



13/01/2012

European Banking Authority

***Draft Guidelines on***  
**1) Stressed Value at Risk (CP48) and**  
**2) Incremental Default and Migration Risk Charge (CP49)**

**General statements**

We find that the new guidelines in some areas make very explicit expectations to banks in areas where banks already have submitted, and most likely already received, approval for the models covered by the guidelines. These new more explicit requirements may require considerable resources to be used in order to comply with the requirements in the guidelines. We find that reason should be applied in the way banks are asked by national regulators to supplement already submitted approval requests/or already approved models, in order to conform to these new guidelines. As CRD IV and the forthcoming fundamental trading book review will set challenging deadlines for banks model development capacities, focus on explicit requirements made at this late stage compared to implementation of CRD III models should be made with focus on materiality.

**Specific comments on SVaR guidelines CP48**

- Point 9.3: The requirement to have special process in place to monitor trades that significantly reduce SVaR is viewed as misplaced as hedging of risks is an expected and anticipated activity by the trading units, while this requirement signals that it is a suspicious behaviour. We suggest the paragraph be deleted.
- It is not clearly communicated if a partial permanent approval for specific risk approval implies that there should be individual SVaR periods for the general risk VaR model and the specific risk VaR model.

**Specific comments on IRC guidelines CP49**

- Point 4.1: The scope of the IRC should only be that covered by the specific risk internal model approval of the institution, not all long and short positions subject to a charge for specific interest rate risk.
- Point 4.2.iii: It is not clear what is referred to by 'money market loans', please



specify.

- Point 4.2.iv: CIUs: A principle of materiality should be applied in this requirement as it is very demanding from a data handling point of view and will in many cases have very little effect on results.
- Point 18.4: The explanatory text on expected loss should be clarified as it is hard to follow.
- Point 16.1 and §16.2: The text where it is required that you prove that the IRC model is capturing concentration with other means than showing it increases when the portfolio is made more concentrated, should be clarified to detail what means the EBA then would consider as appropriate.
- Point 20.4: The requirement to take into account that 'the impact may be larger than that implied by the difference between average market prices or spreads for the pre and post-migration rating levels' adds a disproportionate amount of complexity to the model, compared to the little add-on to the IRC figure it would give occasion to. We propose to remove the requirement, or alternatively to make it explicitly clear that multiplying the IRC figure by, say, 1.05 would be an acceptable way of meeting it.
- Point 27.2: On the requirement that the calculation process should be documented to a level of detail that would allow a third party to recreate the risk measure:
  - 1) we strongly agree with the premise that risk and capital measures should not be black boxes. However, judging whether the documentation of the calculation process meets the requirement stated in 27.2 is very subjective. We propose EBA be more elaborate on expectations.
  - 2) it should be made clear that the 'third party' has the necessary market risk, quantitative and information technology competence.

SWEDISH BANKERS' ASSOCIATION

Johan Hansing