA benchmarking would not have to be conducted for this desk.		
Extension of the scope of benchmarking to non-internal model institutions.	One respondent encourages the EBA to provide additional details about the scope of the benchmarking exercise and welcomes a dialogue in the event of an extension of the benchmarking of the ASA for non-IMA institutions.	The EBA takes note of the offer to enter/continue the dialogue on further developing of the benchmarking exercise, especially about the possibility of widening the scope to non-IMA institutions. In this regard, the EBA will monitor any evolution of the legal basis and assess whether it is appropriate to broaden the scope of the subjects in the exercise.	No change
Disclosure of peer performance	A respondent proposed that institutions participating in the benchmarking exercise should be provided with information on peer performance, specifically in terms of comparing aggregate-level data (e.g. asset class) vis-à-vis other participating institutions with common clients.	Feedback on peer performance is provided through the EBA Report on Results from the Market Risk Benchmarking Exercise, published annually on the EBA website. The report discusses benchmarking analysis findings based on the data collected through the Implementing Technical Standards that specify the benchmarking portfolios, templates and definitions used for the annual benchmarking of internal models for market risk. The report describes the results observed from the exercise, including an analysis of risk measures broken down by a number of potential drivers at the institution level, such as size or business model. Additionally, the report discloses for transparency and further reference many tables and charts that summarise performance and provide the basis for	No change

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		comparison across several dimensions such as asset class or portfolio level.	
Responses to questions in Consultation Paper EBA/CP/20xx/xx			
Question 8: Do you see any issues or lack of clarity in the definition of the data points of template C 106.01 and C 120.01? Do you see any issues in the format of the templates C 106.01 and C 120.01 to report all relevant risk factors and sensitivities for the SBM in an appropriate way?	One respondent points to a potential issue in connection with the calculation of the vega sensitivity for template C 120.01. It is explained that the sensitivity is calculated by some/many institutions using a proportional shift of the volatility surface, therefore obtaining directly a sort of “vega-weighted” value. The respondent proposes that this value shall be accepted. Other respondents did not identify any specific issue.	The EBA takes note of this comment. The data to be reported for the vega sensitivity shall follow Article 325s of CRR2, the data for the implied volatility follows Article 325ax of CRR2. If the calculation presented by the respondent is within the interpretation of this article, the cells can be completed as proposed by the respondent. Further explanations/details can be provided in the explanatory notes.	No change
Question 9: Do you agree with the proposed format for the collection of OFR data for the SBM in templates C 120.02 and C 120.03?	One respondent expressed agreement.		No change
Question 10. Do you agree with the two proposed points in time for the collection of sensitivity data in relation to the ASA? Do you agree with the proposed point in time for the collection of OFR data? How significant do you deem the additional reporting burden if the collection was extended to	One respondent points to restricted resources in Q3/2021 when the first reporting of the extended template C106 is planned to take place – an additional conflict in 2021 is the first reporting of the ASA in Q3/2021. Due to the fact that for the initial market valuation the amount of data points collected per portfolio increased significantly the respondent proposes to extend the remittance date of the template to three to four weeks.	The EBA takes into account the general message of restricted resources which have an impact on the implementation of new reporting templates. Additionally, the EBA acknowledges the specific situation in September/October 2021 where the implementation and first reporting of template C106.01 overlaps with the first reporting of the ASA benchmarking templates – hence an extension for the remittance dates for 2021 from one to three weeks is exceptionally considered to be appropriate.	Exceptionally extend the remittance date for C106 to three weeks, and for the risk measures add an additional week to the remittance date in the ITS 2022.

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additional days in the risk measurement period?	One respondent expressed agreement, noting it should not represent an additional reporting burden for firms with well-implemented IT infrastructure.	Considering this delay on IMVs, EBA considered it proportionate to exceptionally delay the remittance date for the risk measures by one week with respect the past practice. For the benchmarking exercise in 2023 onwards, the EBA plans to analyse the experience gained for the submission of C 106 in October 2021/March 2022. The experience will be taken into account in the proposal for the remittance dates for the CP of the ITS benchmarking 2023.	
Question 11: Do you agree with the proposed collection of ASA sensitivity data and own funds requirements data in both the instrument/portfolio base currency specified in the ITS and the institution´s own reporting currency?	One respondent points to an issue in the new ASA which might also have an impact on the benchmarking exercise. According to Article 325q of CRR2, institutions have the optionality within the FX risk category to either calculate OFR in the reporting currency directly or in a base currency, which is then translated into the reporting currency. The respondent asks for clarification as to whether the EBA intends to require both approaches for the benchmarking exercise – if this is the case, the respondent points out that this decision would force institutions to build up additional calculation infrastructure. Additionally the respondent proposes to change the label "base currency" used in the instruments and portfolio documentation to "instrument currency", because "base currency" is a term newly implemented in CRR2.	The EBA confirms that the template shall not be understood to request data calculated using both approaches / build new infrastructures. Generally, the values reported for the EBA benchmarking shall be calculated using the same approaches/systems implemented by institutions for the calculation of own funds requirements (VaR) or to fulfil the reporting obligation (ASA). Details of whether an institution is using either the reporting currency or the base currency for the ASA can be included in the explanatory notes. The EBA will clarify this in the instructions. The EBA agrees to change the label "base currency" used in the instruments and portfolio documentation to "instrument currency".	Clarify the instructions for C106 and C120 w.r.t. the issue of reporting currency/base currency. Change the label "base currency" used in the instruments and portfolio documentation to "instrument/portfolio currency"

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	Other respondents expressed agreement with the proposal. (Others expressed no view.)		
Question 12: Do you see any issues or lack of clarity in the definition in the changes and updates introduced in the list of instruments and portfolio of Annex 5?	One respondent reported a series of issues with the following instruments: 1. Instrument #4 – Peugeot futures: the instrument is no longer available; 2. Instruments #9–#16: request to specify the exchange; 3. Instrument #18 – Auto-callable Equity: update to business practice; 4. Instruments #24 and #30: same instruments; 5. Instrument #47 – 5-year Cross Currency EUR/USD SWAP: update to business practice; 6. Instruments #80 – Short position in spread hedged Super Senior tranche of iTraxx Europe index: clarification required. One respondent sought clarification on the scope of application, specifically if the remit remains the approved internal model.	According to the EBA's analysis, here below the conclusions on instruments reported: 1. Instrument #4 : the future could be updated; 2. Instruments #9–#16: specifying the exchange will not increase consistency, but could increase operational mistakes; 3. Instrument #18 – Auto-callable Equity: preference to update to business practice; 4. Instruments #24 and #30: should be different instruments; 5. Instrument #47 – 5-year Cross Currency EUR/USD SWAP: preference to update to business practice and moved to IR instruments section; 6. Instruments #80 – Short position in spread hedged Super Senior tranche of iTraxx Europe index: clarification could be provided to align with business practice. The scope of application of the exercise remains aligned with that specified in Article 3(2) of Commission Implementing Regulation (EU) 2016/2070 of 14 September 2016 laying down	According to the analysis the following changes have been introduced: 1. Instrument #4 has been updated; 2. Instrument #18 updated to business practice; 3. Instrument #24 is amended; 4. Instrument #47: updated to business practice and moved to IR section; 5. Instrument #80: clarification provided.

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		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. This is also valid for the benchmarking of the ASA, hence generally only those instruments/portfolios have to be included in the benchmarking exercise where the institution has approval to use the internal model.	No change to the scope of application of the exercise
Question 13: Which types of instruments, specific risks, etc. play a particularly important role in your portfolio but are misrepresented/ under-represented in the EBA portfolio?	One respondent proposes to ask firms individually/bilaterally, because representative trades depend on the respective business strategy.	The EBA takes note of this general statement.	No change
Question 14: Which instruments, risk factors and portfolio constellations are considered particularly relevant for benchmarking the ASA and should be included in the benchmarking portfolio (distinguishing by SBM, DRC and RRAO)?	One respondent generally proposes that the set of portfolios as a whole covers at least all SA risk classes and respective risk positions if ASA benchmarking is planned to be extended to all institutions. One submission referred to delta and curvature risks for foreign exchange risk factors when determining own funds requirements under the base currency approach.	The EBA takes note of the proposal that the benchmarking portfolio be adapted if the ASA benchmarking is extended to all institutions.	No change

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Question 15: Do you currently make use of any industry standards to exchange instrument specifications in a standardised way? If so, which standard or standards are most relevant?	One respondent proposes to use the FpML standard for instrument representation. Additionally, the respondent provided a short comparison of FpML and the ISO 20022 used by ESMA to cover OTC derivatives for MiFID trade reporting. According to the respondent, the FpML standard would be more appropriate for the purpose of benchmarking than the ISO 20022 standard. One response noted the use of FIX, FpML and SWIFT.	The EBA takes note of the short comparison of FpML and ISO 20022. The EBA acknowledges that an industry-wide standard to represent trades in a common format and its usage for the benchmarking exercise could minimise data quality issues. The EBA will continue to exchange views with stakeholders on the FpML standard. Additionally, the EBA and CAs will cooperate to improve their understating in the FpML standard. In any case, the EBA points out that diverging industry standards used by ESAs must be well justified, taking into account the underlying purpose of the data/exercise.	No change
Question 16: Would you deem additional instrument specifications using industry standards beyond the current ITS instructions useful? If so, how would you use them in the benchmarking exercise?	One respondent confirms that the usage of the instrument description in Annex V of the ITS will be continued, supported by FpML representation. Due to the fact that the FpML standard cannot be consumed systematically at the moment, the respondent clarifies that such specification can enhance but should not replace a careful instrument definition. Another response welcomed the introduction of industry standards.	The EBA takes note of the proposal to use FpML additionally to a detailed instrument definition of Annex 5.	No change
Question 17: In your view, what would be the ideal process to integrate such instrument specifications in the	One response suggested the submission of the instrument specification to CAs or public disclosure of the instrument specification.	The EBA acknowledges these suggestions and will take them into consideration, should additional	No change

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benchmarking exercise (e.g. submission of instrument specification to CA for validation, publication of instrument specifications)?		instrument specifications be specified using industry standards.	
Question 18: Concerning instrument parameters depending on the level of risk factors on the booking date (e.g. strike prices), how helpful would you find additional information on these and what process would you envisage?	One submission considered it would be helpful.	The EBA will take into account this feedback for any future considerations around additional instrument specification.	No change