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Brussels, 18 August 2014

***Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU alone.***

The EBF welcomes the opportunity to express the views of the EU banking industry on the EBA consultation paper 2014/07 that covers the draft regulatory technical standards (RTS) on benchmarking portfolio assessment standards and assessment sharing procedures as well as the implementing technical standards (ITS) on benchmarking portfolios, templates, definitions and IT solutions under article 78 of the Capital Requirements Directive (CRD IV).

**EBF general comments for all risk types[[1]](#footnote-2)**

* The EBF supports the idea behind benchmarking, which is to ensure the proper functioning of internal models that banks use to manage their risks. The use of internal models has made risk management more precise and it has enabled banks to better understand and manage the risks they have taken. The correct assessment of risk is key in ensuring banks comply with the use test requirements associated with internal models. Banks have to incorporate model results in their day-to-day portfolio management and to use that information to manage their portfolios. If the risk assessments are incorrect (either due to flaws in the model or by alterations required by competent authorities that would make the risk estimation deviate from the actual risks) this will cause banks to steer on improper information, which can create wrong incentives. Benchmarking, if executed in a well-structured way, can enhance and improve the effectiveness of models and risk management in general.
* Every effort should be made to remove the role of benchmarks based on standardised risk weights. These are not risk-sensitive and have no role in the assessment of granular internally modelled portfolios.
* It is extremely important that the EBA and the competent authorities involved address the concerns raised about “divergences” and “underestimation” of risk weighted assets. There appears to be a widespread belief that because of the existing methodological differences banks, and in particular EU banks, underestimate their capital needs. Such a flawed conclusion needs to be clearly refuted. The EBA can assist in this regard with a clear communication of the results (i.e. harmonisation of the output made by the supervisors to the banks) to the public domain (i.e. organised around principles to explain the divergences to meet the transparency objective).

**EBF general comments for credit risk**

* The objective of benchmarking of credit risk models lacks specificity. It is to “constrain the inconsistent calculation” of RWA (and EL). However this concept is not defined. The proposed RTS would benefit from further elaboration on this point.
* As elaborated in the TCOR exercises conducted by the EBA, differences in practices surrounding probability of default (PD) calibration (rating philosophy, determination of economic cycle, adjustments for low default portfolios and data challenges, conservatism), loss given default (LGD) calibration (determination of downturn conditions, determination of current conditions for best estimate of expected loss (BEEL)) and the treatment of defaulted assets exist across all portfolios. Until and unless the objectives of these underlying processes are defined and a common approach determined by supervisors and for time to elapse for its implementation, differences in outcomes will persist. The benchmarking approach outlined, in this context, cannot serve its real purpose and may in fact exacerbate legitimate differences in outcomes between institutions that do not represent different underlying risks (e.g. pressure may be placed upon a bank to increase its fourth quartile RWA outcomes for a portfolio notwithstanding its stringent underwriting practices; another bank operating in the same market but with high risk appetite may successfully underestimate its RWA requirements provided that its estimates lie within the second or third quartile of outcomes; a third bank may be forced to increase its RWA outcomes to match that of other banks whose RWA outcomes are in turn driven by a difference in supervisory practice not relevant to it).
* It should be articulated that the banks themselves are very interested in improving the quality of their models and the benchmark exercises will be useful in this respect. The design of the benchmark processes should facilitate maximum usefulness of the efforts on the banks’ side, as well as ensure maximum added value for regulators. The communication of the results from EBA and the local regulators back to the banks will be very important. This communication should be open so that the participating banks can improve their own models also in the cases when the risks seem to be overstated.
* Differences in RWA (against the EBA benchmark report) caused by local discretionary regulatory requirements/floors should be analysed and included in the list given in article 8 (2).
* While the requirement for benchmarking is clearly articulated in law, adequate safeguards need to be established to ensure that adverse consequences, as outlined in point 5 of Article 78, do not become a reality. Every effort should be made to build upon the results of the benchmarking work already completed by the EBA and to progress its recommendations to develop specific guidance around PD and LGD calibration and the treatment of defaulted assets. Such guidance could be issued under point 6 of Article 78. Until such guidance is established and time permitted for implementation, the benchmarking requirement should be maintained as uncostly as possible. The benchmarking exercises conducted by the EBA should be coordinated as much as possible with the exercises required by other supervisors/regulators. This would also provide time for banks to modify IT systems to satisfy the requirement in the future.
* Due to differences in supervisory practices, market characteristics and coverage, among other things, conclusions should not be drawn directly from the risk-weighted-assets (RWA) but from the statistical predictive power of the models. The EBA acknowledges these differences and notes that they will be taken into account in the assessment of portfolios. The paper, however, does not determine how these differences will be taken into account, and if this will be quantitative or qualitative. If the approach is qualitative, this would lead to a high level of subjectivity in the assessments. And subjectivity is exactly what EBA is attempting to prevent by using the first and fourth quartile criteria.
* The proposed approach for Low Default Portfolios (LDP) is, in our opinion, inappropriate due to the HPE being particularly difficult to use especially as far as secured LGD is concerned. As for high-default portfolios (HDP), in our view the portfolios defined for mortgages are too granular (more details in answer to question 6).
* Significant differences in capital requirements may stem, not only from different modelling methodologies and supervisory requirements, but from differences in risk appetite and the resulting differences in real risk profile between institutions. Such differences in capital requirements are legitimate and every effort must be made to ensure that the use of benchmarks does not create incorrect incentives or herd behaviour as outlined in Article 78.
* Recitals (11) and (12) of the proposed RTS outline requirements regarding the quality of internal approaches. Every effort should be made to allow banks to determine quality for themselves with the provision that capital requirements are not distorted. Generally, there are benefits to a bank to improve the quality of its internal approaches (enhanced risk assessment, reduced capital requirements) but there are also costs. Individual banks are better placed to evaluate the cost/benefits of enhancements than are competent authorities.
* The IT and reporting requirements imposed by the ITS should be recognised as burdensome (ITS Article 5, page 45). As such, every effort should be made to minimise reporting requirements for as long as is reasonable. In particular, individual competent authorities should be strongly encouraged or required to utilise the same IT and reporting systems that are eventually developed.
* As discussed within the EBA’s “Interim results of the EBA review of the consistency of risk-weighted assets. Top-down assessment of the banking book” (February 2013), we endorse the view that the Global Charge, combining both RWA and EL, is the most suitable and reliable way of presenting and utilising benchmark quantities.

**EBF general comments for market risk**

* The use of Standardised Approaches (SA) as a benchmark for market risk portfolios would open a wide breach in most cases as the market risk SA method does not account

for netting and diversification. As an alternative proposal, we would suggest relying on the back-testing framework of the market risk VaR.

* Benchmarking on hypothetical portfolios can provide valuable insights on modelling choices made by banks. As also pointed out by EBA, differences should however be treated cautiously and the benchmarks should only be a starting point for the analysis. We appreciate EBA’s approach in this respect. Care should also be taken to explicitly reflect this approach in any publication of results.
* When evaluating modelling decisions that can impact the variations between banks, the market circumstances during the benchmark period should also be taken into account. Modelling decisions that lead to low figures under some market circumstances (and portfolio direction) can lead to high figures under other market circumstances (or opposite portfolio direction).

## **EBF comments on the questions of the consultation paper**

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| **Q1. Do you consider the use of common benchmarks for credit and market portfolios necessary to ensure a common approach?**  |

The EBF considers that the use of common benchmarks is a way to gather useful information in the assessment of results of internal rating based (IRB) and internal market risk models across banks. In the opinion of the EBF the optimal order in the review of the IRB models should be as follows:

1. Firstly, the focus should be put into the setting of common approaches to the calibration of IRB parameters, namely the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and the credit conversion factors (CCF), as well as the treatment of defaulted assets. This involves a closer examination of supervisory practices and bank approaches also considering relevant market specificities.
2. Secondly, it would make more sense to start using benchmarks when a substantial degree of commonality and understanding has been achieved as to the factors of IRB models. Only once this has been realised, benchmarking can provide the basis of risk-based supervisory engagement.

For market risk, the use of common benchmarks is thought to be the most useful. However, two important considerations should be taken into account:

* When should benchmarks be used?
* How to turn benchmark data into conclusive assessments?

For market risk, benchmarking should take into account the internal back testing results, as this measure is an important metric to assess model performance. Benchmarking is most useful if assessments and corrections (if required) are made about the value of all the drivers that have been used, such as the stressed VaR period. By analysing the values of the risk measures, knowledge about the functioning of market risk models will increase. If differences in these measures are present, it does not necessarily mean a bank’s model is not functioning correctly; this should be the starting point for an investigation and dialogue. If the differences are modest,

say within a 20% range, additional investigations of banks in quartiles 1st and 4th will not add value. Resources would be best allocated towards analysing significant outliers in these quartiles.

We understand that the EBA is taking action following a mandate enshrined in article 78 of the capital requirements directive[[2]](#footnote-3) (CRD IV) and therefore it has limited room to set the abovementioned order of things.

In short, the mandate of CRD IV basically requests that:

1. Banks report to the EBA by means of a specifically designed common template the results of their IRB models using benchmark portfolios (article 78 points 1 and 2).
2. Competent authorities monitor the range of results and make an assessment (at least annually) with focus on significant differences and potential systematic underestimation of own funds requirements (article 78 point 3 paragraph 1).
3. EBA shall produce a report to assist competent authorities in the assessment (article 78 point 3 paragraph 2).
4. Competent authorities shall investigate significant divergences and, under certain circumstances, they shall take corrective actions (article 78 point 4).

Our comments to the common template and benchmarking requested in letter (a) above follow throughout our responses to other questions.

As to items (b) and (d) above, whereby competent authorities shall conduct an assessment and an ensuing investigation of differences, we believe that the room of manoeuvre given to competent authorities may outstrip their capacity to conduct balanced assessments beyond the limits of their jurisdictions. Such assessments and investigations should be confined to the boundaries of every supervisor. While we acknowledge that the upcoming setup of the Single Supervisory Mechanism (SSM) will regroup a number of former competent authorities under the centralised supervision of the ECB, this fact does not change the wider outreach of the regulations and directives that govern the use of IRB models in the EU. As and when the SSM has become effective, the ECB should work with the EBA to ensure risk sensitivity of internal models across the Eurozone.

In consequence, competent authorities, in the performance of their duties under item (d) above, should only make assessments over benchmarking divergences within their jurisdictions. As a matter of principle, the EBA should remain the authority of reference in the assessment of differences between banks located in different supervisory jurisdictions.

Against this background, we think that the EBA has the opportunity and the responsibility to decisively intervene in item (c) above because the pan-EU coverage of the EBA can give a flavour of all relevant underlying circumstances of models and markets. For this very reason the EBA is best placed to arrive at educated conclusions. Its mandate of “assistance” should be interpreted in the broadest terms possible to limit the possibility of competent authorities drawing conclusions on the presumed differences between banks under their remit and banks supervised by other authorities in the EU.

In conclusion, the view of the EBF is that the use of benchmarks is necessary if and only if the caveats herewith explained are carefully considered.

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| **Q2. Do you consider that the benchmarks outlined in the RTS are sufficiently proportionate and flexible? Do you have any alternative benchmark proposals? If yes, please provide details.** |

The classes of benchmarks outlined in the RTS appear sufficiently flexible. Following our line of thought that benchmarking should be preceded by the adoption of common approaches to model calibration, the collection of benchmark data should be kept as minimal as possible until such commonality in model calibration and defaulted assets is established.

For market risk, benchmarking should only be done for portfolios where the bank actually trades in, or has trades existing. For some portfolios, one could consider to assess maximum loss figures (e.g. for long options one can in principle not lose more than the premium).

Regarding the proportionate aspect of the proposal, the competent authorities are expected to investigate any “output modelling values and standard deviation of the output modelling values falling in the first and fourth quartile of the peer’s ample distribution”. This rule would systematically require competent authorities to enquire on half of the contributions, it appears disproportionate.

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| **Q3. What limitations do you see in relation to the use of the proposed benchmarks, i.e., (i) first and the fourth quartiles; (ii) comparison between own funds under the internal models and the standardised approach; and (iii) comparison between estimates and outturns?** |

Given the current dispersion of supervisory practices the utility of the benchmarks proposed is quite limited. Once further commonality and understanding is available we think the following:

On the comparison between estimates and outturns:

* The comparison of estimates with outturns should provide a basis for supervisory engagement provided that the tests used are meaningful and, in particular, meet the challenge posed by rating philosophies. However, the comparison between estimates and outturns is very dependent on the number of rating classes. In fact, depending on the number of rating classes in use the confidence intervals, thus the RWA, could be quite different. In any case, EBA should give precise guidance on the computation of outturns (such as a spreadsheet), and these computations should take into account all components of the statistical validity of risk estimates.

On the first and fourth quartiles:

* The combination of a first and fourth quartile approach could be useful if it is used only to drive initial supervisory interest as distinct from driving conclusions directly. If used for screening for a more in-depth assessment of the internal approaches the first and fourth quartiles would appear to be too broad a sample as they comprise 50 % of all banks. For that purpose it would be more appropriate to use a narrower sample, e.g. the first and last tenths (deciles).

On the comparison between own funds under internal models and standardised approach:

* We see no meaningful role for benchmarks based upon standardised risk weights.
* Article 78 does not mandate the EBA to define a universal absolute benchmark but rather to help competent authorities identifying those approaches “where there is a significant and systematic under- estimation of own funds requirements”. We consider this objective cannot be achieved on the basis of a simplistic indicator but rather by thorough analysis of model assumptions and performance. The necessity to define a common absolute benchmark is not obvious to achieve the benchmarking objectives, and the choice of the standard approach as an absolute benchmark is not relevant. An additional issue is that in some jurisdictions supervisors have implemented local regulatory discretions (such as the decision of the Belgian National Bank to increase the risk weight of Belgian mortgages), which may result in poor comparability of some portfolios.
* For market risk, the benchmark should not be based on the standardised model, which is being reviewed anyway. The EBF advises the EBA to perform the benchmark based on the values of risk factors instead. We note that the EBA proposes that portfolios with specific relevance for EU non-Euro banks should be included in the market risk benchmarking. That is of course of interest, however it should be noted that there are only four banks in Denmark and Sweden altogether with IMAs and currently only one with specific risk approval. Therefore the outcome of the benchmarking will be very limited.

As regards the confidence level set at 97.5%, it could prove inappropriate on some portfolios (owing to various sample sizes, or to the weight of expert judgment in the rating process). We wonder whether there is evidence grounded on economic or academic studies establishing the relevance of such a confidence level.

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| **Q4. What in your view is the most appropriate benchmark and/or approach for the assessment of the level of potential underestimation of own funds requirements?** |

For credit risk models, the most appropriate approach to test potential underestimation of own funds requirements is the comparison between models’ estimates of risk parameters (i.e. PD, LGD and CF) and actual outturns in these parameters. As discussed above, such tests should account for the philosophy of the risk parameter (e.g. through-the-cycle) and the current economic environment. This approach has the advantage of naturally reflecting the risk

appetites of individual firms. For market risk, the most appropriate tests are the internal back testing results. Benchmarking can add a lot of value in this domain, provided the differences in risk factors are well understood.

Analysts have published studies based on pillar 3 reports with comparisons between model forecasts and actual losses. Reportedly, most of the banks show actual losses way below the estimates across all portfolios even during the years after the wake of the crisis.

Evidence clearly indicates that the problem of modelling differences is not the underestimation of capital requirements but the difficulties posed in the comparative analysis of institutions. This needs to be clearly understood by analysts, investors, the media and other stakeholders.

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| **Q5. Which set of market risk portfolios do you consider more appropriate for the initial exercise conducted under Article 78?**  |

Regarding the options presented in the consultative document for market risk internal models; feedback received from our members clearly indicates that the EBF would favour the second option, namely the use of the same portfolios as in the hypothetical portfolio exercises of the Basel Committee and the EBA. Based on the experience of our members, using existing high quality portfolios will produce better results and reduce the development effort required.

However, for banks which do not already participate in the exercise of the Basel Committee the second option could be unduly burdensome as it would entail portfolio set up costs in order first to apply the Basel portfolio for the 2014 exercise and later new portfolio set up costs in order to apply an EBA portfolio for 2015 onwards. We therefore urge the EBA to consider the possibility of exempting banks which do not already participate in the exercise of the Basel Committee from the 2014 exercise or, alternatively, to develop the EBA portfolio to be used from the outset, while allowing banks already participating in the Basel exercise the option to use the Basel portfolio for the 2014 exercise.

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| **Q6. As explained in the background section, do you consider the approach proposed by the EBA appropriate for future annual exercises?**  |

Firstly, we would like to request the EBA to deliver portfolio specifications to banks well in advance of the exercises. Booking positions in test portfolios, checking them and performing validation processes requires a minimum time for preparatory tasks of at least 6 months. It would also be important to avoid multiple iterations of instructions or later changes to the portfolios.

Due to the current divergent background of practices the current benchmarking proposal for credit risk hardly justifies its cost with the limited utility it has to offer. In order to achieve a more fruitful and meaningful step towards consistency of internal approaches, additional guidance on these approaches should be developed. The role of benchmarking can then develop in a more meaningful way.

As to the design of the benchmark portfolio, it seems to EBF members that the use of non-existing transactions is unrealistic and should therefore be reconsidered. Banks should use transaction types present in their portfolios otherwise the meaningfulness of the benchmark exercise is questionable. Risk assessment is not a mere calculation engine but it is a wider discipline involving qualitative assessment, internal controls, governance and other features; the quantitative element is just one more part of risk management. It is important to analyse and understand the root causes of the differences.

We would like to focus our comments on the use of HPE for LDP: this approach seems very hard to use, especially as far as secured LGD is concerned, mainly for these reasons:

* In contrast to previous HPE which used existing transactions, this one proposes underlying transactions that do not exist in the bank’s portfolio. This would put into question the reliability of estimates and would materially increase the workload.
* It is highly unlikely that banks can provide all the requested information to determine CCF/LGD Secured. LGD secured is not function of the collateral itself but it also depends on other factors including:
	+ the type of collateral, location, and condition;
	+ its accessibility (e.g. seniority of the claim, legal environment, nature of the counterparty);
	+ the characteristics of the loan (e.g. type, LTV);
	+ the purpose of the asset.
* The outputs would depend on the zone of expertise of some institutions: for instance, a bank would be able to give an LGD estimate for a real estate transaction in its country, whereas it would probably be much more difficult for a foreign retail bank.

The value of the approach is felt as limited, mainly owing to representativeness issues. We also would like to draw attention to the fact that combining this approach with others for benchmarking purposes would become really burdensome for banks with LDP.

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| **Q7. Do you have any alternative proposals? If yes, please provide details.**  |

For credit risk, an alternative trigger could be the use of country-specific industry means or medians together with a definition of an absolute or relative acceptable variation from the mean or median (to be defined by EBA or national competent authorities). This approach appears particularly relevant for the benchmarking exercises on mortgage portfolios. The divergences of RWA on this portfolio are mainly explained by the legal specificities (i.e. state guarantee) and supervisory discretions.

For market risk, the suggested approach appears to be logical and having an assessment of the quality of market risk models is supported. As the Basel Committee has already concluded that the current market risk framework should be revised, the information gathered from benchmarking exercises such as this one would be beneficial for the quality of the fundamental review of the trading book.

In any case, closer coordination on timing and content of HPE requirements and exercises would be useful. Also, submission of results should not take place until firms have come to a consensus on position specification.

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| **Q8. Which of the two options for phasing-in do you consider preferable?**  |

The vast majority of EBF members think that the phase-in option (number 2) is preferable on the grounds that it is:

* The less costly;
* The one with the longest lead-in time.
* For market risk, the actual portfolios should be used. If it is decided to use new ones instead, there should be good test procedures in order to ensure high portfolio quality.

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| **Q9. Do you see any potential ambiguities in the credit risk portfolios defined in Annex I? Please identify the relevant portfolio providing details and any suggestions that would eliminate these ambiguities.**  |

Regarding residential mortgages, it would be worth considering specificities that can materially change the risk profile like the different forms of state guarantee programs. Evidence found in the EBA fourth analysis on the consistency of risk weighted assets clearly indicates that member states in which a state guarantee is commonplace have different risk drivers. The credit losses experience is also different and can be explained with long-term observed data. Therefore, it would make sense to split the portfolio and analyse separately with bespoke benchmarks the transactions that are backed with such a state guarantee.

In the case of low-default-portfolios (LDP) the classes of assets included is somewhat ambiguous. For instance, there is no clarity as to whether and how specialised lending should be included in the LDP benchmarking.

Under appendix 1, tab 103 requires data for retail and SME mortgage assets. Column D specifies the “residence of counterparties”. The drop down options of the “Residence of counterparties” are only European Countries. Is it correct to assume that non-European Country related data is exempted from the benchmarking?

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| **Q10. Do you have any suggestions for additional credit risk portfolios? Please provide details.**  |

 We do not have further suggestions for additional credit risk portfolios at this time.

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| **Q11. Do you see any potential ambiguities in the market risk portfolios defined in Annexes VII.a and VII.b? Please identify the relevant portfolio providing details and any suggestions that would eliminate these.**  |

Market risk proposals indicate that banks should calculate risk figures in the currency of the particular portfolio specified in order for the result not to be polluted by currency effects. However, models of non-Euro markets (e.g. Denmark or Sweden) are in some cases set up to calculate with an outset in Euro therefore the conversion is a time-consuming complication. In our view, it should not be generally expected that banks be able to do this.

General comments regarding benchmark portfolios:

* Portfolios should to be available well in advance of the exercises. They should be extensively tested by the competent authority to avoid any confusion or late changes to the portfolios. If possible, a rough indication of the MtM should be available at the moment of the publication of the portfolios.
* The competent authorities should structure the portfolios in such a way that the specific model item can be properly tested. For instance, if the purpose is to test VaR models for interest rate volatility, the portfolio should be structured in such a way that all non-*vega* sensitivities of the portfolio are small. In this specific case for example the portfolio with a *swaption* can be made *delta* neutral by adding an interest rate swap.

As regards ambiguities, the definition of portfolios in terms of how to combine the various positions (section 3, Annex Vii.a) should be clarified. For example, portfolio II is described as 1-50 instruments, 2-9 instruments and 3-1 instrument. We understood 1-50 instruments to mean long all positions labelled as 1-50 in section 2.

A spreadsheet list of which instruments to include in each sub-portfolio would be clearer as well as including the possibilities of being long or short the position described in section 2 and in multiples of the quantity described. For example:

Instruments

1. Long Index X OTC Future (1 point equals 10 € movement). Expiry - June 2014

2. Long OTC Future Bank A (1 contract = 100 shares). Expiry – June 2014

3. Long OTC Future Bank B (1 contract = 100 shares). Expiry – June 2014

4. Long OTC future, Bank C (1 contract = 100 shares). Expiry – 30 June 2014

5. Long OTC future, Bank D (1 contract = 100 shares). Expiry – 30 June 2014

6. Long OTC future, Bank E (1 contract = 100 shares). Expiry – 30 June 2014

7. Long OTC call Option. Underlying Corporate 1, ATM (1 contract = 100 shares). Expiry – 31 July 2014

8. Long OTC call Option. Underlying Corporate 1, ATM (1 contract = 100 shares). Expiry – 31 December 2014

9. Long OTC Future Index Y CAP. Expiry – 30 June 2014

10. Long call Option. Underlying Corporate 2, ATM (1 contract = 100 shares). Expiry – 31 July 2014

Portfolios

I Long 1-10.

II Long 1-5 and short 6-10.

III Long 1-3 and short 8-10.

Definition of positions using some kind of trade blotter would help eliminate position definition operational errors as it would encourage copying and pasting or other electronic form of trade entry rather than keying in the data.

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| **Q12. Do you have any suggestions for additional market risk portfolios? Please provide details.**  |

As the risks for most banks are plain vanilla, the EBF suggests replacing exotic portfolios by vanilla portfolios.

While we reiterate our preference to use the Basel portfolios as outlined in the response to Q5. However, in case option two would also be used, we would propose introduction of an FX vanilla option out of the money with strike far from the FX forward by 2.33 standard-deviations for FX test portfolios. The goal being to check if the VaR captures the convexity between the current FX Spot and the 99% FX Spot bump. For illustration, the related instrument could be:

Sell call EUR put USD with strike = Current FX Fwd x (1 + 1%) and sell put EUR call USD with strike = Current FX Fwd x (1 - 1%).

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| **Q13. Do you agree with the possibility of allowing firms to refrain from reporting portfolios if one of the conditions stated in Article 3 is met?**  |

Yes, banks should be exempted from reporting requirements as outlined in Article 3 if it is well justified and the criteria are transparent.

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| **Q14. Do you have any suggestion about additional exemptions from reporting? If yes, please provide details.**  |

In addition, it should be noted that individual clusters as defined may be immaterial for certain banks. In such cases, banks should also be afforded exemptions from reporting where to do so is overly burdensome.

Another case that could grant an exemption is when an institution is in the process of purchasing another financial institution until decisions are made and authorised regarding the merger of portfolios.

It would be welcomed to envisage also an exemption for credit risk. As for market risk, the exemptions should be based on situations where the institutions are under a model validation process for the portfolios included in the samples or for non-material portfolios. As such, a materiality threshold could be defined as:

* An absolute portfolio size;
* A relative portfolio size, in comparison to the total consolidated balance-sheet or to the balance-sheet size of the subsidiary.

Portfolios with partial roll-out should also be exempted (or alternatively, the share of the portfolio under Standard approach should be highlighted and the bias resulting from different capital treatments should be eliminated).

Local entities supervised by a host supervisor should also be exempted from solo reporting as long as their portfolios are included in the consolidated vision submitted to the home supervisor.

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1. Credit and counterparty risk, market risk and credit valuation adjustment (CVA) risk. [↑](#footnote-ref-2)
2. Directive 2013/36/EU. [↑](#footnote-ref-3)