



Annex 1

12 November 2015

Instructions for QIS on CVA SREP GLs

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1. Introduction

The EBA is publishing Guidelines on the treatment of CVA risk under SREP. These Guidelines, which complement the EBA Guidelines on common procedures and methodologies for SREP, build on the CVA Report published by the EBA on 25 February 2015. In particular, they implement Policy recommendation No 4, as they provide an EBA coordinated approach for yearly monitoring of the impact of transactions exempted from the CVA risk charge and for defining situations constituting a presumption of excessive CVA risks to be considered under SREP.

With a view to contributing to the impact assessment of those Guidelines and the calibration of the threshold values to be included in the final Recommendation, the EBA is launching a short Quantitative Impact Study (QIS). Since no monitoring of the impact of transactions exempted from the CVA risk charge has been conducted in 2015, this QIS will also constitute the 2015 monitoring exercise in line with the recommendations of the CVA Report.

The data collected in this exercise will be treated as strictly confidential.

The present instructions are provided to facilitate the completion of the template for the QIS on CVA SREP and are not to be construed as an interpretation of the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) on prudential requirements for credit institutions and investment firms.

2. General

2.1 Scope of institutions participating in the QIS

This QIS will be used for the calibration of the threshold values to be included in the final EBA Recommendation, as well as the 2015 monitoring exercise of the impact of the transactions exempted from CVA risk in line with policy recommendation No 4 made in the CVA Report.

Most importantly, the QIS will serve to calibrate the following threshold values:

- the materiality threshold expressed in terms of exposure value for counterparty credit risk of derivative instruments
- the x% threshold
- the y% threshold.

In addition, the QIS will test the impact of the policy option to include intragroup transactions in the scope of the CVA SREP Guidelines and Recommendation. In order to test this impact, some institutions will be required to participate at different levels (group level, parent entity, subsidiary).

2.2 Reporting date

Unless noted otherwise, all data should be reported as of 30 September 2015. In case an institution has a preference for using the 31 December 2015 reporting date, it can consistently do so provided it notifies in cell E9 (1/Bank description – Reporting date).

2.3 Filling in the data

Where a participating institution is unable to answer a question, the corresponding cell should be left empty. No text such as NA should be entered in these cells. However, when the answer to a question is 0, institutions should fill in the cell with 0.

The questions target all institutions participating in the data collection exercise, unless stated otherwise in the template spreadsheet and in the instructions (e.g. some questions are only relevant for institutions using the advanced CVA method or for institutions with intragroup exposures).

Answers to the questions should only be provided in the dedicated yellow cells.

2.4 General assumptions for the QIS

The definition of 'unilateral CVA' (or simply CVA) follows the definition provided under CRR Article 381.

Banks are asked to comply with the following assumptions throughout the data collection exercise:

- Only OTC derivative instruments should be included; Exchange-traded derivatives should not be included; Securities Financing Transactions should not be included
- Each time a calculation of the hypothetical CVA risk charge is requested, the calculated CVA VaR and Stressed VaR should be approximated as the sum of:
 - the most recent CVA VaR as of 30 September 2015 multiplied by the multiplier applied to the CVA VaR (the multiplier should be reported in the Panel 2 Cell E18)
 - and the most recent CVA Stressed VaR as of 30 September 2015 multiplied by the multiplier applied to the CVA Stressed VaR (the multiplier should be reported in Panel 2 Cell E19).

In particular, no averaging over 60 business days will be required. Instead, the CVA VaR and Stressed VaR will be assumed to be flat over July, August and September 2015 and equal to the values computed as of 30 September 2015.

- For the computation of the current CVA risk own funds requirements, the starting point should be the scope of transactions that are part of the portfolio of the institution as of 30 September 2015. The EBA is aware that there are various interpretations regarding the scope of the exemptions set out under Article 382(4) in particular concerning transactions with pension funds or intragroup transactions. Therefore, in order to reduce the noise that this may introduce in impact computations, institutions should for the purposes of the QIS apply the following interpretations:
 - EXCLUDE ALL transactions with pension funds from the starting scope of transactions subject to CVA risk, as long as the counterparty meets the definition of a 'pension fund'
 - INCLUDE ALL intragroup transactions with non-EU entities of the group in the starting scope of transactions subject to CVA risk and EXCLUDE ALL intragroup transactions with EU entities of the group
 - For transactions with NFC, use the interpretation given in the CP RTS on third country NFCs.
- If for some reason institutions are not able to reflect those interpretations operationally for the purposes of this QIS, they should instead consider the transactions that are currently under the scope of their CVA risk charge and notify their NCA.

All these assumptions are used in the present data collection exercise to ensure consistent outputs across participating banks; they do not constitute an interpretation of the CRR. Any clarification about the interpretation of the CRR should be sought via the formal EBA Q&A process.

2.5 Process

The process will be coordinated by competent authorities (in particular contact with participating institutions). However, data quality checks and data analysis will be performed centrally at the EBA.

Participating institutions can submit their questions on the template or instructions by e-mail to CVA-QIS@eba.europa.eu.

2.6 Timeline

- November 2015 – Publication for consultation of draft Guidelines, QIS template and instructions – Circulation of QIS template to listed EU institutions by competent authorities
- 28 January 2016 – Deadline for transmission of QIS templates to competent authorities
- 29 January 2016 – Deadline for transmission of QIS templates to EBA
- Week of 1 February 2016 – EBA Analysis team to perform data quality checks – Where needed, resubmission to competent authorities for circulation to EU institutions
- 18 February 2016 - Deadline for transmission of QIS templates to competent authorities
- 19 February 2016 – Deadline for transmission of QIS templates to EBA
- Week of the 22 February 2016 - EBA Analysis team to proceed to data analysis, population of graphs and production of report
- 1st Semester 2016 – Discussion of results and policy options, finalisation and publication.

3. Template

3.1 Panel 1 - Bank description

Row	Column	Heading	Description
4	E	Bank name	Please provide the name of the legal entity or head of the group.
5	E	LEI Code	Please provide the Legal Entity Identifier
6	E	Reporting currency used in template	Please provide the three-character ISO code (e.g. EUR, GBP...).
7	E	Reporting Unit	Please select from the drop-down menu whether the numbers are given in units, thousands or millions.
8	E	Consolidated or individual basis	Please select from the drop-down menu whether the numbers are given on a consolidated or individual basis. Institutions may choose - or be requested by their competent authority - to provide numbers on both consolidated and individual basis (in particular, to test the impact of the inclusion of intragroup transactions). In that case, two templates should be provided: one with numbers on a consolidated level and one with numbers on an individual basis.
9	E	Reporting Date	Please indicate 30 September 2015 or, if you have decided to exercise this option, 31 December 2015.

3.2 Panel 2 – Current data under CRR

Row	Column	Heading	Description
13	E	Total exposure value for derivative transactions (non QCCP cleared) in RWA	<p>Please provide in RWA the total exposure value for derivatives, as computed according to Chapter 6 of Title 2 of the CRR ('Counterparty credit risk'), excluding transactions with a qualifying CCP.</p> <p>Should be excluded from the computation the following transactions:</p> <ul style="list-style-type: none"> - Securities Financing Transactions (SFTs) - QCCP cleared derivative transactions and client's transactions referred to in Article 382(3) of the CRR.
14	E	Total own funds requirement under Pillar 1 in RWA	Please provide in RWA the total own funds requirement for Pillar 1 at the reference date.

Row	Column	Heading	Description
18	E	Multiplier for the VaR component of the CVA risk charge	Institutions using the CVA advanced method should provide the multiplier applied to the CVA VaR as of 30 September 2015
19	E	Multiplier for the Stressed VaR component of the CVA risk charge	Institutions using the CVA advanced method should provide the multiplier applied to the CVA Stressed VaR as of 30 September 2015
23	D-E	Non-stressed CVA VaR	<p>Please provide, for the transactions subject to the advanced method as of 30 September 2015, the most recent CVA VaR as of 30 September 2015.</p> <p>NO multiplier should be applied at this stage.</p> <p>These results should NOT be expressed in RWA.</p>
24	D-E	Stressed CVA VaR	<p>Please provide, for the transactions subject to the advanced method as of 30 September 2015, the most recent Stressed CVA VaR as of 30 September 2015.</p> <p>NO multiplier should be applied at this stage.</p> <p>These results should NOT be expressed in RWA.</p>
25	D-E	RWA for CVA risk Advanced method	<p>The component of the own funds requirement for CVA risk computed using the advanced method should be computed as the sum of:</p> <ul style="list-style-type: none"> - the most recent CVA VaR as of 30 September 2015 (reported in Row 23 Cells D-E) multiplied by the multiplier applied to the CVA VaR (reported in Row 18 Cell E) - and the most recent CVA Stressed VaR as of 30 September 2015 (reported in Row 24 Cells D-E) multiplied by the multiplier applied to the CVA Stressed VaR (reported in Row 19 Cell E) <p>(i.e. in order to limit the number of recalculations, no averaging over 3 months is needed, the re-calculated CVA VaR and Stressed VaR are assumed to be flat over July, August and September 2015 and equal to the most recent VaR figure as of 30 September 2015).</p> <p>The result should be multiplied by 12.5 in order to obtain RWA.</p>
25	F-G	RWA for CVA risk Standardised method	Please provide, for the transactions subject to the standardised method as of 30 September 2015, the RWA for CVA risk computed according to this method.
26	D-G	Total RWA for CVA risk	Sum of the RWA for CVA risks under the advanced method (reported in Row 25 Cells D-E) and the standardised method (reported in Row 25 Cells F-G).

3.3 Panel 3 – Hypothetical capital requirements

3.3.1 All institutions - Transactions with counterparties exempted from the scope of the CVA risk charge under CRR article 382(4)(a), (c) and (d)

In this Section, institutions are required to re-compute their CVA risk charge ('hypothetical RWA for CVA risk') after re-integration of the transactions currently excluded under CRR article 382(4)(a) NFCs, (c) pension funds and (d) sovereign.

Intragroup transactions that are currently exempted should NOT be reintegrated at this stage. They will be re-integrated in the next Section.

All institutions participating in the QIS should fill in this panel.

When including an exempted counterparty in the scope of the CVA risk charge, institutions have to follow the approach they would use if the counterparty were not exempted. More specifically:

- Institutions using the advanced method may either use the advanced or the standardized approach where appropriate. For the advanced method, if the exempted counterparty has CDS market spreads, these should be used directly; if not, the proxy spread methodology should be used to obtain a proxy spread for the exempted counterparty.
- Institutions may consider existing credit derivatives or similar instruments held as of 30 September 2015 that would be recognised as eligible hedges in either the advanced or the standardised methods according to CRR Article 386 if the related counterparty were not exempted.

In addition, institutions using the advanced method are required to compute this hypothetical RWA for CVA risk for two different scenarios:

- Policy recommendations 7 and 8 of the CVA Report on proxy spread and LGD_{MARKET} are implemented. This scenario offers more flexibility for institutions to model proxy spread and LGD_{MKT} under the advanced method. In particular, counterparties which are currently capitalised under the standardised method because no proxy spread is appropriate for them according to current CRR provisions may be reintegrated under the advanced method provided that the modelling of proxy spreads complies with PR7.
- Policy recommendations 7 and 8 of the CVA Report on proxy spread and LGD_{MARKET} are NOT implemented. This corresponds to the current treatment under the CRR.

Row	Column	Heading	Description
35	D-E	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR article 382(4)(a), (c) and (d) are in the scope and that PR7 and PR8 are implemented	<p>The scope of transactions considered should be made of:</p> <ul style="list-style-type: none"> - the institution's transactions as of 30 September 2015 - the institution's transactions with EU and non-EU NFCs that are currently excluded under CRR article 382(4)(a) - the institution's transactions with pension funds that are currently excluded under CRR article 382(4)(c) - the institution's transactions with sovereign counterparties that are currently excluded under CRR article 382(4)(d). <p>QCCP cleared transactions (or transactions excluded based on 382(3)) should NOT be included.</p> <p>Based on the above scope of transactions and for all the above transactions that would be subject to the advanced method if they were within the scope of the CVA risk charge, the hypothetical own funds requirement for CVA risk computed using the advanced method should be computed, after implementation of PR7 and PR8, as the sum of:</p> <ul style="list-style-type: none"> - the most recent CVA VaR as of 30 September 2015 multiplied by the multiplier applied to the CVA VaR (reported in Row 18 Cell E) - and the most recent CVA Stressed VaR as of 30 September 2015 multiplied by the multiplier applied to the CVA Stressed VaR (reported in Row 19 Cell E) <p>The result should be multiplied by 12.5 in order to obtain RWA.</p>
36	D-E	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR article 382(4)(a), (c) and (d) are in the scope and that PR7 and PR8 are NOT implemented	Same as above but without implementing PR7 and PR8
35	F-G	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR article 382(4)(a), (c) and (d) are in the scope and that PR7 and PR8 are	<p>Hypothetical own funds requirement for CVA risk, based on the above scope of transactions and computed for transactions under the standardised method, when PR7 and PR8 are implemented for transactions under the advanced method (if any)</p> <p>The result should be expressed in RWA.</p>

Row	Column	Heading	Description
		implemented	
36	F-G	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR article 382(4)(a), (c) and (d) are in the scope and that PR7 and PR8 are NOT implemented	Hypothetical own funds requirement for CVA risk, based on the above scope of transactions and computed for transactions under the standardised method, when PR7 and PR8 are NOT implemented for transactions under the advanced method (if any) The result should be expressed in RWA.
35	H-I	Total hypothetical RWA for CVA risk	Sum of own funds requirements obtained under the advanced (Row 35 D-E) and the standardised (Row 35 F-G) The result should be expressed in RWA.
36	H-I	Total hypothetical RWA for CVA risk	Sum of own funds requirements obtained under the advanced (Row 36 D-E) and the standardised (Row 36 F-G) The result should be expressed in RWA.

3.3.2 Institutions that have EU cross-border intragroup exposures - Transactions with counterparties exempted from the scope of the CVA risk charge under CRR article 382(4)(a), (b), (c) and (d)

Row	Column	Heading	Description
41	D-E	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR article 382(4)(a), (c), (d) and (b) except those exposures with counterparties that meet all the conditions set out under 113(6), are in the scope and that PR7 and PR8 are implemented	The scope of transactions considered here should be made of: <ul style="list-style-type: none"> - the institution's transactions as of 30 September 2015 - the institution's transactions with EU and non-EU NFCs that are currently excluded under CRR article 382(4)(a) - the institution's transactions with pension funds that are currently excluded under CRR article 382(4)(c) - the institution's transactions with sovereign counterparties that are currently excluded under CRR article 382(4)(d) - AND IN ADDITION the institution's intragroup transactions that are currently excluded under CRR article 382(4)(b), except intragroup

Row	Column	Heading	Description
			<p>transactions that meet the conditions set out under Article 113(6) (in particular ‘same Member State’ criteria), which should remain excluded.</p> <p>QCCP cleared transactions (or transactions excluded based on 382(3)) should NOT be included.</p> <p>Based on the above scope of transactions and for all the above transactions that would be subject to the advanced method if they were within the scope of the CVA risk charge, the hypothetical own funds requirement for CVA risk computed using the advanced method should be computed, after implementation of PR7 and PR8, as the sum of:</p> <ul style="list-style-type: none"> - the most recent CVA VaR as of 30 September 2015 multiplied by the multiplier applied to the CVA VaR (reported in Row 18 Cell E) - and the most recent CVA Stressed VaR as of 30 September 2015 multiplied by the multiplier applied to the CVA Stressed VaR (reported in Row 19 Cell E) <p>The result should be multiplied by 12.5 in order to obtain RWA.</p>
42	D-E	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR article 382(4)(a), (c), (d) and (b) except those exposures with counterparties that meet all the conditions set out under 113(6), are in the scope and that PR7 and PR8 are NOT implemented	Same as above but without implementing PR7 and PR8
41	F-G	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR article 382(4)(a), (c), (d) and (b) except those exposures with counterparties that meet all the conditions set out under 113(6), are in the scope and that PR7 and PR8 are implemented	<p>Hypothetical own funds requirement for CVA risk, based on the above scope of transactions and computed for transactions under the standardised method, when PR7 and PR8 are implemented for transactions under the advanced method (if any)</p> <p>The result should be expressed in RWA.</p>
42	F-G	Hypothetical RWA for CVA risk assuming that the transactions with the counterparties identified in CRR	Hypothetical own funds requirement for CVA risk, based on the above scope of transactions and computed for transactions under the

Row	Column	Heading	Description
		article 382(4)(a), (c), (d) and (b) except those exposures with counterparties that meet all the conditions set out under 113(6), are in the scope and that PR7 and PR8 are NOT implemented	standardised method, when PR7 and PR8 are NOT implemented for transactions under the advanced method (if any) The result should be expressed in RWA.
41	H-I	Total hypothetical RWA for CVA risk	Sum of own funds requirements obtained under the advanced (Row 41 D-E) and the standardised (Row 41 F-G) The result should be expressed in RWA.
42	H-I	Total hypothetical RWA for CVA risk	Sum of own funds requirements obtained under the advanced (Row 42 D-E) and the standardised (Row 42 F-G) The result should be expressed in RWA.

3.4 Panel 4 – Internal measurement of CVA risk

In this Panel, institutions are requested to provide some internal measures of unilateral CVA and CVA risk for the transactions currently subject to the prudential CVA risk charge, as well as for exempted transactions. This panel intends to capture any internal assessment of CVA risk performed by institutions under the ICAAP in order to compare it with the supervisory benchmark proposed under the EBA coordinated approach. In this context, institutions are also requested to provide details on the approach used internally for CVA risk purposes, as well as on their treatment of intragroup transactions.

Row	Column	Heading	Description
47		Unilateral CVA used for pricing and risk management purposes	Institutions should use their internal calculation of CVA for pricing and risk management purposes. This calculation shall not take into account any component related to the own credit standing of the participating bank (e.g. DVA). This calculation is gross of CVA hedges. Institutions should not take into consideration financial instruments (derivatives or not) used to mitigate CVA risks.
48		CS01 of unilateral CVA used for pricing and risk management purposes	Banks should use their internal calculation of CS01 of CVA for pricing and risk management purposes. This calculation shall not take into account

Row	Column	Heading	Description
			<p>any component related to the own credit standing of the participating bank (e.g. DVA).</p> <p>The shift that defines CS01 has to affect all the counterparties subject to a CVA for pricing and risk management and correspond to one basis point (i.e. 0.0001).</p> <p>This calculation is gross of CVA hedges. Institutions should not take into consideration financial instruments (derivatives or not) used to mitigate CVA risks.</p>
49		Internal assessment of CVA risk for the relevant transactions for economic capital purposes	<p>Internal measure of CVA risk used for ICAAP purposes, computed based on different scopes of transactions.</p> <p>As above, institutions may consider existing credit derivatives or similar instruments held as of 30 September 2015 that would be recognised as eligible hedges according to CRR Article 386.</p>
	D-E	Transactions included in the CRR scope of the CVA risk charge	<p>Internal measure of CVA risk used for ICAAP purposes based on the transactions currently included in the scope of the CVA risk charge and meeting the criteria in Section 2.4 General assumptions</p>
	F-G	Transactions with counterparties identified in CRR articles 382(4)(a), (c) and (d)	<p>Internal measure of CVA risk used for ICAAP purposes based on the transactions identified in CRR articles 382(4)(a), (c) and (d)</p>
	H-I	In addition for institutions that have intragroup transactions with other EU entities of the group - Transactions with counterparties identified in CRR article 382(4)(a), (c), (d) and 382(b) except those exposures with counterparties that meet all the conditions set out under 113(6)	<p>Internal measure of CVA risk used for ICAAP purposes based on the transactions identified in CRR articles 382(4)(a), (c) and (d) and the transactions identified under article 382(b).</p> <p>However, only intragroup transactions with counterparties that meet all the conditions set out under CRR Article 113(6) should remain exempted ('same Member State criteria').</p>
	J-K	TOTAL = Transactions included in the scope of the CVA risk charge and with counterparties identified under CRR article 382(4)(a), (c), (d)	<p>Internal measure of CVA risk used for ICAAP purposes based on the transactions identified in columns D-E</p>

Row	Column	Heading	Description
		and, where relevant, 382(b) except those exposures with counterparties that all the conditions set out under 113(6)	and H-I altogether.

Row	Column	Heading	Description
52		Please explain with a high level of details the methodology (e.g. choice of risk metrics, scenarios, level of confidence) used in the internal assessment of CVA risk for the relevant transactions for economic capital purposes	This information will be used to understand how institutions capture CVA risk for economic capital purposes and what the potential differences with the current regulatory CVA framework are. Please comprehensively explain the methodology in plain English.
53		Please explain with a high level of details the treatment of intragroup transactions for CVA purposes and the internal assessment of CVA risk for intragroup transactions for economic capital purposes	This information will be used to understand how institutions capture CVA risk for economic capital purposes and what the potential differences with the current regulatory CVA framework are. Please comprehensively explain the methodology in plain English.