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Instructions for 2016 CVA risk monitoring exercise

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1. Introduction

Article 456(2) of Regulation (EU) No 575/2013 ('Capital Requirements Regulation' – CRR) mandates the EBA to 'monitor the own funds requirements for CVA risk and by 1 January 2015 submit a report to the Commission'.

The EBA published its CVA Report¹ on 25 February 2015. The report, which was informed by a data collection exercise, highlighted the materiality of the CVA risks that are currently not covered by EU legislation due to exemptions and recommended that EU exemptions should be reconsidered and possibly removed upon completion of a review of the CVA risk charge in Basel². The report was also making specific proposals on how the international standards on CVA risk should be amended³ and was recommending developing 'an EBA coordinated approach for yearly monitoring of the impact of transactions exempted from the CVA risk charge and for defining situations constituting a presumption of excessive CVA risks to be considered under SREP'⁴.

On 12 November 2015 the EBA consulted on Guidelines on the treatment of CVA risk under the supervisory review and evaluation process (SREP). In parallel with the public consultation, the EBA launched a data collection exercise based on 2015 data. The exercise is henceforth referred to as the '2015 CVA risk monitoring exercise'. 171 EU banks, representing 28 EU and 1 EEA member states, participated in the 2015 CVA risk monitoring exercise. A short report presenting the main results of the 2015 CVA risk monitoring exercise is also published today.

Due to continued developments in the CVA risk framework at international level, the EBA has put on hold the work on its draft Guidelines on the treatment of CVA risk under SREP until further notice. Instead, the EBA will focus on monitoring the impact of transactions exempted from the CVA risk charge and assessing the impact of the revised international standards on CVA risk, in particular on the scope of exempted transactions, once the standards are made public. Competent authorities will use the outcome of the EBA monitoring in their assessments of institutions' CVA risk performed in accordance with the EBA Guidelines on common procedures and methodologies for SREP⁵ (2014). The EBA will closely follow international (BCBS) developments and, if needed, will review whether further guidance is needed to achieve greater consistency in appropriate risk-based supervisory measures.

As the EBA is initiating today the 2016 CVA risk monitoring exercise, the present instructions are provided to facilitate the completion of the template for the 2016 CVA monitoring exercise. They are not to be construed as an interpretation of the provisions of Regulation (EU) No 575/2013 of

¹ <http://www.eba.europa.eu/documents/10180/950548/EBA+Report+on+CVA.pdf>

² CVA Report Policy recommendation No3

³ CVA Report Policy recommendation No15

⁴ CVA Report Policy recommendation No4

⁵ <http://www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf/4b842c7e-3294-4947-94cd-ad7f94405d66>



the European Parliament and of the Council of 26 June 2013 (CRR) on prudential requirements for credit institutions and investment firms.

2. General

2.1 Scope of institutions participating in the exercise

The collected data will be used for the 2016 monitoring exercise of the impact of the transactions exempted from CVA risk in line with policy recommendation No4 made in the CVA Report.

Accordingly, the EBA has produced a list of institutions that are required to contribute to this exercise. The list is based on the list of EU institutions for which the EBA receives COREP submissions⁶. Each institution identified in this list should fill in a separate template at its level.

2.2 Reporting date

All data should be reported as of 31 December 2016.

2.3 Filling in the data

The data collected in this exercise will be treated as strictly confidential.

Where a participating institution is unable to answer a question, the corresponding cell should be left empty. No text such as NA should be entered in these cells. However, when the answer to a question is 0, institutions should fill in the cell with 0.

The questions target all institutions participating in the data collection exercise, unless stated otherwise in the template spreadsheet and in the instructions.

Answers to the questions should only be provided in the dedicated yellow cells.

2.4 General assumptions for the exercise

The definition of CVA follows the definition provided under CRR Article 381.

Banks are asked to comply with the following assumptions throughout the data collection exercise:

- Only derivative instruments should be included. SFTs, which are only included in the CVA risk charge of banks at the request of competent authorities i.e. when their CVA risk is material, are excluded from impact figures. The contribution of SFTs in the current CVA risk charge under CRR scope is only requested for information (Panel 2).

⁶ <http://www.eba.europa.eu/documents/10180/15926/List+of+Reporting+Institutions.pdf/065d0833-31de-4b71-9808-ee83821c9251>

- Each time a calculation of the hypothetical CVA risk charge is requested, the calculated CVA VaR and Stressed VaR should be, for banks applying the Advanced method, approximated as the sum of:
 - the most recent CVA VaR as of 31 December 2016 multiplied by the multiplier applied to the CVA VaR.
 - and the most recent CVA Stressed VaR as of 31 December 2016 multiplied by the multiplier applied to the CVA Stressed VaR.

In particular, no averaging over 60 business days will be required. Instead, the CVA VaR and Stressed VaR will be assumed to be flat over October, November and December 2016 and equal to the values computed as of 31 December 2016.

- Regarding the scope of transactions referred to by 'CRR scope', the EBA is aware of various interpretations regarding the exemptions set out under Article 382(4) in particular concerning transactions with pension funds. As a general rule, institutions should consider under 'CRR scope' the transactions that are currently under the scope of their CVA risk charge under CRR.

2.5 Process

The process will be coordinated by competent authorities (contact with participating institutions). However, data quality checks and data analysis will be performed centrally at the EBA.

Participating institutions may submit their questions on the template or instructions by e-mail to CVA-QIS@eba.europa.eu.

2.6 Timeline

- June 2017 – Publication of template and instructions – Circulation of template to EU institutions by competent authorities
- 14 September 2017 – Deadline for transmission of templates to competent authorities
- 22 September 2017 – Deadline for transmission of templates to EBA
- Week of 25 September 2017 – EBA Analysis team to perform data quality checks. Where needed, resubmission to competent authorities for circulation to EU institutions
- 13 October 2017 - Deadline for transmission of templates to competent authorities
- 20 October 2017 - Deadline for transmission of templates to EBA
- Week of 23 October 2017 - EBA Analysis team to proceed to data analysis, production of graphs and slides

3. Template

3.1 Panel 1 - Bank description

Row	Column	Heading	Description
5	E	Bank name	Please provide the name of the legal entity or head of the group.
6	E	LEI Code	Please provide the Legal Entity Identifier.
7	E	Reporting currency used in template	Please provide the three-character ISO code (e.g. EUR, GBP...).
8	E	Reporting Unit	Please select from the drop-down menu whether the numbers are given in units, thousands or millions.
9	E	Reporting Date	Please indicate 31 December 2016.

3.2 Panel 2 – Current data under CRR

Row	Column	Heading	Description
13	E	Total CET1	Please provide the total CET1 at the reference date as reported in COREP.
14	E	Total own funds requirement under Pillar 1 (in RWA)	Please provide in RWA the total own funds requirement for Pillar 1 at the reference date as reported in COREP.
15	E	Total own funds requirements for CVA risk (in RWA)	Please provide in RWA the total own funds requirement for CVA risk as reported in COREP at the reference date including SFTs if currently required by CA.
16	E	Of which: Total own funds requirement for CVA risk excluding SFTs (in RWA)	Please provide in RWA the total own funds requirements for CVA risk as reported in COREP, excluding SFTs, at the reference date. An approximation of the contribution of SFTs is acceptable.

3.3 Panel 3 – Hypothetical capital requirements (derivatives only)

General

In this Section, institutions are required to submit figures for total notional, CCR EAD, total CCR RWA and total CVA RWA (current CRR framework) with a breakdown of the total CVA RWA according to the Standardised method and the Advanced method (where the institution has the required approvals to use the Advanced method) for the following categories:

- All derivative transactions
- Basel scope – Non-QCCP cleared derivative transactions
- CRR scope – Non-QCCP cleared derivative transactions

Regarding the Basel scope for transactions, institutions shall provide the overall ‘all in’ figures in absolute values and then specify, in percentage terms, the marginal contribution of each of the exempted counterparties as defined according to Article 382(4) of CRR. For this exercise, SFT is not to be considered as part of the ‘Basel scope’ or ‘CRR scope’.

All institutions participating in the exercise shall fill in this panel.

When including an exempted counterparty in the scope of the CVA risk charge, institutions should consider all transactions with exempted counterparties as unhedged, even if they in fact have existing credit derivatives or similar instruments held as of 31 December 2016 that would be recognised as eligible hedges in either the advanced or the standardised methods according to Article 386 of the CRR.

Intragroup transactions

- EBA Q&A 1929 has clarified the scope of the exemption under article 382(4)(b): this should be used to compute the figures in row 30. According to that Q&A, are exempt from CVA charge under Article 382(4)(b)⁷:
 - intragroup transactions with entities established in the EU;
 - intragroup transactions with entities established in a third country where the Commission has adopted an implementing act under Article 13(2) of EU Regulation 648/2012 in respect of that third country⁸;

⁷ For the purposes of this monitoring exercise, the discretion for competent authorities to require the integration of intragroup transactions in the case of adopted national laws requiring the structural separation within a banking book is ignored

⁸ At the date of publication of these instructions, the EBA is not aware of any implementing act having been adopted under Article 13(2) of EMIR, so that the geographical scope of the exemption appears to be limited to the EU

- As for the figures reported in rows 22, 23, 24 and 27, the computations should be based on the institution's intragroup transactions, remaining after consolidation (if any), at the level of the COREP institution submitting the template.

In particular, the contribution of intra-group transactions:

- should be non-zero for COREP institutions that are subsidiaries of a group (or another institution) and have derivative transactions with this group (or other institution);
 - may be equal to zero for COREP institutions that are groups (or institutions without any parent institution), for which intragroup transactions are removed as part of the consolidation process.
- As for the additional impact computations requested in rows 31 to 33, institutions are asked to provide the "hypothetical" impact of the reintegration of intragroup transactions of all entities within the scope of consolidation of the COREP institution submitting the template. For example, if the COREP institution submitting the template is a parent institution P of two subsidiaries A and B. If A has intragroup with P, B has intragroup with P, A and B have intragroup, the impact would be the sum of:

Hypothetical CVA impact = CVA of P with A + CVA of P with B + CVA of A with P + CVA of B with P + CVA of A with B + CVA of B with A

The marginal impact is requested as a % of the figures in row 30 i.e. ratio of hypothetical CVA impact (as calculated above) to row 30 expressed in % in the following scenarios:

- Row 31: Computation of the hypothetical marginal impact, where intragroup transactions between the institution's entities established in the EU or in a third country for which the Commission has adopted an implementing act under Article 13(2) of EU regulation 648/2012 remain exempt (same geographical scope as in row 30, but computation of hypothetical impact)
- Row 32: Computation of the hypothetical marginal impact, where:
 - For institutions having the SSM as competent authority: intragroup transactions between the institution's entities established in the countries participating to the SSM remain exempt
 - Other institutions having a non-SSM authority as competent authority: intragroup transactions between the institution's entities established in a same Member State remain exempt
- Row 33: Computation of the hypothetical marginal impact, where intragroup transactions between the institution's entities established in a same Member State remain exempt.

Panel description

Row	Column	Heading	Description
22	E-I	All derivative transactions	<p>The scope of transactions considered should consist of all derivative transactions at the level of the COREP institution as of 31 December 2016 including:</p> <ul style="list-style-type: none"> - the institution's transactions with EU and non-EU NFCs that are excluded under CRR article 382(4)(a) - the institution's intragroup transactions – remaining after consolidation - at the level of the COREP institution submitting the template. - the institution's transactions with pension funds that are excluded under CRR article 382(4)(c) - the institution's transactions with sovereign counterparties that are excluded under CRR article 382(4)(d). <p>QCCP and non-QCCP cleared transactions should be included.</p>
23	E-I	Of which: OTC derivative transactions	<p>Subset of transactions reported in row 22 corresponding to OTC derivative transactions.</p>
24	E-I	Non-QCCP cleared derivative transactions (Basel scope)	<p>Same as in row 22 but excluding QCCP cleared derivative transactions i.e. transacted directly with a qualified central counterparty.</p> <p>Based on the above scope of transactions and for all the above transactions that would be subject to the advanced method if they were within the scope of the CVA risk charge, the hypothetical own funds requirement for CVA risk computed using the advanced method should be computed as the sum of:</p> <ul style="list-style-type: none"> - the most recent CVA VaR as of 31 December 2016 multiplied by the multiplier applied to the CVA VaR - and the most recent CVA Stressed VaR as of 31 December 2016 multiplied by the multiplier applied to the CVA Stressed VaR <p>The result should be multiplied by 12.5 in order to obtain RWA.</p>
25	E-I	Of which: Marginal contribution of client's transactions - CRR Article 382(3) in % (of Basel scope)	<p>Percentage contribution to Total notional/Total CCR EAD/ Total CCR RWA/CVA risk charge as reported in row 24 of the institution's transactions with clients that are currently excluded under CRR article 382(3)</p>
26	E-I	Of which: Marginal contribution of non-	<p>Percentage contribution to Total notional/Total CCR EAD/ Total CCR RWA/CVA risk charge as reported in row 24 of the</p>

Row	Column	Heading	Description
		financial counterparties - CRR Article 382(4)(a) in % (of Basel scope)	institution's transactions with EU and non-EU NFCs that are currently excluded under CRR article 382(4)(a)
27	E-I	Of which: Marginal contribution of intragroup counterparties - CRR Article 382(4)(b) in % (of Basel scope)	<p>Percentage contribution to Total notional/Total CCR EAD/ Total CCR RWA/CVA risk charge as reported in row 24 of the institution's intragroup transactions that are currently excluded under CRR article 382(4)(b)</p> <p>As specified above, this may be 0% in case the reporting institution is a group established in the EU, for which all intragroup transactions are removed as part of the consolidation process</p>
28	E-I	Of which: Marginal contribution of pension funds counterparties - CRR Article 382(4)(c) in % (of Basel scope)	Percentage contribution to Total notional/Total CCR EAD/ Total CCR RWA/CVA risk charge as reported in row 24 of the institution's transactions with pension funds that are currently excluded under CRR article 382(4)(c)
29	E-I	Of which: Marginal contribution of sovereign counterparties - CRR Article 382(4)(d) in % (of Basel scope)	Percentage contribution to Total notional/Total CCR EAD/ Total CCR RWA/CVA risk charge as reported in row 24 of the institution's transactions with sovereign counterparties that are currently excluded under CRR article 382(4)(d)
30	E-I	Non-QCCP cleared derivative transactions (CRR scope)	<p>The scope of transactions considered should consist of all the institution's derivative transactions as of 31 December 2016 excluding:</p> <ul style="list-style-type: none"> - client's transactions excluded under CRR article 382(3) - the institution's transactions with EU and non-EU NFCs that are excluded under CRR article 382(4)(a) - the institution's intragroup transactions that are excluded under CRR article 382(4)(b), as clarified by EBA Q&A 1929 - the institution's transactions with pension funds that are excluded under CRR article 382(4)(c) - the institution's transactions with sovereign counterparties that are excluded under CRR article 382(4)(d). <p>QCCP cleared derivative transactions are excluded.</p> <p>Based on the above scope of transactions the own funds requirement for CVA risk computed using the advanced method should be computed as the sum of:</p> <ul style="list-style-type: none"> - the most recent CVA VaR as of 31 Decmber 2016 multiplied by the multiplier applied to the CVA VaR - and the most recent CVA Stressed VaR as of 31 December 2016 multiplied by the multiplier applied

Row	Column	Heading	Description
			to the CVA Stressed VaR
			The result should be multiplied by 12.5 in order to obtain RWA.
31	H-I	Intragroup transactions between entities established in the EU are exempt	<p>Hypothetical marginal impact of reintegrating intragroup transactions of all entities within the scope of consolidation of the COREP institution submitting the template, where intragroup transactions between the institution's entities established in the EU or in a third country for which the Commission has adopted an implementing act under Article 13(2) of EU Regulation 648/2012 remain exempt (same geographical scope as in row 30, but computation of hypothetical impact as specified in p.7 and 8 of these instructions)</p> <p>The marginal impact should be expressed as a % of the impact figures in row 30 (e.g. 1% in row 31 would indicate that the CVA risk RWA given in row 30 would increase by 1% in the present scenario)</p>
32	H-I	Intragroup transactions subject to same EU competent authority are exempt	<p>Hypothetical marginal impact of reintegrating intragroup transactions of all entities within the scope of consolidation of the COREP institution submitting the template, where:</p> <ul style="list-style-type: none"> - For institutions having the SSM as competent authority: intragroup transactions between the institution's entities established in the countries participating to the SSM remain exempt - For institutions having a non-SSM authority as competent authority: intragroup transactions between the institution's entities established in a same Member State remain exempt <p>The marginal impact should be expressed as a % of the impact figures in row 30 (e.g. 1% in row 31 would indicate that the CVA risk RWA given in row 30 would increase by 1% in the present scenario)</p>
33	H-I	Intragroup transactions between entities established in a same Member State are exempt	<p>Hypothetical marginal impact of reintegrating intragroup transactions of all entities within the scope of consolidation of the COREP institution submitting the template, where intragroup transactions between the institution's entities established in a same Member State remain exempt</p> <p>The marginal impact should be expressed as a % of the impact figures in row 30 (e.g. 1% in row 31 would indicate that the CVA risk RWA given in row 30 would increase by 1% in the present scenario).</p>