ABI Associazione Bancaria Italiana

ABI's comments on the EBA Consultation Paper *"Draft Regulatory Technical Standards on mapping of derivative transactions to risk categories, on supervisory delta formula for interest rate options and on determination of long or short positions in the Standardised Approach for Counterparty Credit Risk under Article 277(5) and Article 279a(3) of proposed amended Regulation (EU) No 575/2013 (Capital Requirements Regulation 2 - CRR2)"*

August 2019

POSITION PAPER

Preliminary Remarks

The Italian Banking Association (ABI) welcomes the opportunity to comment on the EBA Consultation Paper "*Draft Regulatory Technical Standards on mapping of derivative transactions to risk categories, on supervisory delta formula for interest rate options and on determination of long or short positions in the Standardised Approach for Counterparty Credit Risk under Article 277(5) and Article 279a(3) of proposed amended Regulation (EU) No 575/2013 (Capital Requirements Regulation 2 - CRR2)"* (hereafter, "the draft RTS").

ABI remarks are presented below in response to the questions posed by the EBA in the consultation paper.

General approach for mapping transactions to risk categories

Q1. Which one of the two options do you think is more appropriate as thresholds in Article 3(b) steps (v) and (vii) (option 1a: Y%=50% and Z%=25%, or option 1b: Y%=60% and Z%=30%)? Please provide the rationale for the chosen option.

In ABI's opinion, for the purpose of identifying the most material risk driver for transactions with more than one material risk driver - according to Article 3(b) steps (v) and (vii) of the draft RTS - banks should be free to choose between option 1a and option 1b. Indeed, whether option 1a or 1b leads to more consistent results depend on a bank's portfolio instruments and strategies.

In order to avoid the risk of cherry-picking, the RTS could state that a bank should apply the chosen option consistently across the whole portfolio and keep it constant over a certain period.

Q2. What are your views about the general quantitative approach methodology, which hinges on FRTB SA sensitivities? Please provide examples of cases where computing FRTB SA sensitivities might raise some issues.

Concerns arise since, in most cases, FRTB sensitivities will only be available for the trading book instruments, whereas the scope of the counterparty credit risk is broader, covering banking book instruments as well.

It is worth noting that, according to the draft RTS, only institutions meeting the conditions set out in Article 94(1) or Article 325a(1) of the CRR (i.e. not required to perform calculations under the alternative standardised approach for market risk)

might benefit from the approach outlined in paragraph 2 of Article 3 (Option 2). Banks not in-scope of Article 3(2) seem instead to have only two options with respect to the treatment of banking book instruments with more than one material risk driver: either to compute FRTB sensitivities or to consider all identified risk drivers to be material (as per Article 3(1)(a) of the draft RTS).

These two options would imply operational burden (to compute FRTB sensitivities solely for the purpose of the SA-CCR calculation) or consideration of not genuinely material risk drivers.

In ABI's opinion all institutions should be given the possibility to conduct the quantitative assessment according to Article 3(1)(b) using internal sensitivities or to choose the method set out in Article 3(2) of the draft RTS (materiality assessment using SA-CCR add-ons). These possibilities should be granted at least with regard to banking book instruments.

To ensure that the vast majority of transactions are captured by the qualitative approach, the following part of article 1 (b): "where the currency of the underlying of the transaction is the same as the settlement currency of the transaction" should be removed, since the FX risk concerned here is not material.

Q3. Do you have any views on the appropriateness, for smaller institutions, of the alternative SA CCR add-ons approach (Article 3(2)) in overcoming the issues (if any) raised by the general FRTB SA sensitivities approach?

In ABI's opinion it is important, also in accordance with the application of the proportionality principle, that an approach be available for banks that do not compute sensitivities.

Supervisory delta formula for interest rate risk category

Q4. Do you think the approach outlined here should be applied at currency level (option 3a) or transaction level (option 3b)?

In ABI's opinion the lambda should be applied at the transaction level, in line with the proposed option 3b of Article 4 of the draft RTS.

It could be worth clarifying that "transaction" is to be intended as deal and not as type of instruments.

For banks that for internal models (IMM) use a unique lambda per currency, calibration of the shift at currency level should be allowed to increase the consistency between IMM and SA-CCR methodologies.

Q5. Which one of the three options (option 4a: 1 bp, option 4b: 0.1% or option 4c: 1%) do you think is more appropriate as a threshold? Please provide the rationale for the chosen option.

Even though setting lambda as low as possible (1bp) might seem at first sight to minimize distortions, quantitative assessment performed by banks shows that actual results depend on the features of a bank's instruments and portfolios (e.g. well-hedged vs directional portfolios) and that in some cases a higher threshold could be preferable.

Therefore, in ABI's opinion it would be worth that the EBA assessed the impact of the different thresholds on real portfolios before setting the final threshold. The industry remains available to contribute to such exercise.

Q6. Please provide examples of cases where the possibility to set the shift λ according to the prevalent market conditions (option 4) might:

- **provide some benefits**
- **raise some concerns**

(No response provided).

Q7. Do you consider necessary an adjustment to the supervisory volatility parameter σ as defined in Article 5? In the case an adjustment is considered necessary, how should it be carried out?

ABI agrees that an adjustment to the supervisory volatility parameter σ is needed.

In principle, a specific adjustment should be determined for each transaction. Anyway, ABI is concerned that this would further raise the complexity in the calculation of the supervisory delta. In ABI's opinion a solution implying a lower operational challenge for banks would be preferable.

All in all, the fixed 50% supervisory volatility proposed by the EBA seems to represent a good compromise and therefore ABI agrees with EBA proposal set in Article 5 of the draft RTS.

Determination of long and short position in a material risk driver

Q8. Do you think the specified method for determining whether a transaction is a long or short position in a material risk driver is adequate? If not, please provide an explanation.

ABI considers the approach proposed in Article 6 of the draft RTS as adequate. Using sensitivities – as per draft Article 6 (a) - seems reasonable and sound; analysis

performed by banks on real portfolios shows that the outcomes of this approach are consistent.

ABI also welcomes the provision of alternative solutions for banks not required to compute FRTB sensitivities, as per draft Article 6 (b).