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[10<sup>th</sup> January 2013]

## **J.P. Morgan – feedback to the European Banking Authority (EBA) on the Discussion Paper (DP) on Draft Regulatory Technical Standards (RTSs) on prudent valuation, under article 100 of the draft Capital Requirements Regulation (CRR)**

### **General comments**

J.P. Morgan (JPM) welcomes the opportunity to comment on the EBA's discussion paper, and is supportive of the EBA's high-level aims as expressed in the DP. We also welcome the EBA's focus on the prudent valuation regime and its push for improved tools and methodologies in this area; we believe this will help to bring greater transparency around the valuation approaches adopted by institutions, both to external regulators and to institutions' own senior management. JPM agrees that it is important to have a consistent degree of prudence between institutions and jurisdictions in the way that the prudent valuation regime is applied.

Estimating a prudent value of financial instruments, particularly those that are complex and illiquid, and where available data may be scarce, requires significant judgment and an approach tailored to the individual institutions and positions concerned, taking into account the most relevant data available. The inherent differences between different position types, and of the data available to estimate prudent valuations, mean that no single, standardised methodology will be appropriate in all cases. (For example, different institutions have a different access to markets and trading data, based on the nature of the risk management activity and size of client volumes.) Instead, institutions should have the flexibility to implement the most appropriate methodologies to achieve the required level of prudence, and demonstrate the effectiveness and prudence of the approach. There should therefore also be a strong role for regulators in reviewing and challenging the approaches adopted by individual institutions, taking a risk-based approach and focussing on the types of positions where the potential AVAs are greatest.

So, whilst we agree with the aim of achieving consistency of *outcome*, we do not believe it is practical or desirable in this area to prescribe detailed *methodologies*. In this regard, we feel that some proposals in the paper are overly prescriptive, and the RTSs should allow for greater flexibility in choosing the best methodology to achieve the required levels of prudence. We feel, for example, that excluding the use of consensus service data for less liquid markets would be unhelpful.

We welcome the EBA's statement that it "...recognizes the limits inherent to the use of a level of confidence when sufficient data is not available so judgment-based approach should be applied...". We agree with the EBA that, for more complex and illiquid positions, setting indicative calibration levels (as opposed to a formulaic, back-tested confidence interval) is more appropriate and better reflects the necessary degree of subjectivity in the calculation of prudent valuation. However, the proposed confidence level of 95% implies a degree of accuracy inconsistent with that judgment-based approach for illiquid and / or complex positions.

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For the liquid positions where a more prescriptive and formulaic approach is possible to implement, there is very limited analytical benefit and impact to capital of applying prudent valuation.

The proposal for Testing for Prudence of Valuation has significant limitations: it is very dependent on the availability of good quality data, which as noted above is not the case for products likely to attract greater AVAs.

It is critical that diversification benefits be recognised; especially for large and diversified portfolios, it is not reasonable to assume that every single position will be subject to errors in valuation at the same time and in the same direction. For the diversification methodology, an in-house approach that accounts for the idiosyncrasies of institutions' portfolios should be allowed, subject to regulatory review.

Below, we elaborate on some of these points in more detail, and then go on to provide responses to the specific questions raised in the DP itself.

We would be happy to discuss this response, or any other aspect of the DP or the prudent valuation regime, with the EBA.

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## Key issues

### a. Confidence level (CL):

**The CL should be set as a high-level target benchmark, rather than a prescriptive statistical test, and at a lower level of confidence than that proposed.**

The attempt by the EBA to suggest an overall level of calibration for the prudent valuation regime is sensible, as this should help to ensure at least a minimum level of consistency between institutions.

However, a statistical measure (95% in this proposal) of confidence that the regulatory valuation does not or will not exceed the true realisable value can only be applied with any degree of accuracy to liquid instruments, where there is an abundance of observable data. These instruments are subject to very limited / non-existent valuation uncertainty risk, because bid-offers tend to be modest for liquid positions and large positions are typically subject to concentration adjustments. Therefore, the mechanically strict application of a 95% confidence level to this population of instruments would involve significant costs but little benefit, and would divert resources that would be better spent on the more complex and illiquid ones.

It is also not possible accurately to target a very specific confidence level, particularly at a level as high as 95%, for the more complex and illiquid instruments, where prudent valuation adjustments will be more significant. Many such products do not trade often enough or do not have a sufficient number of consensus points to build anything that resembles a normal distribution. Therefore, the standard deviation calculated on that population will often be statistically meaningless, if applied mechanically to the normal distribution formula. So judgment must be used; for a higher CL, the degree to which the judgment used affects the outcome will be proportionately greater.

Instead, the desirable approach would be that institutions should aim to achieve (and demonstrate) that their prudent valuation has been calibrated at least to an overall 'benchmark' level, approximately equivalent to some level of statistical CL. A target confidence level of 80-85% – approximately one standard deviation for a one-sided tolerance interval – should be considered as the inflexion point, where there is greater certainty that the prudent valuation of the position is realisable, under the current market conditions, at an agreed reporting date, given risk assumptions that are consistent with the fair value pricing. Using this benchmark as calibration for the framework would not imply the same spurious accuracy as the proposed 95% CL.

The proposal explicitly to allow the 'market maker exemption', i.e. to use mid-market pricing where the institution can close out its positions at that level, is welcomed. The point is made in the DP that institutions using this exemption for a given product should be able to demonstrate that the level of uncertainty in the mid-market valuation of the product in question is small – i.e. that liquidity should be evidenced. This is sensible. However, the 95% test is again excessive here; rather, a higher-level benchmark as discussed above would be more appropriate.

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b. Testing for prudence of valuation:

**Testing (effectively backtesting) as proposed in the DP fails the cost-benefit test: it is only really effective for more liquid positions, where sufficient data are available; but these positions will not generate material AVAs. The test as proposed in the Annexes to the DP is flawed (as it includes overnight price moves), and extremely cumbersome to implement operationally. For these reasons, the proposed testing of prudence valuation should be reconsidered.**

As indicated in the discussion paper, testing works better for cases where a sufficient number of actual transactions are available, which is normally only the case for more liquid flow positions where the valuation uncertainty is very small.

In terms of technology and infrastructure, it is an extremely demanding and resource-intensive task, and it would not properly address the main sources of valuation uncertainty, where trade data are from bespoke transactions and not consistently available.

In addition, the Example in Annex 1 to the DP includes overnight price moves in the back-testing process, effectively adding a market risk component to the definition of valuation uncertainty; i.e. it does not account for the fact that market volatility will often incorrectly cause institutions to fail the test.

JPM believes that, given the likely lack of data for the positions with the highest AVAs discussed above, the only effective approach to validating prudent valuation approaches adopted by institutions is for competent authorities to review and challenge these approaches, using documentation provided by those institutions.

c. Diversification benefit:

**Diversification benefit should certainly be allowed under the framework. Since methodologies may reasonably differ between institutions (and indeed some less sophisticated institutions may choose not to apply diversification), institutions should be free to use their own approaches to calculation, subject to regulatory approval.**

Diversification must be included within the framework in order to arrive at an accurate overall AVA amount. In large and diversified portfolios, with both long and short positions, it is not reasonable to assume that every single position will be subject to errors in valuation at the same time and in the same direction. The associated valuation uncertainty will always be partially diversified away.

Diversification should be accounted for in a non-prescriptive way and flexibility should be allowed with respect to the most relevant aggregation level, since the degree of valuation uncertainty at each level will depend on the type of product and market. An in-house approach that accounts for the idiosyncrasies of institutions' portfolios should be allowed, as long as it has been subject to regulatory review and approval. (Regulators should assess the reasonableness of an institution's in-house diversification approach.) In contrast, the example in Annex 4 seems too prescriptive, and suggests that there is a single, optimal and consistent way of improving the computational efficiency across all institutions under different environments. This is not the case.

In respect to AVAs that are not eligible for diversification, it is not clear why Concentration and Illiquidity AVAs would not qualify, especially when analogous sources of uncertainty such as Close-Out Cost and Market Price Uncertainty are eligible for diversification.

d. Reliable data sources – consensus services:

**It is not appropriate to exclude entirely the use of consensus services for illiquid markets, as they form one of the more useful data sources, even for such illiquid positions. However, it is reasonable to expect institutions to exercise care when relying on consensus service data in these markets.**

The paper suggests that a consensus service representing a one-way or highly illiquid market will not be judged to be of 'sufficient quality'. In reality, it is exactly in these types of market that consensus services tend to be the most valuable source, including for fair value purpose. Lacking actual transactions, broker levels or suitable proxies, consensus data should be used as an acceptable basis for the calculation of prudent valuation adjustments.

Whilst data used in consensus services for one-way or highly illiquid markets may be subject to biases or other issues, these would also likely affect internally-generated estimates. Hence, whilst institutions should be encouraged to exercise caution when relying on consensus services in these circumstances, and apply a degree of judgment when calculating AVAs based on such data, a blanket prohibition is not helpful.

e. Account for valuation uncertainty in risk management systems:

**The nature of AVAs does not lend itself to having such adjustments embedded 'systematically' in front office / risk management systems. If this is the intention of the DP, we would not be in favour of the proposal.**

The DP proposes a requirement which states that *institution valuation and risk measurement systems should systematically recognise and account for valuation uncertainty* (paragraph 73). It is not clear exactly what is intended here. If it means that all the different valuation uncertainty adjustments need to be embedded in the institution's front office / risk measurement systems, that would be an extremely complex, possibly unachievable task. It would introduce significant operational risk, effectively asking these front office systems to operate 'two sets of books'.

There is a wide range of valuation uncertainty adjustments, following very distinct calculations and sources of data; 'systematising' all of these consistently is not realistic. Also, particularly for more complex products, the adjustments may also incorporate a high degree of judgment and qualitative input, which simply cannot be 'systematised'. For these reasons valuation uncertainty should be kept outside the risk measurement systems.

f. Close-out costs, Market price uncertainty and Operational risk AVAs:

**Close-out costs and Market price uncertainty AVAs exhibit significant overlap and should either be combined, or more clearly distinguished. The Operational risk AVA overlaps with the Operational risk capital charge, and the EBA should clarify this overlap, particularly under the Basic Indicator and Standardised Approaches.**

Although the DP lists Close-out costs and Market price uncertainty as distinct adjustments, in reality they are analogous and often intertwined in the trading price or bid-offer spread. They all make up the level of uncertainty in the market price, particularly for the complex and illiquid positions where these adjustments tend to be more relevant. Consequently, enforcing a clear-cut distinction between these two AVAs can often lead to double-counting.

As the DP notes, there may be overlap between an institution's Operational risk capital charge and any AVA taken against operational risks. Whilst the degree of overlap will vary between different institutions which have adopted the Advanced Measurement Approach to calculating the Operational risk capital charge, this will not be the case under the Basic Indicator and Standardised Approaches, where the degree of coverage of valuation risks will be identical for all institutions using the approach. We believe these approaches are designed and calibrated to capture the whole enterprise risk, which would therefore include the risk of valuation errors. The EBA should clarify for these latter two approaches the extent to which the relevant risks are covered and should not be duplicated in the AVA.

## EBA Discussion Paper – specific questions

**1. Do you believe that a proportionality threshold should be considered before requiring an institution to assess the prudent value of all fair value positions? If yes, how would you define the threshold? (page 7)**

A threshold should be applied. To gain exemption, an institution should prove that the level of uncertainty embedded in the fair value is relatively small in respect to its capital resources. The EBA could determine a threshold based on a % of the institution's capital base (perhaps at a specified tier). Institutions with estimated AVAs below the threshold would not be required to deduct AVAs from common equity Tier one capital and would be required to assess their AVAs less frequently (e.g. only once a year) than other institutions.

**2. Do you agree that the exit price used as the basis of prudent value does not necessarily need to be based on an instantaneous sale? If yes, provide argument to support your view. (page 8)**

Yes. Particularly for complex products, the concept of instantaneous sale is not the appropriate one to apply. These are transactions that normally take a lot longer to be executed. In these cases at least, a methodology based on instantaneous sale would be artificial, and extremely hard to assess (since it will not occur in the normal course of business). So, necessarily, prudent value will not be based on an instantaneous sale, at least for these products (which will likely form a large proportion of the AVA), where such an approach would not reflect the realistic exit price.

**3. Should a specific time horizon for exit be set when assessing the prudent valuation? If so, how the time horizon should be set (e.g. the same time horizon for calculating Value-at-Risk (VaR), Credit Risk Capital Requirements, etc.), what should it be and how would it feed into the calculating of AVAs? (page 8)**

The applicable time horizon to determine prudent valuation will depend on the instrument type / position, and its complexity. So it is not appropriate to prescribe a time horizon as a general factor for the calculation of prudent value. Institutions should assess the appropriate time horizon where required – e.g. for the estimation of Concentration adjustments. (The comparison with VaR and other capital measures is spurious, since these other calculations are designed to calculate losses over a specified period, the latter which therefore needs to be prescribed, whereas the assessment of prudent value should aim to capture exit price, whatever period that would take in reality.)

**4. Do you support the concept of a specified level of confidence to determine AVAs? If not, why? Are there any AVAs where the use of a specified level of confidence is not appropriate? (page 9)**

No, certainly not in the highly specific way suggested in the DP. See point a. in the **Key issues** section of this response.

The concept of a specified CL is only meaningful and possible to assess statistically for the types of position that are liquid and that have an inherently low level of valuation uncertainty (and hence relatively low AVA associated with them). For complex and illiquid positions, the CL can be very subjective and not statistically measurable. In addition, many products do not trade often enough or do not have a sufficient number of consensus points to build anything that resembles a normal distribution. Therefore, the standard deviation calculated on that population will often be statistically meaningless, if applied mechanically to the normal distribution formula, which means judgment must be used to come to the right result.

Hence, an approximate target level / range of CL should be specified only as a benchmark for high-level calibration of the framework.

**5. If you support a specified level of confidence, do you support the use of a 95% level of confidence? What practical issues might arise or inconsistencies with other parts of the CRR when using this level of confidence? (page 9)**

We do not support the 95% level. See point **b.** in the **Key issues** section of this response. A level of 80-85% (approximately one standard deviation for a one-sided tolerance interval) would be a more appropriate target level, reflecting the indicative inflexion point, where there are strong levels of certainty that prudent value would be the value of the position that is realisable, under current market conditions, at an agreed reporting date, given risk assumptions that are consistent with the fair value pricing. By contrast, a level of 95% would suggest a greater level of accuracy than is achievable in practice, and would merely amplify the effect of estimates and judgments made in arriving at a prudent valuation.

In respect to practical issues that might arise, or inconsistencies with other parts of the CRR, there is no particular reason why the chosen level of CL should correspond to those used in (for example) the capital requirements calculations, as these are attempting to measure very different types of risk.

**6. How prescriptive do you believe the RTS should be around the number of data points that are required to calculate a 95% level of confidence without any more judgemental approach being necessary? (page 9)**

As noted in the answers to **4.** and **5.** above, there should not be a statistically-calculated confidence level prescribed. There should certainly not be a specified number of data points used to calibrate the CL, since the number of data points would be dependent on judgments made around the quality and quantity of the data available for each type of transaction. Since the judgment approach used will utilise available information in order to reach a prudent conclusion it would utilise all available data points and so the question seems redundant.

**7. If you support a specified level of confidence, do you support the explicit allowance of using the level chosen as guidance for a more judgemental approach where data is lacking? (page 9)**

See answers to **4.** and **5.** above, along with points **a.** and **b.** in the **Key issues** section of this response.

Where data is lacking there will be no possible approach other than the use of judgment, which is therefore the preferred approach (as already recognised by the EBA (e.g. in paragraph 17 of the DP)). Given the relative materiality of AVAs for complex and / or illiquid instruments and positions, which will tend to be relatively lacking in available data, such a judgmental approach is preferred for calibration of the framework more generally.

**8. Should any additional possible sources of market prices be listed in the RTS? (page 12)**

We do not feel it is necessary to list additional specific sources within the RTS. The proposed RTS already provides scope ("*including but not limited to*") to add other data sources where appropriate; we agree with this flexibility and do not believe it is necessary to attempt to list these prescriptively.

**9. Should more description be included of how to use the various sources of market prices to obtain a range of plausible prices? (page 12)**

No. A detailed description of the approach should not be required. Institutions should apply appropriate methodologies, to be challenged if and where appropriate by regulators. We believe regulators should ensure that minimum standards for achieving prudent valuation are being met appropriately by each institution.

**10. Should the RTS be more prescriptive on how to use the various alternative methods or sources of data to obtain a range of plausible prices where there is insufficient observable data to determine the range by direct statistical methods? If so how? (page 12)**

No; it is not possible to be prescriptive in these circumstances, which will require judgment to be applied, taking into account the nature of the instruments / positions concerned. Again, institutions should use appropriate methodologies, to be challenged if and where appropriate by regulators.

**11. Are there any other indicators of large market price uncertainty which should be included? (page 13)**

No. The DP text appears comprehensive, and we have not identified other indicators.

**12. Do you believe the approaches set out above are appropriate for each of the adjustments listed in Article 100? If not, what approaches do you believe would be more relevant? (page 16)**

See point f. in the **Key issues** section of this response. Close-out costs and Market price uncertainty could be treated jointly, and the Operational risk charge should not be included in this framework as it duplicates part of the Operational risk capital charge – this should be clarified in the RTS for the non-AMA approaches to the Operational risk capital charge, where the degree of overlap should be common across institutions – see also the response to **13.** below. Finally, Investing and Funding costs are typically included in valuation models as price input parameters and should be treated accordingly for the purpose of calculating AVAs.

The retention of the ‘market-maker exemption’ in the draft CRR, and recognition of this in the DP, is appropriate. But the proposals in the DP attempt to tie this to a specific confidence test, which we believe is too prescriptive.

**13. Are there any other material causes of valuation uncertainty that the RTS should describe an approach for? Or are any of the adjustments listed above not material and should not be included? (page 16)**

We do not believe that there are additional material causes that should be added but have some concerns with certain of the proposed adjustments. For some of the adjustments proposed it is either extremely challenging to assess their materiality, they do not represent a source of valuation uncertainty or the concern should already be captured by a different capital charge process.

- Balance sheet substantiation: It is a form of operational risk and it is not a source of valuation uncertainty. We agree that it is an important source of risk but it should be accounted outside prudent valuation.
- Operational risk: As stated in the document, we believe that it overlaps with the operational risk capital charge. It is important to understand the extent to which the EBA believes it is already fully covered by the specific capital requirement for operational risk, particularly for the Basic Indicator and Standardised approaches, where the requirement is calculated on a top-down basis, and hence individual components are not identifiable. (Our view is that the calibration of the Operational risk capital requirement is designed to capture the whole enterprise risk, which would therefore include valuations errors, just as it covers errors in other functions within an institution.)
- Early termination: Early termination events are primarily driven by client relationship reasons and should not be material to the valuation in the normal course of business, and even less material under stress environments. As a result, this AVA should be considered non-material.
- Future administration cost: We do not believe that this is a meaningful driver of valuation uncertainty. While we agree that it may be an important source of risk, it should be accounted outside prudent valuation.

**14. Do you believe that the testing approach in Annex 2 represents a useful tool to test for prudence of valuation? If not, what weaknesses make it unsuitable? (page 16)**

We do not believe that the approach proposed will provide meaningful results. See point **b.** in the **Key issues** section of this response.

This approach could only be properly implemented for the more liquid, low uncertainty instruments, where the AVAs will be relatively low. As explained previously, even for liquid positions, the proposed approach is flawed, and would fail properly to identify sources of imprudent valuation, as it does not account for the fact that market volatility will often incorrectly cause institutions to fail the test. It would institute a disproportionate use of resources for very little return on measuring prudent valuation. Institutions should have their own methods for assessing the adequacy of their valuation approaches, including prudent valuation, which regulators should assess as and to the extent necessary.

**15. Do you believe that the RTS should be prescriptive with respect to validation techniques? If not, how do you believe that comparable levels of prudence should be ensured for the valuations across institutions? Are there other validation techniques that you believe should be detailed in the RTS? (page 16)**

We believe that the RTS for validation techniques should not be prescriptive – see answer to **14.** above. Level of prudence across institutions should consistently target the indicative level of confidence of 80-85% through methodologies that are regularly validated and approved by the regulator.

**16. Do you support the concept that prudent value can never be greater than fair value including fair value adjustments at both the individual position and the legal entity level? If not, what would be the reason to justify your view? (page 17)**

Generally, yes. It is correct to say that prudent value of an asset should never be greater than its fair value, including fair value adjustments. However, the two can definitely be equal.

**17. Would simple aggregation better reflect your assumptions and practices or would you support the availability of a diversification benefit within the aggregation of position-level AVAs? Please explain the reasons and justification why, providing any evidence available to support your arguments (page 17)**

Allowing for diversification is a sensible approach and should definitely be taken into account. See point **c.** in the **Key issues** section of this response.

In particular, in large portfolios, with both long and short positions, it is not reasonable to assume that every risk across different positions and markets, whether intra-curve, cross-name or cross-asset classes will move adversely together or be subject to errors in valuation at the same time and in the same direction. Risks and the associated valuation uncertainty are partially diversified away.

**18. If you support the availability of diversification benefit, do you support creating a simplified standard approach, an example of which is shown in Annex 4? If you do, do you have alternative suggestions on how this standard approach should be specified? Are the suggested correlations in the example appropriate, if not what other values could be used? (page 17)**

As noted in the answer to **17.** above, it is very important to include diversification benefit, but it should not be stipulated as a prescriptive approach which all institutions have to follow. Different institutions operate under different frameworks for managing their books and portfolios of fair value positions. Regulators should assess the reasonableness of the institution's diversification approach.

It may be possible to specify a simplified standard approach, which those institutions without a credible internally-developed approach to diversification could choose to adopt.

Similarly, where institutions choose not to model diversification (under any approach), they could be permitted to adopt an approach with no diversification benefit assumed.

**19. If you support the availability of diversification benefit, do you support allowing an in-house approach which should be subject to approval by the regulator, an example of which is shown in Annex 4? (page 17)**

An in-house approach, subject to regulatory approval, is certainly the preferred option – see answers to 17. and 18. above.

The example in Annex 4 is too prescriptive, and implies that there is an optimal and consistent way of improving the computational efficiency across all institutions under different environments. In our judgement this is not the case.

**20. Would you agree that offsets against AVAs for overlaps with other Pillar 1 capital requirements should not be permitted? If not, what offsets might be appropriate and under what conditions might they be allowed (e.g. individually assessed by the institution and agreed with the regulator rather than specified in the RTS)? (page 18)**

Offsets should definitely be permitted where AVAs and capital requirements overlap. This would appear to be the case for Operational risk, where the RTS should clarify the position for Basic Indicator and Standardised Approaches to the Pillar 1 capital calculation – see response to 13. above. Where institutions can demonstrate other areas of overlap, offset should also be permitted.

**21. Do you believe the above requirements are appropriate? If not, what other requirements could be necessary and what requirements stated above are considered not to be relevant? (page 20)**

The requirements as laid out are far too prescriptive. They also appear to suggest a degree of ‘systematisation’ which is inappropriate / impossible for a framework which necessarily requires extensive use of judgment and subjective assessment.

For example, paragraph 73 says that *institution valuation and risk measurement systems should systematically recognise and account for valuation uncertainty*. If this means that all the different valuation uncertainty adjustments need to be embedded in the institution’s front office / risk measurement systems, that would be an extremely complex, possibly unachievable task. It would introduce significant operational risk, effectively asking these front office systems to operate ‘two sets of books’.

See point e. in the **Key issues** section of this response.

**22. What would be the sources of costs and benefits of requiring (a) the implementation of a unique AVA methodology and (b) a consistent format for reporting AVA? Do you agree that the benefits of such requirements outweigh the costs associated with them? (page 21)**

In respect to (a), although a unique AVA methodology would ensure comparability between the impacts across different institutions, it would likely over-penalise some and under-penalise others given the high level of disparity between their positions, infrastructure, and depth of franchise in optimizing and exiting risk. Also, as AVAs are allocated to trading desks, this will eventually start impacting Fair Value, and the cost for clients will increase for the products that embed large AVAs. The prudent approach would also price out of the market smaller and less sophisticated institutions that usually have limited same level of resources and access to different markets to exit risk and optimize cost. Equally important, we would encourage EBA to recognise that the highly prescriptive nature of the methodologies is such that the operational cost associated with their implementation is very high, even for banks that already have a solid valuation framework and long tradition of prudent valuation. If enforced as currently set out in the DP, then the benefits in the approach certainly would not outweigh the associated costs.

In terms of (b), consistent reporting, the DP is somewhat unclear, as it refers to 'internal' reporting, and then mentions a common reporting form for regulatory review, which would therefore not be an internal reporting mechanism. We would not object to a common (external) reporting form under COREP being introduced to cover prudent valuation, or the addition of prudent valuation information to an existing COREP template. But regulatory specification of an internal reporting form would not be appropriate, as it would detract from the institution's ability to determine the information required by its own management, thus weakening internal controls.

**23. If you agree with a reporting form being introduced, could you please provide a suggested template? (page 21)**

The UK FSA has a template for reporting on prudent valuation. It has flaws, particularly in the split of information by asset class, and the inclusion of extraneous data such as VaR numbers (which many institutions, particularly those without CAD2 approvals, would struggle to break down by asset class with any accuracy). A simpler and more intuitive version of this form, for example allowing institutions to provide data by desk (rather than asset class), with other modifications to better match the range of AVAs specified in the DP, could provide a reasonable basis for a common form.