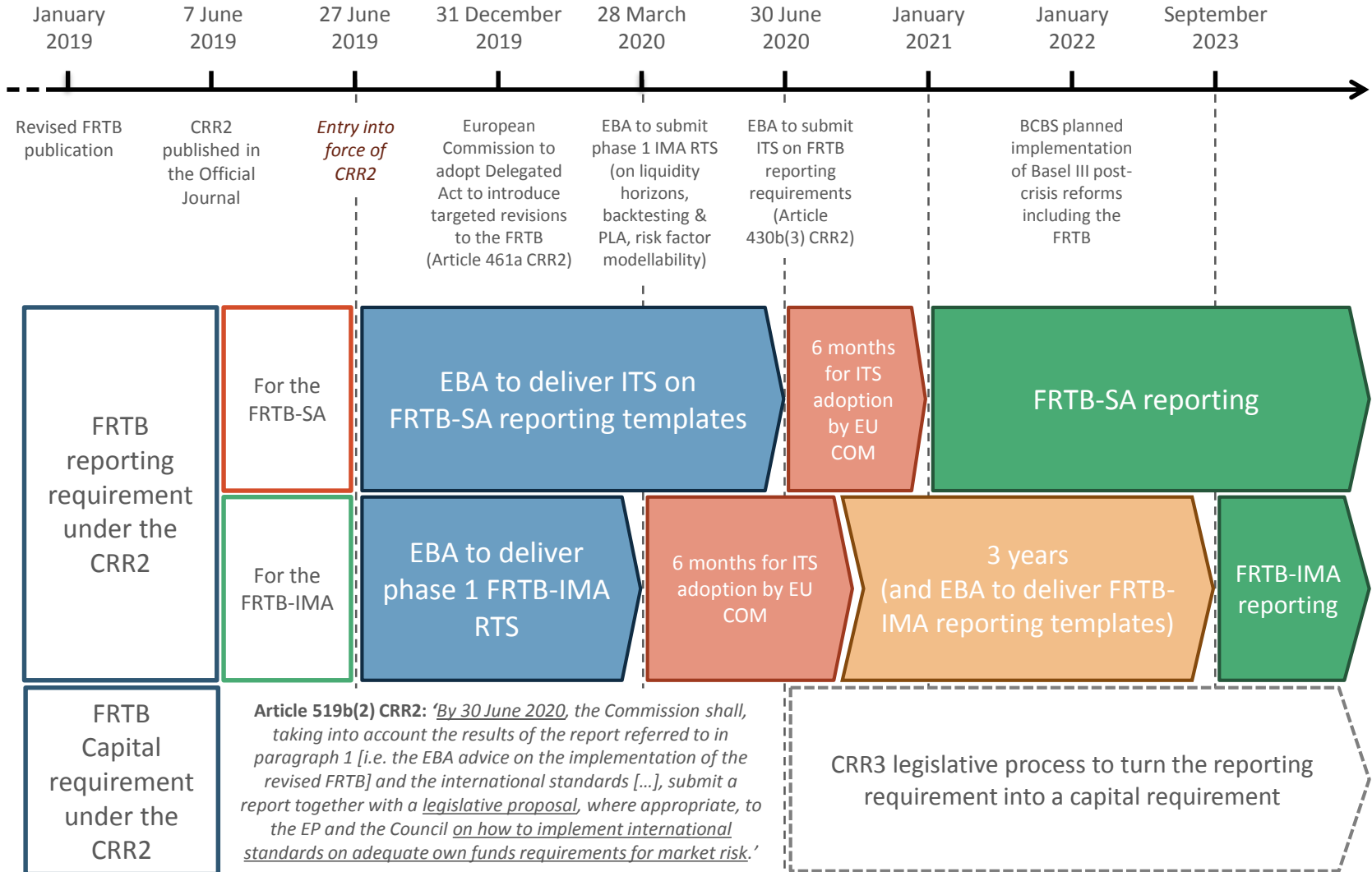




EBA Public hearing on CP draft RTS on IMA under the FRTB

5 September 2019 | Paris

FRTB implementation in the EU



EBA mandates & deadlines in the CRR2 on MR and CCR



	CRR2 7 Jun. 2019	European Parliament resolution (Jun. 2018)	Council Presidency compromise (May 2018)	European Commission proposal (Nov. 2016)
FRTB mandates				
(1) GL on the meaning of exceptional circumstances for the reclassification of a position (Article 104a(1))	5 years aeif (28 Jun. 2024)	Mandate deleted	5 years aeif	2 years aeif
(2) RTS on treatment of non-trading book positions subject to FX or commodity risk (Article 325(9))	15 months aeif (28 Sep. 2020)	6 months aeif	3 years aeif	6 months aeif
(3) RTS on instruments exposed to residual risks (Article 325u(5))	2 years aeif (28 Jun. 2021)	15 months aeif	2 years aeif	15 months aeif
(4), (5), (6) RTS on gross jump-to-default (JTD) amounts (Article 325w(8)(a),(b),(c))	2 years aeif (28 Jun. 2021)	15 months aeif	2 years aeif	15 months aeif
(7) RTS on emerging markets and advanced economies (Article 325ap(3))	2 years aeif (28 Jun. 2021)	15 months aeif	2 years aeif	15 months aeif
(8) RTS on material extensions and changes under the IMA (Article 325az(8)(a))	5 years aeif (28 Jun. 2024)	2 years aeif	3 years aeif	2 years aeif
(9) RTS on the assessment methodology for the IMA (Article 325az(8)(b))	5 years aeif (28 Jun. 2024)	2 years aeif	3 years aeif	2 years aeif
(10) RTS on extraordinary circumstances for being permitted to continue using the IMA (Article 325az(9)(a))	5 years aeif (28 Jun. 2024)	mandate deleted	5 years aeif	6 months aeif
(11) RTS on extraordinary circumstances for being permitted to limit the backtesting add-on (Article 325az(9)(b))	5 years aeif (28 Jun. 2024)	N.A.	N.A.	N.A.
(12), (13), (14), (15) RTS on liquidity horizons for the IMA (Article 325bd(7)(a),(b),(c),(d))	9 months aeif (28 Mar. 2020)	6 months aeif	9 months aeif	6 months aeif
(16) RTS on assessment of risk factor modellability under the IMA (Article 325be(3))	9 months aeif (28 Mar. 2020)	N.A.	9 months aeif	N.A.
(17), (18), (19), (20), (21), (22) RTS on backtesting requirements and PLA requirements under the IMA (Article 325bf(9) and Article 325bg(4)(a),(b),(c),(d),(e))	9 months aeif (28 Mar. 2020)	6 months aeif	9 months aeif	6 months aeif
(23) GL on criteria for the use of data inputs in the risk-measurement model under the IMA (Article 325bh(3))	15 months aeif (28 Sep. 2020)	N.A.	3 years aeif	N.A.
(24), (25), (26), (27) RTS on a stress scenario risk measure for non-modellable risk factors under the IMA (Article 325bk(3)(a)(b)(c)(d))	15 months aeif (28 Sep. 2020)	6 months aeif	15 months aeif	6 months aeif
(28) RTS on PDs and LGDs for the default risk model under the IMA (Article 325bp(12))	15 months aeif (28 Sep. 2020)	15 months aeif	15 months aeif	15 months aeif
(29) ITS on specific reporting requirements for market risk (Article 430b(6))	~12 months aeif (30 June 2020)	N.A.	30 June 2020	N.A.
(30) Report on the impact of the FRTB (Article 519b(1))	~3 months aeif (30 Sept 2019)	5 years aeif	30 Sept 2019	5 years aeif
RTS on risk weights for positions in CIUs (Article 325k(3))	Mandate deleted	15 months aeif	2 years aeif	15 months aeif
GL on the internal default risk model (Article 325bn(2))	Mandate deleted	2 years aeif	Mandate deleted	2 years aeif
Report on the appropriateness of the level of own funds requirements for market risk (Article 501b(2))	Mandate deleted	by doa + 2 years	Mandate deleted	by doa + 2 years
SA-CCR mandates				
(1), (2) RTS on mapping of derivatives transactions to risk categories under the SA-CCR (Article 277(5)(a) and (b))	6 months aeif (28 Dec. 2019)	6 months aeif	6 months aeif	6 months aeif
(3), (4) RTS on the supervisory delta formula for interest rate options and determination of long or short positions under the SA-CCR (Article 279a(3)(a) and (b))	6 months aeif (28 Dec. 2019)	6 months aeif	6 months aeif	6 months aeif
(5) Report on the impact and relative calibration of the SA-CCR, simplified SA-CCR and OEM (Article 514(1))	4 years aeif (28 Jun. 2023)	4 years aeif	4 years aeif	N.A.
RTS on the specification of 'large and concentrated commodity derivative portfolios' (Article 280e(3))	Mandate deleted	15 months aeif	Mandate deleted	15 months aeif

Roadmap for the development of regulatory deliverables



Priorities

Regulatory products

Phase 1: Implementation of the SA-CCR and of essential parts of the FRTB revisions for the IMA

Report on the impact of the FRTB

RTS on mapping of derivatives transactions to risk categories under the SA-CCR

RTS on the supervisory delta formula for interest rate options and determination of long or short positions under the SA-CCR

RTS on liquidity horizons for the IMA

RTS on backtesting requirements and PLA requirements under the IMA

RTS on assessment of risk factor modellability under the IMA

Phase 2: Implementation of the FRTB reporting requirements (FRTB SA) and of essential parts of the FRTB revisions for the IMA and for the treatment of non-trading book positions subject to FX or commodity risk

ITS on specific reporting requirements for market risk (FRTB SA)

RTS on a stress scenario risk measure for non-modellable risk factors under the IMA

GL on criteria for the use of data inputs in the risk-measurement model under the IMA

RTS on PDs and LGDs for the default risk model under the IMA

RTS on treatment of non-trading book positions subject to FX or commodity risk

Phase 3: Implementation of the FRTB reporting requirements (FRTB IMA) and of the regulatory products related to the FRTB SA

ITS on specific reporting requirements for market risk (FRTB IMA)

RTS on instruments exposed to residual risk

RTS on emerging markets and advanced economies

RTS on gross jump-to-default (JTD) amounts

Phase 4: Regulatory products whose substance will be derived from the monitoring of the application of the revised frameworks

RTS on material extensions and changes under the IMA

RTS on the assessment methodology for the IMA

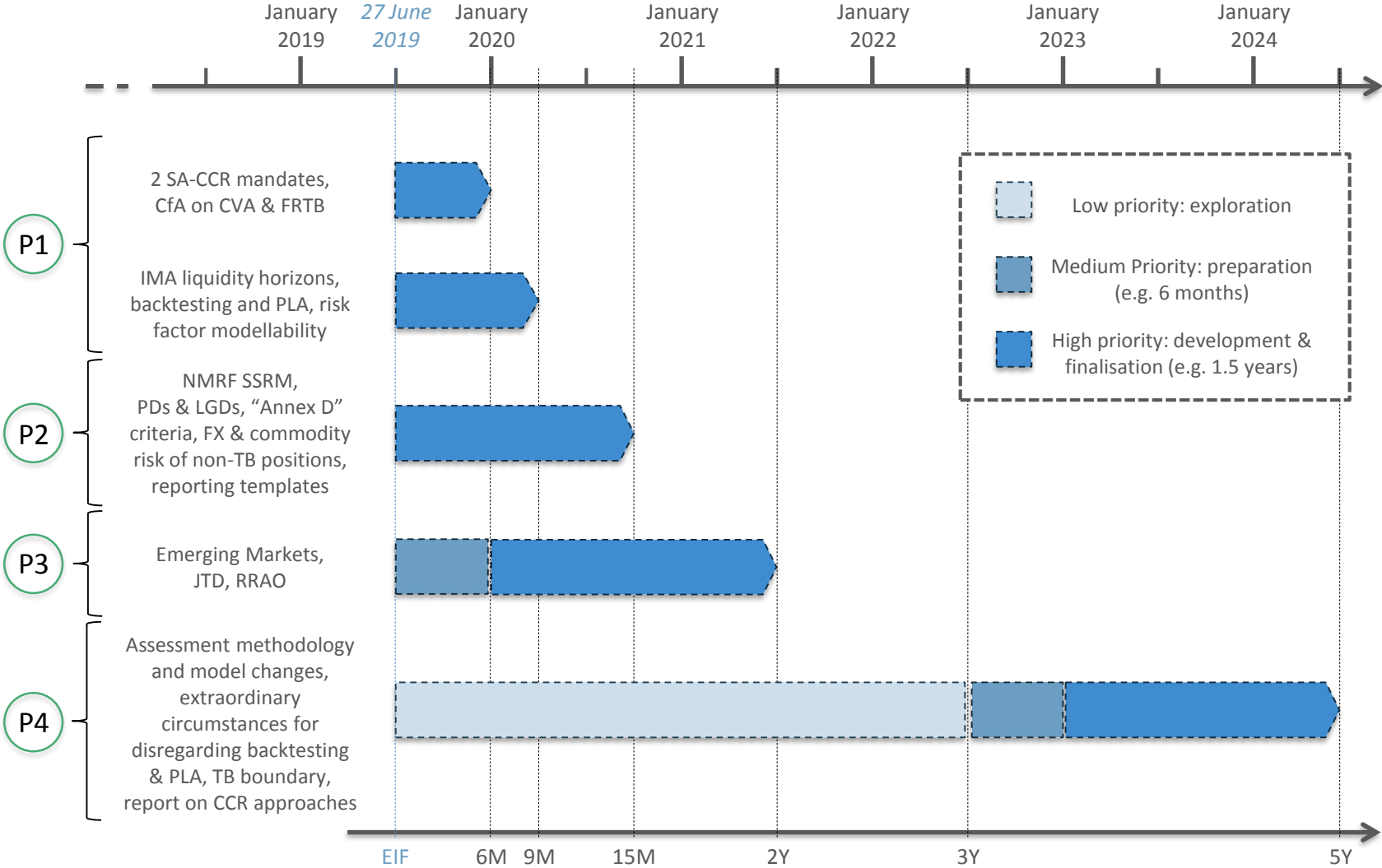
RTS on extraordinary circumstances for being permitted to continue using the IMA

RTS on extraordinary circumstances for being permitted to limit the backtesting add-on

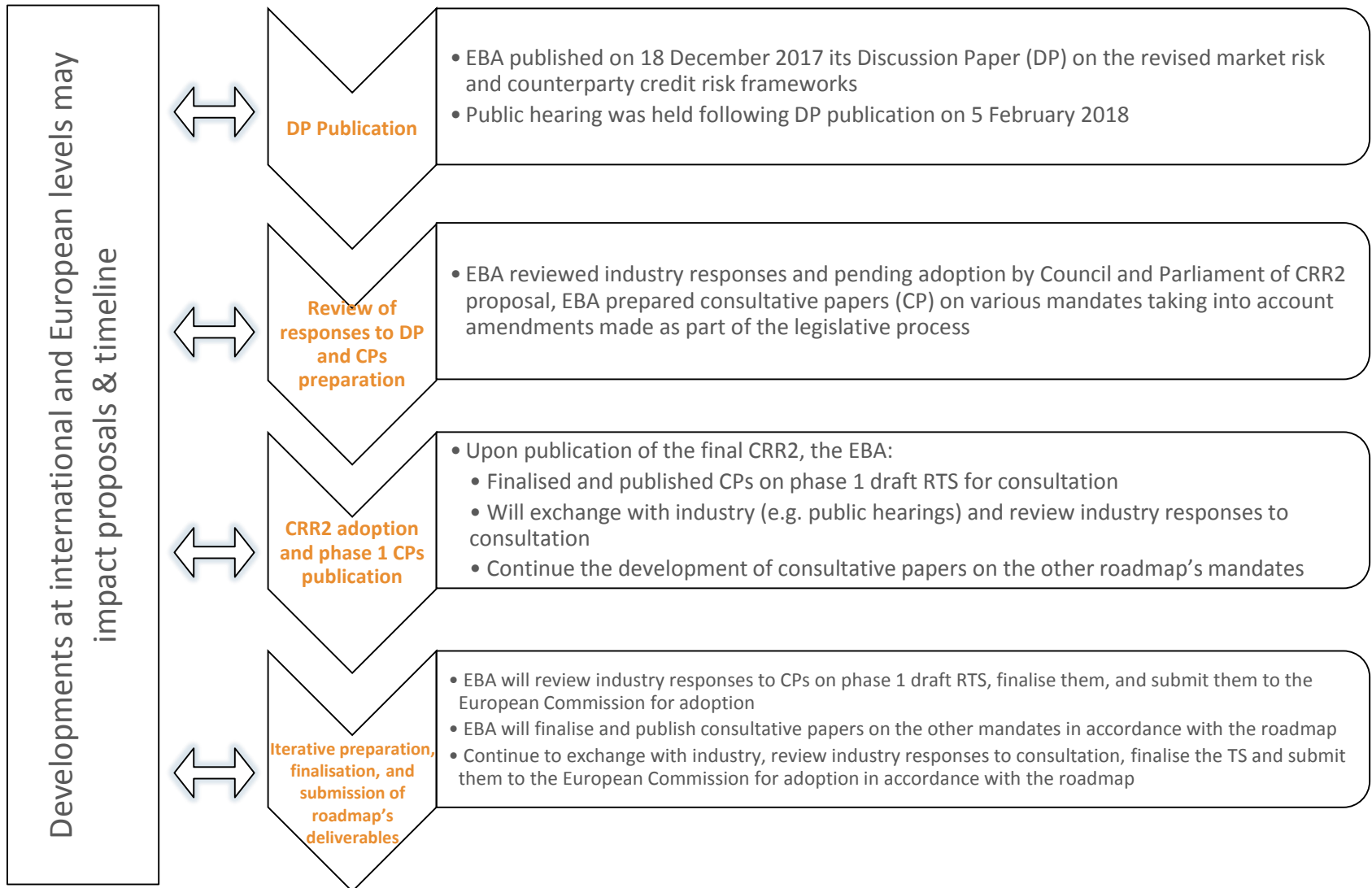
GL on the meaning of exceptional circumstances for the reclassification of a position

Report on the impact and relative calibration of the SA-CCR, simplified SA-CCR and OEM

Timeline for development of EBA regulatory deliverables



Development process of roadmap's deliverables



EBA ongoing work on the FRTB & SA-CCR implementation



Relevant EBA publications in 2019 on FRTB & SA-CCR

- 2 May 2019: EBA published 4 RTS on SA-CCR for consultation until 2 August 2019. Non-confidential responses have been published in the EBA website.
- 27 June 2019: EBA published:
 - EBA roadmap on the new market and counterparty credit risk approaches, which includes also a summary of the feedbacks received the DP published on 18 December 2017.
 - CPs on 11 draft RTS on FRTB IMA with 9-month deadlines (liquidity horizons, backtesting & PLA, risk factor modellability), for consultation until 4 October 2019.
 - Instructions & templates for a NMRF data collection exercise, for the purposes of the development of the draft RTS on NMRF SSRM.

Further EBA ongoing work on market and counterparty credit risk

- 5 August 2019: EBA published its response to the Call for Advice (CfA) on the implementation of the Basel III post-crisis reforms, which include an impact assessment and policy recommendations on the implementation of the reforms on credit risk, operational risk, output floor, and SFTs in the EU.

Under the CfA the EBA is requested to also provide its assessment of implementing the FRTB and CVA frameworks in the EU at a later stage, taking into account any amendments to the FRTB and CVA standards that would have been adopted by the BCBS before the date by which the EBA should deliver its report.

- Preparation of FRTB-SA reporting templates.
- Preparation of reporting templates on CCR (including SA-CCR).
- Preparation of roadmap's phase 2 deliverables.

RTS on IMA – LH (1)

The EBA expects the great majority of RF to be plainly mapped to their category and subcategory....

Equity	Equity price (Large capitalisation)	1	10
	Equity price (Small capitalisation)	2	20

Note: In the original image, a box labeled 'S' points to the 'Equity price (Large capitalisation)' row, and a green checkmark is next to the value '10'.

S (price of a stock) is the RF in the risk-measurement model



It is 'plainly' mapped to its category and subcategory

...however it puts forward a general methodology for less trivial cases

Equity	Equity price (Large capitalisation)	1	10
	Equity price (Small capitalisation)	2	20

Note: In the original image, a box labeled 'Y' points to the 'Equity price (Small capitalisation)' row, and both '10' and '20' are circled with a green checkmark next to '20'.

Y is a RF representing the systemic risk of a geographic region. Y is determined on the basis of small and large cap. in that specific geographic region.



Y can be potentially mapped to either small or large cap. Y is mapped to small large capitalisation as it attracts the longest LH

Fallback solution: where the institution cannot identify the category at which a RF should be mapped, the institution should map such RF to the category commodity and the subcategory other types

Questions for consultation:

Q1. Do you agree with the general methodology?

Q2. Besides systemic risk factors (i.e. risk factors capturing the market/systemic component of the modelled risk), are there other risk factors/parameters that would reflect risks embedded in more than one categories or more than one subcategories?

The draft RTS include the treatment for indices specified in a Basel FAQ and other ad-hoc treatments specified in other Basel FAQs for certain RFs (inflation risk, mono-currency basis risk, cross-currency basis risk, equity repo rates, dividend risk factors)

Questions for consultation:

Q3. Do you agree with the treatment reserved for homogenous indices?

Q4. Do you have any example of other risk factors that should be subject to the treatment specified for indices?

Q5. Are there any other risk factors for which an ad-hoc treatment should be specified?

Most liquid currencies for Interest Rate risk: the RTS on-board the list provided in the international standards

Most liquid currency pairs for foreign-exchange risk: the RTS on-board the list provided in the international standards and it allows for ‘triangulation’. In addition, it reflects the EU specificities by allowing the triangulation also with currency in the 2nd stage of the ERM (i.e. with DKK).

Definition of small and large caps: the RTS consult on 2 options

Option A: determination of large caps via an absolute threshold (EUR 1.75 billion)

Option B: also retains the absolute threshold agreed in the international standards, but in addition reflects the specificities of EU equity markets by defining the scope of large capitalisations relying also on the ESMA ITS on the ‘main indices and recognized exchanges’ whose components can be used as collateral.

Questions for consultation

Q6. What is your preferred option? Please explain why.

RTS on IMA - BT and PLA requirements (1)

Technical elements to be included in the HPL and APL

- Pricing models, models parametrization, market data: those of the F/O
- Reflect the passage of time (theta effect)
- Include all adjustments that are market risk sensitive, except for:
 - ❖ CVA (as computed in the F/O)
 - ❖ Adjustments reflecting the institution's own credit risk (DVA)
 - ❖ AVA
- No smoothing of adjustments allowed (relevant only for APL)

Holds at TD and ToH level

Level of computation

- For BT at TD level and PLA: VAs to be computed on positions within the desk
- For BT at ToH: VAs to be computed on positions within desks capitalised under IMA

However:

1. Where the VA is computed on sets of positions assigned to more than one trading desk, and the risk-management of such VA is consistent with the level at which it is computed

The VA can be excluded from the HPL/APL at TD level (i.e. VA captured only at ToH).

2. The institution may compute the VA at ToH including all positions (i.e. both SA and IMA desks)

'Proportional allocation' of a VA to TDs to reflect the contribution given by each desk to the value taken by an adjustment is not allowed

Technical elements to be included in the HPL and APL

Questions for consultation:

Q1 (Q2). List of adjustments that institutions include in the fair value of a financial instrument that are considered (non) market risk sensitive.

Q3. Relevant for APL: No smoothing of adjustments is permitted over the readjustment period. Do you agree with the provision?

Q4. For BT at TD level: Institutions are required to compute the value of an adjustment performing a stand-alone calculation, i.e. considering only the positions in the trading desk. Do you agree with the provision?

Q5. For BT at TD level: Do you agree with the criteria allowing institutions to exclude an adjustment from the changes in the trading desk's portfolio value? Are there any other criteria you deem useful for this purpose?

Q7. For BT at ToH: Institutions are required to compute the value of an adjustment considering only the positions in trading desks that are calculating the own funds requirements using the internal model approach. Do you agree with the provision?

Q8. For BT at ToH: Do you agree with the possibility to include in the portfolio's changes the value of an adjustment stemming from the entire portfolio of positions subject to own funds requirements (i.e. both positions in SA desks and positions in IMA desks)?

Q6. How do institutions identify client margins and day-one profits/losses in the systems (e.g. as commissions, margins) ? Please specify if currently they are taken into account in the end-of-day valuation process, in the actual P&L and in the hypothetical P&L.

RTS on IMA - BT and PLA requirements (3)

Technical elements to be included in the RTPL

- RTPL:
- Based on a static portfolio
 - Pricing models, models parametrization, market data: those of the RM/O
 - Must include only changes in RFs shocked in the ES or for which the institution computes the NMRF charge

Data alignment

Case 1: the RF used in the HPL is the same as the one used in the RTPL. The institution is allowed to substitute the value of the input data in the RTPL with the one used in the HPL where:

- ✓ differences in the input data are due to different data providers; or
- ✓ differences in the input data are due to a different time at which the input data are extracted

Case 2: the RF used in the HPL is the same as the one used in the RTPL. The institution is allowed to substitute the value of the RF in the RTPL with the one used in the HPL where:

1. In the computation of the HPL, the risk factor does not directly correspond to the input data; and
2. The value of the RF in the HPL has been obtained using techniques of valuation systems used for computing the HPL, and none of such techniques have been rebuilt in the risk-measurement model for obtaining the RF in the RTPL

Question for consultation:

Q9. Do you agree with the criteria outlined for the alignment of input data? Provide examples where an institution could use the provision set out in case 2.

RTS on RF Modelling Assessment (1)

The modellability assessment is intended to ensure that the risk factors, which institutions includes in their ES model, are sufficiently liquid and observable.

- **Proposal:** Two different general criteria to assess the RF modellability (Article 1):

1) identification of 24 verifiable prices representative for the risk factor over the preceding 12-months, without any period of 90 days or longer with less than 4 verifiable prices

2) identification of 100 verifiable prices representative for the risk factor over the preceding 12-months.

General feedback

Questions for consultation

Q12. Do you agree with the outlined methodology for the assessment of modellability of risk factors? If not, please explain why.

Q13. Do you expect any problems for the modellability assessment arising from the upcoming benchmark rate transition that could be addressed via this regulation? If so, please provide a thorough description and potential solutions if any.

Q14. How do you intend to integrate the risk factor modellability assessment (i.e. RFET) into the processes of your institution? Do you expect those data to be used for the purpose of the RFET only or do you think those data would increase the data availability used e.g. for the calibration of your internal model (under para 31.26 of 2019 Basel rules)? What percentage of data used for the RFET do you think will be used also for the calibration of your internal model?

RTS on RF Modellability Assessment (2)



- **Proposal:** the RTS specifies in greater detail both the requirements for **verifiability** (Article 2) (e.g. transaction or quotes with non-negligible volume and with a reasonably small bid-offer spread) and **representativeness** (Article 3) of prices for risk factors.

Questions for consultation

Q1. Do you agree that a committed quote, to be considered verifiable, should be required to have both a firm bid and offer price? If solely a bid or offer price should be sufficient please provide a convincing rationale.

Q2. Please provide an estimation (e.g. in terms of number of NMRFs, SSRM charge or number of eligible committed quotes) of the impact of requiring solely a firm bid or offer price compared to requiring both.

Q3. (Q4) How would you define and check for a “non-negligible volume of a transaction or quote, as compared to usual transaction sizes for the bank, reflective of normal market conditions” (“unreasonably large bid-offer spread as compared to usual bid-offer spreads, reflective of normal market conditions”) for the purpose of assessing the validity of a price observation?

- **Proposal:** Institutions are also allowed to use transaction or quotes provided by **third-party vendors** as input to the modellability assessment. The RTS specifies that all third-party vendors providing external data to an institution shall be subject to the same requirements (including an independent audit), regardless of whether the price is shared with the institution or not.

Questions for consultation

Q5. Do you see any problems allowing institutions to use data from external data providers as input to the modellability assessment only where the providers are regularly subject to an independent audit? If so, please describe them thoroughly.

Q6. Do you have any proposals on additional specifications that could be included in the legal text to ensure that verifiable prices provided by third-party vendors meet the requirements of this Regulation?

RTS on RF Modelling Assessment (3)

- **Proposal:** In cases the RF belongs to a curve, surface or cube, specific criteria for modellability are indicated (Article 4), in relation to a bucketing approach (Article 6).
- In addition, where institutions use a mathematical function to represent the curve, surface or cube and choose the function parameters as its RFs, the RTS specifies the consequence on the modellability of the parameters where one or more buckets non-modellable whilst others are modellable (Article 5).

Questions for consultation

Q7. How relevant are the provisions outlined above for your institution? How many and which curves, surfaces or cubes are (planned to be) represented by a mathematical function with function parameters chosen as risk factors in your (future) internal model?

Q8. Do you have a preference for any of the options outlined in Article 5(3) (c)? For which reasons? Please motivate your response.

Q9. Do you consider any of the options outlined above as impossible or impractical? For which reasons? Please motivate your response.

Q10. Do you have alternative proposals to define the consequence on the modellability of the parameters where some buckets of a curve, surface or cube are modellable whilst others are non-modellable?

Q11. Do you intend to apply Article 6(4)? If so, for which risk factors will it be relevant? Do you expect any implementation issues related to it? Please explain expected issues thoroughly.



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