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European Banking Authority
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31 January 2019

Standard Chartered response to the European Banking Authority's ('EBA') Consultation on the ITS amending Commission Implementing Regulation EU 2016-2070 on Benchmarking

Dear Sir / Madam,

We welcome the EBA's proposals to enhance the benchmarking exercise by providing clearer instructions of reporting requirements, better data validation and more relevant portfolios for which benchmark values can be calculated.

Specifically, we support the initiatives

- to decrease the amount of data that banks are required to report. However, we recommend removing non-relevant information from existing templates rather than introducing a new one;

- to address excessive granularity that is of little analytical value, such as the proposal to reduce the differentiation by risk type to level-1 LDP portfolios, and we believe that there is room for significant further enhancements of the benchmarking exercise.

In our response, we provide answers to eight of the twelve questions raised in the consultation paper. We would be pleased to discuss the contents of this letter, and related matters, with you or your representatives at your convenience.

We refer the EBA to the technical comments and specific recommendations made in the joint response by the Association of Financial Markets in Europe (AFME) and the International Swaps and Derivatives Association (ISDA), to which we have contributed.

Yours faithfully,

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Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18
The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London EC2V 5DD
Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

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

We support the proposal to significantly reduce the differentiation by risk type for LDP Portfolios, with a separation into counterparty credit risk and credit risk only envisaged for level-1 portfolios and default status splits, and to remove the risk type split altogether for HDP portfolios.

The split by risk type is disproportionately resource-intensive as it creates an additional number of portfolios that require validation and review. At the same time, we believe that the risk type split does not add significant insight, particularly for level 2 splits. Level 2 portfolios tend to be excessively granular and of little analytical value. We therefore expect that the removal of the differentiation by risk type will not lead to the loss of information that is relevant for benchmarking.

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

We welcome the initiative to reduce the amount of data that banks are required to report.

However, we do not believe that the introduction of the new template C105.04 as proposed would reduce the amount of data to be reported by banks, it would just move the data to another template. We therefore recommend streamlining templates 102 and 103 rather than introducing a new template.

Introducing a new template is unlikely to provide any time or effort gain for banks. It will in fact increase the workload as banks will need to produce and review the new template. Data would need to be split whereas currently it is all reported in a single template. Additional complexity arises as data potentially varies over time with additional exposures being added or removed.

It is not clear to us why empty rows need to be submitted. We suggest removing the requirement to report empty rows entirely. Each portfolio has a unique portfolio ID which can be used to compare portfolios across institutions. Adding in empty rows of data in the submission template doesn't appear to serve a purpose.

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

We agree that the current requirement that institutions provide a rating split per country in template C103 and C102 increases the number of portfolios leading to excessive granularity. This has made the completion of the template unnecessarily onerous without adding analytical insight as there are many countries that will share the same model for similar exposures.

Creating a simplified rating split model on template C105 as proposed would not result in losing explanatory information on the variability of benchmarking parameters. Where model calibration and risk parameters are significantly different across countries, then country specific models would be used and with inclusion of the internal model ID and model name fields in the template the relevant splits providing explanatory power would be maintained.

We would find it helpful if the exposure class field was included in template C105.4 even if the model name field already indicates the exposure class.

We do not expect that any data points on C105.04 would involve materially incremental IT costs or other burden.

We would welcome clarification whether templates C200 and C300 need to be calculated and populated for rating/country splits for which there is not any exposure in the current year but where there has been within the previous 5 years.

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

We agree that Specialised Lending should be reported as a separate exposure class rather than be reported as subportfolios of the Large Corporates benchmarking portfolios as in the 2019 benchmarking exercise.

We also agree that the combination of sector and type split of the exposures are sensible components to explain the variability of risk parameters.

Of the options presented in the consultation paper, we would prefer Option 1, the current approach in the CP, which would not require a rating split for specialised lending under the slotting approach. We are not sure whether the additional split proposed in Option 2 would enhance the additional explanatory power of the exercise.

Question 5 for consultation: Do you expect that the LDP sub-portfolio characterised by eligible covered bods will cover a material share of exposure? Do you expect that the separation of these exposures can contribute to explain RWA variability?

We do not believe that the proposed separation would contribute to the explanation of RWA variability as, for Standard Chartered Bank, the LDP sub-portfolio characterized by eligible covered bonds would not cover a material share of exposure. As of Q3 2018, our covered bonds represented only 4% of our IRB institution’s exposure.

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

We do not think that the proposed alternative portfolio split, a subdivision of a considered portfolio into homogenous portfolios in terms of collateralisation, would be very useful. Adding this split to C103 would only provide additional explanatory power for Corporate SMEs as this asset class contains a variety of collateral types. For the other asset classes, the overwhelming majority of the collateral is in a single type e.g. retail secured by real estate, and real estate collateral.

We assume this to be the case for most other institutions. It is likely that the additional split of data would bring about further validation and data issues increasing the reporting burden.

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

We think that the proposed more granular NACE Code breakdown may provide more explanations of RWA variability.

We do not consider the current split using only NACE code F to be sufficient. The current (construction only) breakdown does not represent a significant part of the exposure class. In last year's exercise, construction firms formed only a small part of the total exposures for non-SME corporates.

We agree that choosing a subset list at the sector level as proposed will reduce the burden of data collection.

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

Yes, we believe that the additional granularity at higher LTV values will provide better insights into where the RWA has more potential to vary between institutions.

As the low (<50%) LTV bands have relatively low RWAs, combining them and adding more granularity for higher LTVs that have a higher proportion of the RWAs may provide additional explanation for RWA variability.

The EBA may want to consider aligning the LTV buckets to the one proposed in the new Basel III framework.