
Consultation response

EBA's Consultation on ITS amending Commission Implementing Regulation EU 2016-2070 on Benchmarking of Internal Models

31 January 2019

The Association for Financial Markets in Europe (AFME) and the International Swaps and Derivatives Association (ISDA), collectively 'the Associations', welcome the opportunity to comment on the European Banking Authority's Consultation on ITS amending Commission Implementing Regulation EU 2016-2070 on Benchmarking.

About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76. Information about AFME and its activities is available on the Association's website: www.afme.eu.

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 Member institutions from 66 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.

Executive Summary

Credit Risk

In general, we welcome the EBA's wish to reduce the complexity of the benchmarking exercise in relation to credit risk by reducing the granularity of reporting. Nonetheless, members have identified a number of concerns with the introduction of template C105.04 which could in fact make the process more complex and burdensome to report. Members also consider the EBA should reflect on the level of consolidation for the purposes of reporting, which could resolve these issues and challenges in reporting from previous benchmarking exercises. In addition, members recommend removing the requirement to report empty rating portfolios in templates C.102/103. Finally, we would urge the EBA to reflect further on reporting in some areas to ensure that all the information provides value added insight into the variability between banks of their portfolios.

Market Risk

Overall, we appreciate the objective in collecting additional information to verify the bank specific interpretation of how to treat instruments. However, we believe that collecting sensitivities for trades subject to internal model treatment may not serve the regulatory purpose to verify the positions and potentially explain the variability in the modelled outcome.

This is primarily due to the bespoke nature of each institutions' risk factor universe and the methodologies and modelling techniques used to generate sensitivities will therefore differ significantly between institutions. We recommend a more standardized approach which would address to a large extent the challenge of consistency between institutions.

We welcome the improvement on the definition of the expiry date to align with market convention and agree in principle with the simplification introduced in the time setting of the references date for the instruments.

To further help remove ambiguities in specifying the hypothetical trades we recommend using industry standard term sheets with use cases or examples which will help ensure a common understanding of the positions to be benchmarked.

We appreciate the opportunity provided by the EBA to review and provide feedback on the consultation paper. The Associations in close collaboration with our member organisations welcome the positive engagement and look forward to further constructive dialogue.

Kind Regards,



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Constance Usherwood



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Questions

- 1. Is the risk type split a significant burden for your institution (for LDP/HDP)? Are there level 2 portfolios for your institution, for which the deletion of the split into counterparty credit risk (CC) and credit risk (CR) would lead to the loss of information that is relevant for the benchmarking of internal approaches applied to that exposure class?**

We welcome the deletion of the split into counterparty credit risk (CC) and credit risk (CR). Such modification simplifies the templates and makes implementation easier. Indeed, the proposed reduction in the number of portfolios to be collected by amending the split of risk type will significantly reduce the granularity requested, in particular for HDP section. We do not foresee a significant loss of information as a result of the deletion.

From a technical point of view, we strongly agree with this kind of intervention and focus on the HDP section. Based on the previous reference date reporting waves, it was more stressed in terms of numbers of the dimensions, metrics and drill down required: for example, a huge IT effort is needed to run the historical figures for all the Portfolio IDs to extract the Default rate at 5 years in HDP portfolios.

To reduce complexity further, we suggest focusing on the most significant cluster factors, by defining criteria of minimum materiality (in term of number of obligors or exposure amounts) to be considered for the effective reporting of a portfolio ID cluster.

- 2. Do you agree with the introduction of a new template C105.04 (concerns only columns c010 – c068) in order to replace the reporting of “empty” rating portfolios” or do you envisage any other alternatives?**

We are strongly against the introduction of the template c105.04 for several reasons:

- The template c105.04 introduces a granularity in the analysis of PD-related metrics which is too detailed and not relevant. Risks stemming from such granularity encompass the low volumetry of clusters which makes the analysis of metrics not relevant
- Information of the template c105.03 is considered sufficient to benchmark metrics related to internal parameters and at the adequate level of granularity (i.e.: model ID)
- The introduction of a new template (C105.4 columns c010 – c068) doesn't meet the objective to reduce the amount of data reported by banks for 'empty' rating portfolios. Instead the introduction of the new template increases the reporting burden on banks
- The introduction of such template does not simplify the exercise as it will generate a heavy work load to report it

Alternative methods should be considered to address the issue.

As a general consideration we strongly recommend the EBA does not require/include the reporting of “empty rating portfolio” in C102/103, given the information on Probability of Default is already provided in a separate manner, which we deem the more useful for the Benchmarking among institutions.

Consequently, this would resolve the issue some members experienced in the last submission, whereby they were not able to report the empty rating portfolio in the XBRL format required due to the fact that adding these specific portfolio IDs, in accordance with the high granularity of rating grades of COREP reporting (template C 08.02) led to exceeding the standard XBRL format. In part this was due to not submitting the portfolio at consolidated level, yet in many cases it was not possible neither applicable at local submission. The EBA should also consider removing the reporting requirement in the C102 and C103 templates for rating grades, with a view to reducing the granularity.

One other alternative to template C.105.04 would be to require banks to provide the rating breakdowns as proposed in the C102 and C103 templates at the highest level of portfolio definition (i.e level-1 portfolio split, such as Large corporate, Institution, Sovereign, in LDP and Corp, Smec, ecc in HDP, without considering the combination of country and rating portfolio in both 102 and 103 template). By specifying that the “benchmarking exercise” should be reported at the highest level of consolidation we consider this would reduce complexity without significantly impacting on the information collected. In doing so it would show performance for the benchmarking exposure classes and limit the number of empty rating portfolios. The benefit of this approach is to retain the rating portfolios within existing C102 & C103 templates.

3. Do you agree that the combined split of rating and country in template C103 can generally be replaced by a simpler rating split per model (i.e., rating distribution) in template 105, which will cover all models in the scope of the benchmarking exercise (HDP and LDP) without losing explanatory information on the variability of benchmarking parameters? Is there any data point collected in the new template 105.04 that involve significant IT costs or burden and should be dropped?

The rating split by model is not simpler than the current approach and the introduction of a more granular model template will not improve the understanding of drivers in RWA variances. It is likely to produce less explanatory information due to differences in model scope definitions between banks. For example, Corporate SME, mid-market corporates and large corporates may have different models with different scope definitions between banks.

Further, the usefulness of a year-on-year comparison for individual banks is questionable as models are developed/recalibrated or have scope changes due to the roll-out of the IRB approach within the bank.

We reiterate the comments in answer to question 2: the introduction of further granularity will introduce further bias in the interpretation of the template outcomes. We suggest dropping template c105.04 and solve the issue of excessive granularity by adopting one of the solutions mentioned at the question 2:

- not to require/include the reporting of “empty rating portfolio” in C102/103
- consider the alignment for LDP and HDP portfolio, by requiring the country-split only at highest level of portfolio definition, aggregated for all other dimensions (rating, type of risk, sector, ecc.)

If the EBA opts to retain template 105.04, columns C190, 200, 290 and C300 should be dropped as it would be burdensome to collect this data at rating grade for each model and they are usually not significant or available for LPDs models, given the low materiality.

Finally, these columns are somewhat duplicative as column 050 in template 105.01 already provides the default rate used in the calibration of the model and this in our view is more appropriate for the assessment of RWA variances.

4. Do you agree that SLE portfolios should be reported in a separate exposure class? Do you agree that the proposed level-2 breakdown on (a) the proposed sectors of counterparties and (b) the proposed types of exposures (i.e. categories of specialized lending) might be relevant components to explain the variability of risk parameters? Which option do you prefer with respect to the rating split under the slotting approach?

We welcome the introduction of a specific exposure class for specialised lending. The introduction of a separate SLE exposure class is logical and will not have much impact as they are already separately identified in the existing templates.

Regarding relevance of the proposed level-2 breakdown on (a) the proposed sectors of counterparties and (b) the proposed types of exposures (i.e. categories of specialized lending) to explain the variability of risk parameters: SLE portfolios are not usually a material population relative to total bank RWA and consequently the level of granular information collected to assess RWA variance between banks should be commensurate. SLE portfolios are currently included within the LDP template have a sector split by 'Non-financial corporates' and 'Other financial corporates' and the proposed changes are anticipated to replace this split.

- (a) We do not agree with the proposed sector split: firstly, it is unclear in the consultation paper what is being proposed. Paragraph 8 proposes a split by: Non-Financial corporates, other financial corporates and household; while paragraph 17 proposes a split by: Non-Financial corporates, other financial corporates, household, PSE and non-PSE). While both introduce further granularity to the current template split and may provide some insight into the types of SLE deals within each SLE category, it is not anticipated to explain the variability in risk weight parameters and is expected to be too granular for institutions SLE portfolios to draw meaningful conclusions.
- (b) We agree with the inclusion of the SLE category – It will be useful given the different supervisory slotting criteria used to assess each SLE category (Project Finance, etc) and is often used by banks to segment IRB models for such SLE portfolios.

Regarding the options on the rating split under the slotting approach our members had a slight preference for option 1.

In this respect Members noted that as the weighting method in a slotting approach to obtain RW is specific to each institution, the definition of RW bucket split could pose a challenge in ensuring a level playing field between institutions when benchmarking portfolios. Option 1 would also be simpler to report, ensuring at the same time a direct and full view on the variability of RW, which in case of slotting can only be due to the portfolio composition.

Option 2, on the other hand, shouldn't be a burden to report as slotting is a supervisory approach and CRR article 170(2) requires banks to have a rating scale of at least 4 performing grades and 1 default

grade to reflect the available slot categories used to apply risk weights under Article 153(5). It can provide useful data to inform the Basel Committee of Banking Supervision's review of the slotting approach, announced in December 2017 high level summary of the Basel Reforms, and a development the industry supports.

5. Do you expect that the LDP sub-portfolio characterized by eligible covered bonds will cover a material share of exposure? Do you expect that the separation of these exposures can contribute to explain RWA variability?

We do not consider this sub-portfolio as material to expect separation of these exposures in the reporting, although this somewhat depends on what the EBA means by material. Most banks will have covered bond exposures.

Separation of these exposures may contribute to explain RWA variability when purely considering that covered bond portfolios will attract a lower LGD than other exposures to financial institutions – which are generally unsecured – but this depends on the EBA's consideration of materiality. If the covered bond LGD favourable treatment is a driver in explaining RWA variability, it would be applicable for the FIRB institution specific portfolio, which is a residual portion of the overall submission. Moreover, we'd note the favourable treatment for covered bonds is provided under CRR, Article 161 (d) and it is not linked to the Internal Model applied by Institution.

6. Do you think the alternative portfolio split would provide for a higher explanatory power as regards RWA variability induced by differences in CRM usage?

We welcome the alignment of the level-2 break down for LDP and HDP Portfolios to the extent possible. However, we don't consider that the split proposed in this consultation would lead to a higher explanatory power.

7. Do you expect that the proposed NACE Code breakdown for HDP sub-portfolios will provide more explanation for RWA variability for a material share of exposure? Do you expect that the separation of these exposures can contribute to explain RWA variability in the according HDP portfolios or do you consider the current split using only NACE code F sufficient? Does the selection of a subset of NACE codes significantly reduce the burden of the data collection (compared to a comprehensive collection of all NACE codes)?

The introduction of such granularity of NACE code in the templates raises the question of what analysis can be made from this information. So far, the NACE code is not deemed as a strong driver of risk differentiation in risk parameters / RWAs. Moreover, there is a volumetry concern over the size of clusters once this NACE classification introduced. It should be recognised that each bank has its own business model, which makes it hard to compare banks' portfolio upon sectorial drivers. We would question what the rationale would be to select the mentioned sectors (Agriculture, forestry and fishing; Manufacturing; Electricity, gas, steam and air conditioning supply; Construction; Wholesale and retail trade; repair of motor vehicles and motorcycles; Transporting and storage; Real estate activities; All Other). We therefore consider the current split using only NACE code F is considered sufficient as the current proposal of splits (shown below) are already represented indirectly through other dimensions

such as sector, exposure class, collateral type etc., and hence may not add much value. The primary aim of NACE code splits should be to understand RWA variability and a comprehensive collection of all NACE code does not necessarily achieve this but would increase the burden of the data collection. A subset of NACE codes is preferable.

8. Do you expect that the proposed ILTV buckets for HDP sub-portfolios secured by immovable property will provide more explanation for RWA variability for a material share of exposure? Do you expect that the separation of these exposures can contribute to explain RWA variability in the according HDP portfolios?

The introduction of ILTV as the buckets seem closer to the Basel III definition which is positive. However, as for the comparison of portfolios induced by such ILTV buckets, we have yet to see if they are relevant. One implementation concern relates to the distinction between commercial immovable property and residential immovable property.

If the logic of the LTV bucket proposed is to closer align with the Basel III provision, the level of the LTV bucket should assume the same figures in order to align completely the same information retrieved by this risk indicator.

As a possible solution therefore, we propose considering the buckets provided for the application of whole loan approach as follows:

For Residential Real Estate the proposal is:

B1: $LTV \leq 50\%$

B2: $50\% < LTV \leq 60\%$

B3: $60\% < LTV \leq 80\%$

B4: $80\% < LTV \leq 90\%$

B5: $90\% < LTV \leq 100\%$

B6: $LTV > 100\%$

For Commercial:

B1: $LTV \leq 60\%$

B2: $LTV > 60$

From a technical point of view, we would note it should be possible to review the LTV bucket as proposed. However, we suggest aligning the LTV bucket to the one proposed in new Basel III framework in order to grant a stable and unique framework of credit risk sensitivity benchmark for that specific risk driver. It is recognized there LTV definition in the Basel III framework, whilst not implemented yet in the EU, uses the property value at origination, however we feel using a different bucketing could jeopardize the significance of information sent to Regulator on the same metric among different environment (i.e. Supervisory reporting, Own fund Capital requirement, ECB NPE quarterly reporting Template).

To address this EBA could consider the buckets provided for the application of whole loan approach which is more granular just for Residential and which would be coherent given the split by LTV is relevant for Retail Portfolio in Benchmarking reporting.

9. Do you agree with the Additional pricing information requested? Please, provided detailed explanation for your answer.

We appreciate the objective to collect additional information to verify the correct interpretation of the instruments by the institutions and identify the drivers of variability in models' outcomes.

However, in our view, collecting sensitivities along with IMV for trades subject to internal model treatment will not serve the purpose to verify the positions and potentially explain the variability in the models outcome.

This amount of data required will also put a significant operational burden on institutions without achieving the stated objective to help verify that the instruments were correctly interpreted (cf. article 33. On page 17 of the consultation paper).

We provide below several potential issues with respect to the collection of risk factors and their sensitivities;

1. The risk factors and models for IMA are bespoke to each institution. The interpretation of these risk factors requires an understanding of the institution's modelling approach, typology, naming conventions and adds another layer of complexity in understanding potentially more fundamental issues like deviations in the positions (notionals, instruments etc.) or market data. Institutions may also differ in granularity of risk factors for which sensitivities are produced and monitored in their trading systems, (particularly for rates curves and volatility surfaces). An institution may generate a different risk factor universe and sensitivities while still modelling the same risk. For example, the risk towards the 3M Libor curve of a swap could be expressed as a 3M sensitivity or a 6M sensitivity and a 3M-6M tenor basis spread, depending on the modelling approach. The resulting sensitivities are not additive and the transformations are typically non-trivial making them difficult to compare. Hence it might be challenging (if not infeasible) for competent authorities to consolidate and compare sensitivities collected from different institutions.
2. This is also particularly an issue for IRC modelling where a range of methodologies are permitted by CRR and different firms will use different approaches, e.g. single-factor vs multi-factor, constant position assumption (CPA) vs constant level of risk (CLoR), PD hierarchy, construction of transition matrices, recovery rate assumptions, etc. Analysis of IRC outcomes to identify variability would involve assessment of multiple combinations of methodologies. The submission of risk factors and sensitivities by firms would be unlikely to help with quantifying differences in RWAs given the range of methodologies applied.
3. Some sensitivities may be immaterial for certain products and therefore some institutions may not calculate them on a regular basis especially when using a full revaluation framework (e.g. exotic gammas).
4. In section 1. (e)(i) of the Common Instruction of Annex V of the consultation paper package, it is requested that the institutions should submit "price factors". However, Annex VI or VII do not have any instructions or template about this submission. Nevertheless, this type of submission would require a large volume of data (e.g. details of the different data points for the build-up of the yield curves used in interest rate swaps) and would be very onerous for institutions to prepare. Furthermore, it is difficult to understand the rationale and the use for the request of such detailed set of data.

We provide the following recommendations which may help achieve the supervisory goal of ensuring a better understanding of trade specifications.

1. The industry welcomes the approach to not significantly change the trade universe for the 2020 exercise. Maintaining the same trade universe over time will ensure that any interpretation issues will be addressed if a specific trade has been part of at least two benchmarking cycles. We would also recommend replacing particularly complex trades (e.g. trades 18 and 23) with trades having similar risk characteristics but less complexity.
 2. The Industry would recommend collecting sensitivities as specified in the standardized approach under FRTB (as opposed to those calculated by the internal models). This would address the challenge of standardisation between institutions to a large extent. However, we recognise that such an exercise would require significant effort to document. The industry would be willing to engage with the EBA on that front but given the regulatory time lines this may postpone the collection of sensitivities to the 2021 or 2022 benchmarking cycle.
 3. The industry would also recommend the collection of additional information on modelling choices rather than sensitivity data as it is felt this is more likely to help identify drivers of variability in model outcomes. This data could include revaluation method (sensitivities, PV ladders, full reval, etc) and functional form (absolute, relative, other) and other qualitative information on time series (source, normalisation, buckets, etc) for each instrument.
 4. We would recommend increasing the time between IMV reference date and IMV remittance date to at least four weeks to allow for quality assurance of the significantly increased number of values to verify.
 5. In specifying the hypothetical trades, we propose using industry standard term sheets or pricing supplements to define the trade parameters. The industry supports using a standardised format, down to a level of detail required for a legally binding transaction.
10. **Do you agree with the simplification introduced in the time setting of the references date for the instruments?**

We agree in principle with the relative definition of reference dates. This enables the industry to keep the generic portfolio definition constant over time. As an additional safeguard, we suggest the EBA to provide the absolute dates ahead of each annual benchmarking exercise.

There is also a concern that some simplifications and implicit deal details will lead to different interpretations across banks and may lead to larger variance in the results. We would recommend EBA to provide the explicitly stated deal details according to market practice which would ensure common understanding of the deal to be benchmarked.

11. Do you have any concerns on the clarity of the instructions?

To help remove ambiguities, we propose using industry standard term sheets or pricing supplements, we list some specific suggestions in question 12. Furthermore we note that the instruction (kk) from Annex V applies to instruments “52 to 67 and 69” instead of instruments “52 to 73”.

We would welcome clarification on the scope of calculation of the risk metrics for trade 40, which settles at the end of the booking day (September) and therefore disappears from the system leaving residual cash.

We also note that there are no definitions stated for ‘risk factor’ or ‘price factor’, which may lead to multiple interpretations across industry. For example, for interest rate products a curve or a node on the curve could be a price factor. A similar issue may arise for volatility surface as well. Also, although there are instructions for ‘risk factors’ there are no such instructions or templates for ‘price factors’.

In addition, Paragraph (jj) states that 100 contracts should be used for instruments 1, 3-17 but on the other side in the portfolio definitions the numbers of contracts vary from 100 to 1000. This may create an additional operation burden, since we need to maintain two different setups of the deal. This may also create an additional operational cost and risks in reporting and hence we would welcome if the numbers of contracts would be aligned between IMV and risk phases.

We would welcome clarification on what CDS premium should be used (e.g. 100bp running fee) for CDS instruments.

For FX Risk, there is some ambiguity with the instructions for 2019, where some portfolios have base currencies other than EUR. It is not clearly mentioned whether FX risk should be considered in the risk calculation. We would welcome clarification if an institution should calculate risk in the same currency of the portfolio – thus not including any FX risk – unless intrinsically included in the instrument itself. E.g. For a EUR based company, portfolio 51 is expressed in USD.

We would also recommend providing use cases or examples to help clarify.

12. Can you please provided detailed explanation of the instruments that are not clear and a way to clarify the description?

We suggest clarifying the treatment of FX positions resulting from ‘past cash’ other than in base currency. These flows occur from the time of the booking until the date of the VaR calculation.

One of the operational challenges in the calculation of past cash flows is the attribution of the past cash of individual instruments to the different portfolios.

In general, past cash flows could be either included or excluded from the VaR calculation. We therefore suggest the institutions can flag the approach chosen.

Further detailed suggestions for changes to specific instruments together with the respective rationale are provided in the table below:

Instrument(s)	Comment	Suggestion
6 and 53	The currency of the instrument is not consistent with the currency of the portfolio (instrument 6 is GBP but portfolio 10 is EUR, while instrument 53 is USD but portfolio 50 is EUR).	Clarify currency convention
9-16	It is inconsistent that for the options expiring in December the expiration date is the end of December whereas the expiration date for options expiring in June is the third Friday of the month in line with market standard.	Change expiry date from “End of December Year T” to “December Year T”
17	“Short Future NIKKEY 225 (Ticker NKY) (1 point equals 10 JPY)”. The standard exchange use a ratio of 500 JPY per point instead of 10 Y).	Use the standard multiplier

18	“Long 5-year Auto-callable Equity product, EURO STOXX 50”. This trade is unnecessarily complex and could lead to unwarranted variability in the Equity All-in portfolio (ID 58).	Use a vanilla option on the EURO STOXX50
23	“Long position on ‘Cap and Floor’ 10-year UBS AG Notes, 1m USD”. This trade is unnecessarily complex and is often excluded for rationale c) in ANNEX VI “Underlying or modelling feature not contemplated internally”.	Use a vanilla cap/floor on 3-month EURIBOR
37	“5-year IRS EURO – Receive floating rate and pay fixed rate. Fixed leg: pay annually. Floating rate: 6-month EURIBOR, receive quarterly”. Market convention would be to receive payments every 6 months, not quarterly.	Use market convention of every 6 months
38/39	“Short 6-month EUR/USD (or EUR/GBP respectively) forward contract” is misleading. Direction of forward contract should be defined by the currency exchange rate.	Remove words “long/short” for forward contracts
40	“Long 1 MLN USD at the EUR/USD ECB reference spot rate” is misleading.	Change description to “ Long 1 MLN USD Cash”
47	The cross-currency swap has the basis applied to the EUR leg whereas market convention is for it to be applied to the USD leg.	Apply the cross-currency basis to the USD leg
52-67	Most CDS have non-standard maturities (20/09/2023 or 20/09/2012), standard being June and December 20th.	Use standard Maturity either June 20th or December 20th.
52-67	EBA does not specify the spread to be used for booking.	Use the standard spread of 100bps
57	For a UK bank the UK sovereign CDS market is illiquid due to wrong-way risk.	Replace this with similar Sovereign CDS which has greater liquidity.
58-62 & 65	For the CDS credit entities, more than one name can be found. The trade details such as seniority, fixed or floating recovery rate, red code and running fee are not specified.	Provide the RED code for each CDS credit entity specified.
58-63, 65-67	European Corporates (non Fin/sov) trade on a Modified Restructuring clause, not a FULL.	Use standard clause, “MMR”
64	“Short (i.e. Sell protection) 1 MLN USD CDS on Eli Lilly (Ticker LLY US). Effective date as booking date. Restructuring clause: FULL. Maturity 20/09/2023.” US Corporates (non Fin/Sov) trade on No Restructuring clause, not FULL.	Use standard clause, XR14
71 & 72	The maturity dates appear to be incorrect.	Update so all dates are in the European format (DD/MM/YYYY) or DD-MMM-YYYY. E.g. 02/10/2023 and 30/03/2021.

Other specific comments?

Regarding Credit risk:

- We suggest specifying in the Regulation that the “benchmarking exercise” should be reported at the highest level of consolidation only, in order to reduce complexity without significantly impact on the information collected. In this way, thanks to the country-specific portfolio IDs, CAs can rely on supportive information for benchmarking analysis at country level (based on the same contribution the local institution provides to the head of group).

The current interpretation of a large number of NCAs as for art. 1 of Regulation 2016/2070 is, instead, that the reporting should be provided at the same level of 680/2014 (eg. as for COREP/FINREP/Large Exposures and other supervisory reporting under that regulation). Consequently, a subsidiary can be requested to report the “consolidated view” and the “solo-level” view of the benchmarking exercise and to adequate the “solo-level” to local accounting principles when different from those of the head of group. Such burdens for the institutions seem not coherent with the aim of the benchmarking exercise.

As a general remark and considering the final goal of the EBA Benchmarking reporting, the application of the benchmarking portfolios at individual level for each single Legal Entity of a pan-European Banking Group may result not significant in term of representativeness and consistency especially in the case of the Low Default Portfolios, which have a significant level of granularity due to the combination of a high number of clustering factors. The same consideration is valid for the Template 101 (single counterparties level), in which the coverage of the sample portfolio may result not significant if applied only at single Legal Entity level.

- EBA Benchmarking template (i.e. Annex IV template C103) asks for a view of Institution portfolios as of a certain reference date for all parameters (e.g. 31 December 2017 for the exercise 2018), except for Default Rates and Loss Rates which are measured exactly one year before the reference date.

On the one hand this provides the most updated portfolio picture for all parameters, but on the other the measurement date misalignment can bring to misleading conclusions if the underlying data (in particular DR vs PD and LR vs LGD) are compared without considering the existing temporal lag.

Therefore, Default Rates and Loss Rates should not be considered as a back-testing measure for PD and LGD respectively since they refer to different periods affected by clients migrations and portfolio dynamics, and hence to different perimeters.

With regards to LGD and LR comparison also a more general topic arises due to the different underlying features for variables computation: for the LGD estimates a long default history is used, while for LR only one-year observation period is adopted. The one-year-view might provide unstable and not robust results especially when only low observation numbers are available in certain portfolios making the comparison not reliable.