AFME Response:

EBA Consultation Paper on Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 2021/637 on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013

March 2024

Comments and recommendations:

Pillar 3 Requirements

AFME and its members support the maintenance and development of a responsible and well-balanced disclosure framework in Europe, and we believe that disclosures provide clear and meaningful information to users which represent institutions significant risks.

In terms of the consultation, we note the intention to require banks to disclose the impact of the Output Floor without the application of transitional provisions which is not required by the BCBS standards and risks misunderstanding from investors and market participants. In the meantime, the credit risk mapping tool appears to create specific asset classes for the purposes of disclosure only, for example, retail exposures secured by mortgages.

We have gauged also from a detailed assessment of the mapping tool the extent of the changes intended in relation to the disclosure of market risk. As with the consultation on supervisory reporting, we note that market risk disclosure requirements appear to be front-running the introduction of the actual capital requirements in this area which again could cause confusion and unintended decisions by investors.

We set out our more detailed observations in the section below.

More detailed observations/areas for clarification

Track changes Final draft ITS

The respondents noticed that when final versions of ITSs are published on the EBA's website the track changes versions of the templates (Excel) and instructions (Word) provided are the ones between the former ITSs and the amended ITSs.

No track changes versions of templates / instructions are provided between draft ITSs consultation and final draft ITSs.

In this sense, to ease the comparison between the consultation versions and the final amended versions, could the EBA:

1. Continue to provide the track changes versions of templates/disclosures between the current ITSs in application and the amended ITSs to be applied? (as is currently the case)

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2. Also provide the track changes versions of templates and instructions between draft ITSs submit to consultation and final draft ITSs.

Question 1: Are the amended/new templates EU OV1, EU KM1, EU CMS1, EU CMS2 and the related instructions clear to the respondents? If no, please motivate your response.

Related to table EU OV1, it is not clear the reason why row 16 "Securitisation exposures in the non-trading book (after the cap)" refers only to non-trading book, while rows 17 (Of which SEC-IRBA approach), 18 (Of which SEC-ERBA (including IAA)), 19 (Of which SEC-SA approach) and EU 19a (Of which 1250% / deduction) relate to trading book.

We would appreciate whether the instructions could define in a consistent way the relationship between the total sum (row 16) of banking book exposures and the breakdown done in rows 17-19a. It would be not appropriate to consider a total sum related to the banking book, while the breakdown is required based on trading book.

Question 4: In particular, regarding the disclosure of the output floor, do respondents agree with the inclusion of rows EU 5c, EU 6c, EU 7c in template EU KM 1 and the column EU d in templates EU CMS1 and EU CMS2? Please provide the rationale behind your answer.

As mentioned, we do not agree with the public disclosure of the Output Floor without the use of transitional provisions:

- One of the key aspects of the final implementation measures is that they provide institutions a reasonable period to absorb the impacts. The disclosure of an CET1 (Fully-loaded output floor CET1 capital ratio (%), KM1 – row EU 5c) would automatically imply that market stakeholders will value only this ratio (as it happened during the implementations of previous versions of CRR).
- In addition, this would imply an additional effort for institutions including the management of parallel calculations.

We do not share the choice of option 3b, as this approach would be counterproductive and conflicts with the political objectives adopted by EU co-legislators (preserving a level playing field with other jurisdictions and ensuring a smooth implementation).

We urge the EBA to amend the obligation for institutions to report the "fully loaded" risk-based capital ratio and the risk exposures amounts considering the impact of the output floor excluding the EU transitional arrangements provisions because:

- These transitional measures provide for the production of reports by the EBA that will allow the co-legislators to decide in due time on the final rules; this means that to date, there is no certainty about the final terms of the text after the end of the transition periods. If all or part of the transitional provisions were to be made permanent, we question the appropriateness of disclosing a view that, ultimately, will never materialize.

- Finally, and above all, the transitional provisions of Article 465 of CRR3 seek to reflect certain specificities of the European banking model and can be made permanent by the legislator after an assessment period. These provisions clearly reflect the willingness of the co-legislators to consider several important factors:

- **Residential real estate**: to ensure that the impacts of the output floor on low-risk residential mortgage lending by institutions using IRB approaches are spread over an extensive period (2032) and thus avoid disruptions to that type of lending caused by abrupt massive increases in own funds requirements, the legislators chose to provide for a specific transitional arrangement. During the term of the arrangement, when calculating the output floor, IRB institutions should be able to apply a lower risk weight to the portion of their residential mortgage exposures that is considered to be secured by residential property under the revised SA-CR.

- Unrated corporates: during the transitional period until 2032, institutions using IRB approaches should be able to apply favorable treatment when calculating their output floor for investment grade exposures to unrated corporates. Indeed, most EU corporates, however, do not seek external credit ratings, in particular due to cost reasons. To avoid disruptive effects on bank lending to unrated corporates and to provide sufficient time to implement public or private initiatives to increase coverage of external credit ratings, the legislators have decided that it is necessary to allow for a transitional period to support the rise in the coverage.

- Securitization: This transitional arrangement has been set as the introduction of the output floor have a significant impact on own funds requirements for securitization positions held by institutions using the SEC-IRBA, applying SEC SA as is from 2025 for Output floor purpose would affect the economic viability of the securitization operation because of an insufficient prudential benefit of the transfer of risk. This comes at a juncture where the development of the securitization market is part of the action plan on capital markets union and also where originating institutions might need to use securitization more extensively in order to manage more actively their portfolios if they become bound by the output floor. Additionally, the 2032 deadline was precisely set to allow waiting for the implementation of the reform in progress that may lead to another calibration of P factor.

- SA-CCR: The calibration issue of the alpha factor raised by the industry and recognised by the US led the co-legislators to set alpha at 1 till 31 December 2029 with the possibility for the EC to issue a legislative proposal that may lead to another calibration.

Based on all considerations detailed above, we consider that inclusion of these fully loaded output floor ratios and related total SA Risk Exposure Amount “fully loaded” would not reflect a forward-looking perspective of institutions’ solvency based on target treatment.

We know from experience that this ratio would de facto be the only one considered by the market; this would in practice lead to lose all the benefits expected from the application of these transitional measures, and hence to depriving them of any usefulness.

Consequently, disclosing the solvency ratio without these transitional provisions would be a negation of the co-legislators’ intentions as reflected in the level 1 text.

Likewise, we consider that Art. 438 does not request to disclose the EU transitional provisions and even more, it only asks to consider the OF but not “fully loaded”. Indeed, it only requests to show the impact of Art 92.3 but “to date” not in 2032.

Although we could agree to disclose the information of article 438 of CRR3 with the impact of the output floor at 72,5%, we believe that the EU transitional provisions should not be overstepped.

Question 13: Do the respondents agree with the deletion of the rows on SMEs in templates EU CR 6-A, EU CR 7 and EU CR 7-A?

We would not object to the deletion of these rows and welcome any associated further alignment with the BCBS standard.

Disclosure of use of standardised approach and internal model for market risk

Question 14: Are the amended/new templates EU MRA, EU MRB, EU MR1, EU MR2, EU MR3 and the related instructions clear to the respondents? If no, please motivate your response.

Template EU MR2 - Market risk under the alternative internal model approach (AIMA)

In Template EU MR2 related to Market risk under AIMA, for rows 11 to 16 the expected value for columns a & e is the own funds requirement not the most recent measures (applicable for rows 1 to 10 only), hence, this template, as is, might be quite misleading as this precision is only specified in Annex X and it mixes contradictory and uncorrelated information.

To ease the reading of information and to avoid the conjunction of uncorrelated information, would it be possible to reshape this template to better differentiate information related to rows 1 to 10 (daily values) vs those related to rows 11 to 16 (own fund requirements)?

Template EU-MRB – Qualitative disclosures requirements for institutions using the A-IMA

In theory, qualitative disclosures are provided by institutions on the last quarter of each year.
Respondents feel that, to ease the understanding of the new figures for market participants, it would be more relevant to start to report the template EU-MRB once the first remittance of quantitative disclosures related to the A-IMA starts (narrative support accompanying the figures). In this sense, the EBA should let the opportunity to disclose this template to those institutions which might want to send a narrative with the 1st figures.

Question 15: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Reporting requirements if FRTB is postponed

If FRTB is postponed, the respondents understood from the EBA during the Public Hearing that they shall use the current version of market risk disclosures. Instructions should be amended to precise this information and reflect the reporting requirements for Pillar 3 under this scenario.

Disclosure of credit valuation adjustment (CVA) risk

Question 19: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Template EU CVA4’s title indicates that it is related to the standardized approach, but the mapping indicates that all data from the total of all approaches is reported.

Other questions

Question 21: Do the respondents consider that the “mapping tool” appropriately reflects the mapping of the quantitative disclosure templates with supervisory reporting templates?

It seems that the CMS2 template mapping tool contains an error: the memorandum items related to the impact of application of transitional provisions on the output floor referred to in Articles 465 are not deducted in the EU d column.

- **In relation to table EU OV1:**

Considering the mapping of row 16” Securitisation exposures in the non-trading book (after the cap) is: {C 02.00, r0470, c0010} + (-1)*{C 13.01, r0010, c0190})*1250%, which includes deductions when an institution choses to deduct positions at 1250%, and doesn’t consume in terms of RWA, the row EU 19a of which, 1250%, is reported at 0.

However, there is an issue considering the required breakdown in row EU19a does not allow to consider deductions according to the mapping provided as it only refers to RWA, this is the reason of row EU19a to be reported at 0.

In these cases, institutions are forced to exclude deductions in row 16 so that the sum of the RWAs (row 16) is aligned with the rest of the tables presented across the disclosure and with the breakdown of "OF WHICH" (row 17 to EU 19a).

We would appreciate clarity on the mapping to be considered about deductions (row 19a and its link with row 16).

- **Regarding the mapping tool and table 0V1,** we consider that the proposed mapping for row 4: {C08.01, r0080, c0260, s0001} + {C08.01, r0080, c0260, s0002} is not accurate because the current proposal does not exclude counterparty credit risk.

We would suggest an alternative mapping for this row the following:

[{C 08.01, r0080, c0260, s0010} - {C 08.01, r0040, c0260, s0010} - {C 08.01, r0050, c0260, s0010} - {C 08.01, r0060, c0260, s0010}]’
Or
[{C 08.01, r0020, c0260, s0010} + [{C 08.01, r0030, c0260, s0010}’

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