

11 March, 2024

The European Banking Authority
20 Avenue André Prothin
92400 Courbevoie
France

Subject: Consultation on Regulatory Technical Standards on profit and loss attribution requirements, risk factor modellability assessment, and the treatment of FX and commodity risk in the banking book

Executive summary

AFME, ISDA and their joint memberships (jointly “The Industry”) welcome the opportunity to comment on the Draft RTSs on profit and loss attribution (PLAT) requirements, risk factor modellability assessment (RFET), and the treatment of FX and commodity risk in the banking book¹.

With regards to the RTS on profit and loss attribution requirements in accordance with Article 325bg CRR3, the industry agrees with the proposed changes made by the EBA to align the RTSs with the updated CRR text. However, the industry notes that the broader challenges of implementing the PLAT are not currently fully understood, as only a small number of banks are implementing the Internal Model Approach (IMA) in Europe and the process of developing the data and architecture are still ongoing.

The Draft RTS on modellability assessment of risk factors to be classified as modellable or as non-modellable in accordance with Article 325be CRR3 also aligns with the industry expectations to implement the changes to the CRR text regarding use of vendor data.

With regards to the changes proposed in the context of the RTS on the treatment of FX and Commodity risk in the non-trading book, the industry suggests that the proposed additions of paragraph 6 to Article 1 and paragraph 2 to Article 2 are removed, as was discussed at the Public Hearing on 21st February. This is to avoid artificial creation of trading desks within the Alternative Standardised Approach, which do not exist elsewhere in the regulation. If the objective is to address potential gap that may stem from an Internal Model Approach (IMA) desk failing the profit and loss attribution or backtesting (BT) requirements, this should be addressed separately. The industry proposes that this issue is addressed by including a new paragraph 8 under Article 3 and paragraph 4 under Article 4 to

¹ <https://www.eba.europa.eu/publications-and-media/events/consultation-regulatory-technical-standards-profit-and-loss>

clarify that it is applicable for an institution which calculates the own funds requirements for market risk with the approach referred to in Article 325(1), point (b) for some of its exposures.

We provide below our responses to the questions set out in the consultation paper. We thank you in advance for your consideration and please do not hesitate to contact us with questions or if you would like to discuss our recommendations further. We remain committed to assisting policymakers in achieving the objectives of these important guidelines.

Kind regards,

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Q1. Do you agree with the changes proposed in the context of the RTS on profit and loss attribution requirements? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.

The industry agrees with the proposed changes made by the EBA to align the RTSs with the updated CRR text. However, the industry notes that the broader challenges of implementing the PLAT are not currently fully understood, as only a small number of banks are implementing the IMA in Europe and the process of developing the data and architecture are still ongoing.

Q2. Do you agree with the changes proposed in the context of the RTS on risk factors' modellability assessment? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.

The industry agrees with the proposed changes made by the EBA to align the RTSs with the updated CRR text.

Q3. Do you agree with the changes proposed in the context of the RTS on the treatment of FX and Commodity risk in the non-trading book? Do you see the need of additional changes to reflect amendments made via CRR3? Please elaborate.

The industry notes that the desk requirements should not be made relevant for pure SA banks, as discussed during the Public Hearing on 21st February. It should only apply to banks that have an A-IMA, as explained below.

IMA desk structures and consolidated FRTB-SA

The industry suggests that the proposed additions of paragraph 6 to article 1 and paragraph 2 to article 2 of the RTS 2023/1577 are removed.

Considering the following articles 102 (4), 104b (1), 104b (5), 104b (6), 325 (1) (b), 325az (1), 325az (2) (a) and 455 (1) (c), the industry's interpretation is that trading desks, in the CRR, are required only to be set-up for prudential capital calculation purposes when using the alternative internal model approach (A-IMA). There is no reference to trading desks when the alternative standardised approach (A-SA) is applied. Indeed, A-IMA requires trading desks because it is validated at that level (leading as well to potential desk level add-ons when PLAT is in the yellow zone and desk level reporting/disclosure requirements), while within the A-SA perimeter, there is only a single own-funds requirement (OFR) calculation.

As a result, we do not understand why in the consultation [EBA/CP/2023/41](#), paragraph 6 has been added to article 1 and paragraph 2 to article 2 of the [RTS 2023/1577](#), since articles 1 and 2 are addressing the market risk own funds requirements of respectively FX and commodity risks in the banking book calculated based on the A-SA. Otherwise, banks that do not have internal modes (full A-SA) will have to define some trading desks only for the purpose of FX and Banking Book exposures

while the rest of their exposures will not be assigned to any trading desks as defined in the CRR, without OFR implications.

For the corresponding amendments when under the A-IMA approach (added paragraph 7 to article 3 and paragraph 4 to article 4 of the RTS 2023/1577), we understand the is to clarify in the internal policies the approach for FX and commodity exposures in the banking book: either they are assigned to a trading desk (capitalised in A-IMA if it passes PLAT and BT) and this should be part of the trading desk mandate, or they are not and the exposures will be capitalised under the notional trading desk (if within the A-IMA intended perimeter) or within the A-SA perimeter (if there is no intention to include those exposures within the A-IMA scope).

We believe there is confusion due to the fact that RTS 2023/1577 is organised around how own funds requirements (OFRs) are calculated (A-SA or A-IMA) rather than whether the bank has an internal model. Another dimension is that a bank may be capitalising the risks under A-SA because a desk intended to be capitalised under the A-IMA has failed either PLAT or BT. If that is the case, the industry proposes that a new paragraph 8 of article 3 and paragraph 4 of article 4 are included in a separate new article to clarify that it is applicable to an institution which calculates the own funds requirements for market risk with the approach referred to in Article 325(1), point (b) for some of its exposures.