

EBA/CP/2019/13

21 November 2019

Consultation Paper

Draft Implementing Technical Standards

on specific supervisory reporting requirements for market risk

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 7 January 2020. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

While the currently applicable market risk framework and the related existing reporting requirements will remain unchanged in the next reporting release, CRR2 introduces the first elements of the Fundamental Review of the Trading Book (FRTB), initiated by the Basel Committee on Banking Supervision (BCBS), into the prudential framework of the EU. Despite not yet being binding in terms of own funds requirements, the framework is implemented by means of a reporting requirement, constituting the first step towards the full implementation of the FRTB framework in the EU.

The reporting requirements on the new market risk framework will be gradually expanded; the first step will be to introduce a thresholds template, providing insights into the size of institutions' trading books and the volume of their business subject to market risk, and a summary template, reflecting the own funds requirements under the 'Alternative Standardised Approach' for market risk (MKR-ASA). Later, this information will be complemented with details on the calculation of the own funds requirements under the MKR-ASA and by information on the own funds requirements under the 'Alternative Internal Model Approach'.

The EBA is taking a gradual approach because it is mindful of the importance of expanding the reporting requirements resulting from the FRTB in a proportionate manner, as institutions will also continue to be subject to the current market risk framework and the associated reporting requirements. Once clarity on the full implementation of the FRTB framework in the EU exists — including clarity on the implementation of the EBA roadmap on market risk and counterparty credit risk — the framework will be expanded to fully cover the new requirements.

Next steps

The proposal included in this consultation paper will be consulted for one month and a half. This shortened consultation period was considered sufficient, considering the very limited scope of the proposal, even though it is acknowledged that several consultations on reporting matters are held in parallel. A shortening of the consultation period is also necessary to be able to meet both the deadline for submitting the final draft ITS to the EU-Commission and to ensure that the reporting starts within one year after the adoption of the Delegated Act in accordance with Article 461a CRR. The application of that Delegated Act triggers the reporting obligation, the specific contents, formats, frequencies etc. of which are defined in this proposal for draft ITS.

The EBA's submission of the final draft ITS to the EU Commission is expected to take place in the second quarter of 2020. The EBA will also develop the data-point model (DPM), XBRL taxonomy and validation rules based on the final draft ITS and publish them alongside the ITS or shortly after.

The first reference date for reporting in accordance with these technical standards is foreseen to be on 31 March 2021. The expected implementation period for the proposed reporting requirements is approximately 1 year.

3. Background and rationale

3.1 Scope and overview of content of this proposal, expected application date and frequency of the reporting requirement

1. While the currently applicable market risk framework and the related existing reporting requirements will remain unchanged in the near future, Regulation (EU) 2019/876 amending Regulation (EU) No 575/2013 introduces the first elements of the Fundamental Review of the Trading Book (FRTB), initiated by the Basel Committee on Banking Supervision (BCBS), into the prudential framework of the EU. Despite not yet being binding in terms of own funds requirements, the framework is implemented by means of a reporting requirement, constituting the first step towards the full implementation of the FRTB framework in the EU.
2. The reporting requirements on the new market risk framework will be gradually expanded; the first step will be to introduce a thresholds template, providing insights into the size of institutions' trading books and the volume of their business subject to market risk, and a summary template, reflecting the own funds requirements under the 'Alternative Standardised Approach' for market risk (MKR-ASA). Later, this information will be complemented with details on the calculation of the own funds requirements under the MKR-ASA and by information on the own funds requirements under the alternative internal model approach.
3. The EBA is taking a gradual approach because it is mindful of the importance of expanding the reporting requirements resulting from the FRTB in a proportionate manner, as institutions will also continue to be subject to the current market risk framework and the associated reporting. Once clarity on the full implementation of the FRTB framework in the EU exists — including clarity on the implementation of the EBA roadmap on market risk and counterparty credit risk — the framework will be expanded to fully cover the new requirements.
4. In accordance with Article 430b (1) and (2) CRR, institutions should start reporting on the results of the calculation based on the so called 'Alternative Standardised Approach' for market risk ('MKR-ASA') as soon as a Delegated Act on 'technical adjustments' prepared by the Commission in accordance with Article 461a CRR applies, and no later than one year after the adoption of that delegated act. Considering all relevant factors, as well as the benefits of a fixed application date, the first applicable reference date for the reporting in accordance with Article 430b CRR, is envisaged to be the 31 March 2021.
5. The proposal for the reporting on the results of the calculations under the MKR-ASA included in this consultation paper is, for the time being, limited to a so called 'summary template', capturing predominantly the size of the positions subject to the different approaches and risk classes, as well as some high-level breakdowns on the related own funds requirements. While this ensures that institutions build up the capacity to perform the calculations needed under the MKR-ASA, preparing

themselves for its application for the calculation of own funds requirement, it keeps the implementation burden limited, honoring the 'informatory' nature of the reporting requirement.

6. The 'summary template' for the MKR-ASA will, at a later stage, be complemented by additional templates and information items that provide insights into the different steps of the process for calculating own funds requirements under the MKR-ASA.
7. Institutions will only be subject to the FRTB framework in the Union, if their trading book business and on- and off-balance sheet business subject to market risk exceeds certain thresholds that are defined in Articles 94 and 325a CRR. In order to identify the institutions within the scope of application of the FRTB in the Union and to ensure that all institutions monitor their business with regard to those thresholds, this proposal includes a 'thresholds template' that captures the size of the trading book and the size of the on- and off-balance sheet business subject to market risk of an institution and is envisaged to be reported by all institutions.
8. Both the MKR-ASA 'summary template' and the 'thresholds' template are envisaged to be reported with a quarterly frequency.
9. Reporting requirements on the 'Alternative Internal Model Approach' for market risk in accordance with Article 430b (3) and (4) CRR are not part of this consultation. Those reporting requirements will be developed once policy aspects of the implementation of that approach have been clarified and addressed in relevant technical standards that are currently being completed.
10. For the time being, the reporting requirements being part of this consultation are presented as separate legal standard. But in the medium to long term, most likely when the FRTB framework becomes binding for the calculation of own funds requirements for market risk in the EU, the reporting requirements specified in this draft ITS are envisaged to be integrated into the 'main' ITS on Reporting

3.2 The thresholds template

11. The thresholds template shall be reported by all institutions. It serves as the basis to distinguish between the three groups of institutions:
 - Institutions that have a very small trading book and therefore apply the provisions on credit risk to their trading book positions instead of the provisions on market risk (position risk) under the current and likely also the future framework, once the FRTB is fully implemented in the EU;
 - Institutions that have a bigger trading book, but still only medium-sized volume of positions subject to market risk, and therefore apply the current provisions on market risk in their entirety, but are exempted from the obligation to report on the calculation results in respect of the FRTB now and are expected to be entitled to apply the 'simplified approach' under the fully implemented FRTB framework in the future and
 - Institutions that are engaged in a considerable amount of business subject to market risks and are subject to the application of the current market risk framework in its entirety and the reporting obligation now and that are expected to be subject to the full application of the FRTB framework in the future.

12. While the threshold of Article 325a CRR is new to the CRR, the threshold of Article 94 CRR existed already under the first version of the CRR, albeit with a slightly different definition. The absence of reported information on that threshold, and therefore the lack of insight into whether institutions exceed or are below the threshold and monitor it properly, has been perceived as a notable impediment and constraint by competent authorities.
13. The proposed threshold template presents the trading book positions considered for the purposes of Article 94 CRR as a subset of the (trading book) positions considered in the context of Article 325a CRR. This relationship holds exactly true only for the version of Article 94 CRR as applicable from 27 June 2021 and Article 325a CRR, not for the 'old' version of Article 94 CRR which is applicable now and will be applicable for roughly another 20 months. Against this background, and based on an analysis of relevant factors such as the information benefit for supervisors, the expected efforts for implementation by institutions, the length of the period between the application date of this ITS and the application date of the amendments to the CRR in their entirety and potential issues in terms of the integrity of reported data and reporting of partial information in practice, it is proposed that the reporting of the items on Article 94 CRR should only start once the new version of Article 94 CRR applies.
14. The information in the thresholds template is of high-level nature, covering, with one exception, only the elements strictly necessary to assess an institution's position in relation to the thresholds. That exception is the breakdown of the business subject to market risk into on- and off-balance sheet business. That breakdown provides basic information on the structure of institutions' position subject to market risk and supports, where relevant, a comparison of that structure between institutions calculating own funds requirements for those positions based on the provisions for credit risk and those applying the market risk framework in its entirety. Nevertheless, some concerns exist that the distinction between on- and off-balance sheet items is not as clear and straightforward as might be expected, which is why a question for consultation in this regard is included in this consultation (please see Annex II).
15. Information is requested for the reference date and the preceding 11 months. This is due to the 'entry and exit criteria' for the application of the less/more sophisticated provisions for the calculation of own funds requirements (Article 94 (7) and (8) CRR) or less/more comprehensive reporting obligations (Article 325a (5) and (6) CRR), which consider the position of institutions during the year preceding the reference date both for the 'entry' and the 'exit'. Institutions are only asked to report information on the thresholds for reference dates where the relevant provisions of the CRR, as well as the provisions of the proposed reporting ITS were already in place and applicable, i.e. effectively for reference dates starting with March 2021 in case of the threshold of Article 325a CRR and starting with June 2021 in case of the threshold of Article 94 CRR.

3.3 The MKR-ASA 'summary' template

16. The 'summary template' for the MKR-ASA provides an overview of the own funds requirements that are to be calculated for reporting purposes only by using the MKR-ASA. In line with the mandate of Article 430b CRR, this includes a breakdown by approach and risk class. The information is high-level in nature. Only for positions subject to the sensitivities-based method, some more detail is requested, namely a differentiation by correlation scenario (low, medium, high) and between delta, vega and curvature risks.



17. The information on the own funds requirements is complemented by a measure reflecting, to some extent, the volume of the positions that are bearing risks and are treated according to the relevant approach. In case of the sensitivities-based method, institutions are asked to provide information at an aggregate level on the overall sensitivities per risk class, in case of positions subject to default risk the gross jump-to-default amounts and in case of positions subject to residual risk the nominal amounts.

4. Draft implementing technical standards

In between the text of the draft ITS that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.

COMMISSION IMPLEMENTING REGULATION (EU) No .../... laying down implementing technical standards with regard to specific supervisory reporting requirements for market risk according to Regulation (EU) No 575/2013 of the European Parliament and of the Council

of **XXX**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,
Having regard to Regulation (EU) No 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms¹ and in particular Article 430b (6) thereof,
Whereas:

- (1) The BCBS initiated the fundamental review of the trading book (FRTB) to address the structural weaknesses of the own funds requirements for market risk standards. That work led to the publication of a revised market risk framework in January 2016. Regulation (EU) 2019/876 amending Regulation (EU) No 575/2013 introduces the first elements of the FRTB into the prudential framework of the EU as a the first step towards the full implementation of the FRTB framework in the EU.
- (2) According to Article 430b (1) and (2) of Regulation (EU) No 575/2013 ('CRR'), all institutions that are subject to the FRTB framework in the Union will start reporting the calculations derived from the revised standardised approach ('Alternative Standardised Approach' for market risk) from the date of application of the delegated act referred to in Article 461a thereof. In addition and in accordance with Article 430b (3) and (4) of Regulation (EU) No 575/2013, institutions that obtain approval to use the revised internal model approach of the FRTB framework will also report the calculation under the internal model approach, but only three years after the entry into force of regulatory technical standards on that internal models approach. Considering this difference in timeline, this Regulation should, for the time being, set out only reporting requirements on the Alternative Standardised Approach for market risk, as implemented in the Union by Part Three, Title IV, chapter 1a of Regulation (EU) No 575/2013.
- (3) Institutions will only apply the Alternative Standardised Approach for market risk, if their trading book business and business subject to market risk exceeds certain thresholds that are defined in Articles 94 and 325a of Regulation (EU) No 575/2013. In order to identify the institutions within the scope of application that approach and to ensure that all institutions monitor their business with regard to those thresholds, this Regulation should therefore require institutions to report information on the size of their trading book and the size of the on- and off-balance sheet business subject to market risk.
- (4) Institutions that are subject to the obligation to report the results of their calculation under the Alternative Standardised Approach for market risk should start reporting

¹ OJ L 176, 27.06.2013, p1.

at least the final result of those calculations, once this Regulation applies. Further details on those calculations should only be added at a later stage, at the latest when the Alternative Standardised Approach becomes, for institutions in the scope of its application, binding for the calculation of own funds requirements.

- (5) Considering the conditions for the date of application of the specific reporting requirements for market risk as provided for in Article 430b (1) and (2) of Regulation (EU) No 575/2013, as well as the benefits of a fixed application date, this Regulation should apply from 1 March 2021.
- (6) This Regulation is based on the draft implementing technical standards submitted by the European Supervisory Authority (European Banking Authority) (EBA) to the Commission.
- (7) EBA has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010².

HAS ADOPTED THIS REGULATION:

Article 1

Subject matter and scope

This Regulation lays down uniform requirements in relation to the supervisory reporting to competent authorities according to Article 430b of Regulation (EU) No 575/2013.

Article 2

Reference dates and remittance dates for reporting

1. Institutions shall submit information to competent authorities with a quarterly frequency as this information stands on the 31 March, 30 June, 30 September and 31 December.
2. Institutions shall submit information to competent authorities by close of business of the following remittance dates: 12 May, 11 August, 11 November and 11 February.
3. If the remittance day is a public holiday in the Member State of the competent authority to which the report is to be provided, or a Saturday or a Sunday, data shall be submitted on the following working day.
4. Corrections to the submitted reports shall be submitted to the competent authorities without undue delay.

² Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

Article 3

Reporting on thresholds

1. Institutions shall report information on the size of their trading book and the size of their on- and off-balance sheet business subject to market risk on an individual basis, as specified in template 90 of Annex I to this Regulation in accordance with the instructions in chapter 1 of Part II of Annex II to this Regulation.
2. Institutions shall report information on the the size of their trading book and the size of their on- and off-balance sheet business subject to market risk on a consolidated basis, as specified in template 90 of Annex I to this Regulation in accordance with the instructions in chapter 1 of Part II of Annex II to this Regulation.

Article 4

Reporting on the Alternative Standardised Approach

1. In order to report information on the results of the calculations based on using the alternative standardised approach in accordance with paragraphs 1 and 2 of Article 430b of Regulation (EU) No 575/2013 on an individual basis, institutions shall submit the information as specified in template 91 of Annex I to this Regulation in accordance with the instructions in chapter 2 of Part II of Annex II to this Regulation.
2. In order to report information on the results of the calculations based on using the alternative standardised approach in accordance with paragraphs 1 and 2 of Article 430b of Regulation (EU) No 575/2013 on a consolidated basis, institutions shall submit the information as specified in template 91 of Annex I to this Regulation in accordance with the instructions in chapter 2 of Part II of Annex II to this Regulation.

Article 5

Data precision and information associated with submissions

1. Institutions shall submit the information referred to in this Regulation in the data exchange formats and representations specified by competent authorities and respecting the data point definition of the data point model and the validation formulae referred to in Annex III as well as the following specifications:
 - (a) information that is not required or not applicable shall not be included in a data submission;
 - (b) numeric values shall be submitted as facts according to the following:
 - i. data points with the data type 'Monetary' shall be reported using a minimum precision equivalent to thousands of units;
 - ii. data points with the data type 'Percentage' shall be expressed as per unit with a minimum precision equivalent to four decimals;
 - iii. data points with the data type 'Integer' shall be reported using no decimals and

a precision equivalent to units.

- (c) Institutions shall be identified solely by their Legal Entity Identifier (LEI). Legal entities and counterparties other than institutions shall be identified by their LEI where available.
2. The data submitted by the institutions shall be associated with the following information:
- (a) reporting reference date and reference period;
 - (b) reporting currency;
 - (c) accounting standard;
 - (d) identifier of the reporting institution (LEI);
 - (e) scope of consolidation.

Article 6

This Regulation shall enter into force on the the twentieth day following that of its publication in the *Official Journal of the European Union*.
It shall apply from 1 March 2021.

By derogation from Article 2 (1) of this Regulation, institutions shall commence reporting the information referred to in Article 4 of this Regulation on 30 June 2021, where the size of the institutions' on- and off-balance-sheet trading-book business as of 31 March 2021 would be considered small, if it is determined in accordance with the provisions of Article 94 of Regulation (EU) No 575/2013 as applicable from 28 June 2021.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

On behalf of the President

[Position]

ANNEXES

Please see separate files:

Annex I – Templates

Annex II – Instructions

Annex III – Data point model and validation rules

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

As per Article 16(2) of Regulation (EU) No 1093/2010 (EBA Regulation), any guidelines and recommendations developed by the EBA shall be accompanied by an Impact Assessment (IA) which analyses ‘the potential related costs and benefits’.

This analysis presents the IA of the main policy options included in this Consultation Paper on the draft ITS on the reporting requirements for the new FRTB framework as per Article 430b CRR. The IA is high level and qualitative in nature.

A. Problem identification and background

Basel’s revised market risk framework will take time to implement by institutions. Hence, even though it is currently still under review at European level, all institutions that would be subject to the FRTB framework should already start reporting the calculations derived from the revised standardised approach in order to start capacity building early on. The EBA has been mandated as per Article 430b CRR to develop ITS on these reporting requirements.

B. Policy objectives

The draft proposed ITS on reporting on the new FRTB framework presented in this consultation paper seek to provide a clear and consistent reporting framework for institutions on the alternative standardised approach for market risk (MKR-ASA) in the EU, as mandated in the CRR2. In particular, they aim at creating a tool which will help institutions build capacity and expertise on the revised market risk framework.

C. Options considered, assessment of the options and preferred options

Section C. presents the main policy options discussed and the decisions made during the development of the templates and instructions. Advantages and disadvantages, as well as potential costs and benefits of the policy options and the preferred options resulting from this analysis are assessed below.

Threshold templates

Option 1a: In addition to the template on MKR-ASA calculations, also introduce a template on thresholds applicable in the context of market risk

Option 1b: Do not introduce an additional template on thresholds

The EBA is mandated under Article 430b CRR to develop reporting templates on the results of the calculations based on the new FRTB framework (ie using the alternative standardised approach). As long as the implementation of the FRTB in Europe is under review (European Commission Cfa), this calculation is for now only a reporting requirement in the EU.

Only certain institutions however are expected to fall under the new FRTB framework, and only those institutions will be subject to the reporting requirements of the new calculations: specifically, institutions with trading book positions that do not meet the thresholds for the derogation for small trading book business (<5% of total assets and <EUR 500 million) as per Article 94 CRR. In addition, under the CRR applicable as of 28/06/2021 also institutions with trading book sizes up to 10% of total assets and < 500 million are exempted from the new reporting requirements (Article 325a CRR).

Hence, understanding institutions' trading book sizes and where they are positioned relative to the thresholds and how this develops over time is a crucial piece of information, also in light of the FRTB legislation implementation which is still forthcoming in the EU.

An additional reporting template on the trading book threshold would imply a slightly increased reporting burden for the smaller trading book institutions (since they would not need to report anything without a threshold template, only institutions exceeding both thresholds would need to report). However, institutions need to monitor the thresholds themselves in any case and as such it is assessed that a reporting template with such information would imply only very limited additional burden to small trading book institutions, whilst it would provide supervisors with essential information for monitoring the thresholds.

As a result, Option 1a has been chosen as the preferred option and an additional template with information on trading book thresholds has been added.

Inclusion of definitions under Article 94 applicable from 28/06/2021 and Article 94 applicable until 27/06/2021

Option 2a: Include both definitions of the threshold calculation

Option 2b: Only include a reporting requirement as per the definitions under Article 94 applicable from 28/06/2021

Whilst the actual thresholds for small trading books have not changed in the new CRR (< 5% of total assets and < EUR 50 million), the conditions for the inclusion of certain exposures have changed in the revised legal framework adopted in April 2019.

Reporting requirements for the MKR-ASA calculations are expected to apply from the first quarter of 2021, with 31 March 2021 being the targeted first reference date for the reporting. In order to understand the need to comply with the latter, one would need to consider trading book exposures as calculated under Article 94 applicable until 27/06/2021 (for reporting in Q1 2021), and from Q2 2021 trading book exposures as calculated under Article 94 as applicable from 28/06/2021.

It has been assessed that introducing a reporting template covering both Article 94 as applicable from 28/06/2021 and Article 94 as applicable until 27/06/2021, would i) be cumbersome and confusing for institutions, ii) increase the implementation burden for institutions, and importantly, iii) imply a reporting template which is no longer fully consistent with CRR2 going forward and will be outdated already in June 2021 (as the information on the 'old' Article 94 as applicable until 27/06/2021 would no longer need to be reported from June 2021 onwards, but would still be part of the template).

Whilst only covering Article 94 applicable from 28/06/2021 in the new reporting templates would in turn imply that information on the threshold of Article 94 as applicable until 27/06/2021 is missing for March 2021, it has been assessed that Option 2b is the preferred option, facilitating and streamlining implementation for reporting institutions and supervisors.

D. Conclusion

In order to prepare European institutions for the full implementation of the revised market risk framework, a clear and consistent reporting framework is crucial. The latter will enable and support institutions in their capacity building and preparation.

The draft templates at hand provide this by, delivering clear information requirements for institutions, whilst at the same time ensuring simplicity. Whilst reporting requirements are a crucial step towards a revised market risk framework in the EU, given that the MKR-ASA so far only comes in the form of a reporting requirement in the EU, it needs to be ensured that reporting requirements are proportionate. This is achieved by encompassing only a so called 'summary template', capturing predominantly the size of the positions subject to the different approaches and risk classes, as well some high-level breakdowns on the related own funds requirements.

The templates will foster transparency under the revised market risk framework for supervisors, prepare institutions for the revised framework and enable both supervisors and institutions to track the development of exposures in a clear and consistent manner over time.

5.2 Overview of questions for consultation

Annex II

Q1. The 'thresholds' template requires a breakdown of the 'on- and off-balance sheet business subject to market risk' into on-balance sheet and off-balance sheet business. Is that breakdown clear, or would you need ad-hoc definitions for differentiating 'on-balance sheet items' from 'off-balance sheet items' to ensure a proper implementation of the reporting requirements? Are there particular challenges or a burden involved in differentiating between on- and off- balance sheet items?

Q2. Are the scope and level of application of the reporting requirements and the content of the templates and the instructions clear?

