The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of
the entire Austrian banking industry, appreciates the possibility to comment on the EBA
Discussion Paper relating to Draft RTS on prudent valuation under Art. 100 CRR and would like to
submit the following position:

General remarks

We generally see a divergence in the regulatory vs the business view, the current paper
underlines this divergence. As we understood the discussion paper the valuation of assets for
regulatory purposes should generally be based on a liquidation view. It is even being discussed
that the value should be based on exit prices based on an instantaneous fire sale scenario. Not
only would this view add enormous volatility to an already very volatile valuation method - the
fair value method, which could be questioned itself if this view is appropriate for regulatory
purposes, but it directly conflicts with the business view, which is a going concern view, not a
liquidation view. From a general point of view we deem this paper - and the underlying draft
CRR, Art 31 and 100 - as decisive for the following question: On which basis should credit
institutions be steered: On a going concern basis or on a liquidation view basis? Or based on
both? Or based on a blended approach as we today deem the approach in risk management to be
a “blended approach”? And if on both: How should the resulting frictions between both views be
handled? Or should credit institutions only be steered on the basis of a liquidation view? What
are the consequences for the financial industry as we steer our business today on a going
concern basis? These - deeply political - issues should be resolved before going in a - already
very detailed - technical discussion, as set out by this paper.

Generally, the RTS shall define more precisely the terms such as ‘fair value’ in relation to IFRS
13. It will be very challenging for financial institution to analyze the interrelations between the
new IFRS 13 and this RTS.
Questionnaire

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?

Answer: Definitely a threshold would be appropriate. The main reason is that the efforts - in the first instance the implementation effort - related to this exercise are deemed to be very high. We would plead for a total neutralisation threshold on a legal entity level as well as on a portfolio level. The view by setting this threshold should be: is this legal entity/portfolio of systemic relevance or not? Only systemic relevant legal entities/portfolios should be included in this exercise. The threshold could be a ratio of fair valued assets to total assets. An example for such a threshold could be found in the Liikanen report (for mandatory separation of proprietary trading). The threshold here could take the Liikanen threshold as a model and modify this threshold accordingly for the purposes of prudent valuation. The view should be the same: Is the FV-portfolio of systemic relevance or not?

Further more we want to underline the following: In Art. 31 CRR it is set out that Art. 100 CRR shall be applied to all assets measured at fair value whereas Art. 100 CRR refers to all fair valued positions (in our understanding assets and liabilities), however it seems that the requirements of Art. 100 CRR are driven by the treatment of „trading book” rather than of other fair valued positions (see No 8 of Art. 100 CRR), whereas the EBA discussion paper refers to trading and banking book assets.

For us it is therefore unclear:
- if liabilities are also addressed by this paper
- if trading and banking book assets are addressed by this paper.

This should be set out clearly.

From our point of view it is questionable to include under AVA following positions:
- AfS portfolio: Besides the fact that it is used mainly for liquidity purposes and hold usually to maturity, it still continues the discussions about the treatment of AfS unrealized gains and losses in own funds. If AfS revaluation will be filtered from own funds finally it would - in our view - make no sense to apply AVA to AfS.
- Hedging derivatives and hedged items in case if fair valued (fair value hedging or cash flow hedging of ‘fair valued’ A/L): It is unclear in relation to Article 30 - treatment of cash flow hedges (the fair value reserves related to gains and losses on cash flow hedges of financial instruments that are not valued at fair value shall not be included in any element of own fund).
- A/L under ‘fair value option’. FVO is usually used instead of hedge-accounting, there are mostly hold to maturity items.

We plead to exclude these items from the AVA application.

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.

Answer: We reject the view that an instantaneous sale should be taken as the basis for calculating the exit price. This seems to be fairly unrealistic - even in a liquidation view. The shorter the time horizon the more volatility is being added to an already volatile fair valuation model. This could end in a kind of “vicious circle”-scenario.
Also IFRS 13 ‘Fair value measurement’ includes the term ‘exit price’. Fair value is defined in this standard as the exit price: ‘The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date’. Without any time horizon, it will be confusing to find the difference.

We plead for an explicit alignment with IFRS 13.

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?

Answer: We plead for time horizons which are compatible with the average holding periods in the regulatory framework for market risk. Furthermore assets which are eligible as collaterals in ECB repo-trades - especially government bonds - should be excluded as there seems no necessity for applying a fire sale scenario as these assets can be taken as collaterals for liquidity any time.

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?

Answer: From our point of view the specified level of confidence seems very high and would add more volatility to the system.

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?

Answer: We see the potential of overlappings/frictions with the calculation of the model reserve, specifically in view of structured derivatives in IFRS.

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?

Answer: A 95% level of confidence does not seem to fit to each and every situation, e.g. for situations of illiquid markets, where no market price is available, this system does not work out.

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?

Answer: N/A

8. Should any additional possible sources of market prices be listed in the RTS?

Answer: The sources should be streamlined with the FV-hierarchy in IFRS.

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

Answer: From our point of view the greater the flexibility the better the system would work.
will not be possible to describe each and every scenario appropriately. For this reason we plead for not being too restrictive/prescriptive in the descriptions.

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?

Answer: From our point of view the greater the flexibility the better the system would work. It will be not be possible to describe each and every scenario appropriately. For this reason we plead for not being too restrictive/prescriptive in the descriptions.

11. Are there any other indicators of large market price uncertainty which should be included?

Answer: No.

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?

Answer: Administrative costs, including close-out costs, should also be taken into account.

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?

Answer: First question: no. Second question: We assume that the reference to operational risk seems to be overlapping with the already existing requirements concerning the calculation of the capital requirement for operational risks. In the OpRisk regime the mentioned instances are already to be covered, at least via the use of external data bases. Also a possible overlapping with the provisioning regime could take place. In any instance double counting should be avoided.

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?

Answer: The main weakness seems to be the very high volatility which would be one of the immediate effects.

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?

Answer: From our point of view the greater the flexibility the better the system would work. It will be not be possible to describe each and every scenario appropriately. For this reason we plead for not being too restrictive/prescriptive in the descriptions.

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?
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.

Answer: In principle we favour the inclusion of diversification benefits. On the other hand we see the additional complexity to the system as a challenge.

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?

Answer: As set out in the answer to Q17 we believe that diversification benefits should be included but - due to the fact of the challenge of complexity - in a simplified way.

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?

Answer: We would support an in-house approach.

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)?

Answer: In any instance double counting should be avoided. Therefore at least an offsetting possibility should be included to avoid this problem.

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?

Answer: We plead for the inclusion of the principle of avoidance of unnecessary administrative and bureaucratic burdens and costs. The system should be as simple as possible, unnecessary complexity should be avoided. Also overlapping and double counting should be avoided.

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?

Answer: First question: As many internal systems would be affected by this new regulation the implementation would be a huge cost driver. On the other hand a fair level playing field has to be established. Having said that the regulator should concentrate on a simple, standardised, consistent and comparable approach. Second question: No.

23. If you agree with a reporting form being introduced, could you please provide a suggested template?

Answer: No. We would deem the creation of a template as the duty of the regulator.
Kindly give our remarks due consideration.

Yours sincerely,

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