

POSITION PAPER N° 43

AIFIRM-ASSIOM FOREX JOINTLY COMMISSION

**WORKING GROUP ON THE
FUNDAMENTAL REVIEW OF THE TRADING BOOK (FRTB)**

**Response to the EBA Consultation on
Draft Implementing Technical Standards
Amending Regulation (EU) 2021/453
with regard to the specific reporting
requirements for market risk**

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INTRODUCTION

On 21 March 2023, European Banking Authority (EBA) launched a [public Consultation on its draft Implementing Technical Standards](#) (ITS) amending the ITS on specific reporting requirements on market risks (FRTB reporting), aiming at providing Supervisors with the necessary tools to monitor these risks.

The Consultation Paper also illustrates a set of possible amendments to the ITS on supervisory reporting, mainly reflecting the trading book boundary framework. Such amendments are, in principle, relevant for all institutions. Following the analysis of the responses, the EBA will finalize the draft amending ITS and submit them to the European Commission for adoption. Furthermore, the Consultation Paper expands the reporting on the FRTB approaches to the calculation of Own Funds Requirements (OFR) for market risks: hence, the institutions should face a rather challenging implementations to comply with such regulatory requirements.

The Position Paper "FRTB - Response to EBA Consultation on Draft Implementing Technical Standards Amending [Regulation \(EU\) 2021/453](#) with regard to the specific reporting requirements for market risk" (hereinafter the "Position Paper") aims to provide some feedbacks about the topics raised by the competent authority, with a specific focus on the Alternative Standardised Approach (A-SA).

1.1 Fundamental Review of the Trading Book

In June 2019, the publication of the [Regulation \(EU\) 2019/876](#) ('CRR2') in the Official Journal of the European Union amended the previous Regulation (EU) No 575/2013 ('CRR') and introduced the Fundamental Review of the Trading Book (FRTB), developed by the Basel Committee on Banking Supervision (BCBS), in the EU prudential framework. Even if the new regulation is not yet binding in terms of own funds requirements, it has been implemented as reporting requirement, setting the starting point for the roadmap leading to the full implementation of FRTB in the EU.

As specified by Article 430b of CRR, details on the reporting on the own funds requirements calculated in accordance with the FRTB are in charge of the European Banking Authority (EBA). In order to fulfil this mandate, the EBA published the first Implementing Technical Standards on specific reporting requirements for market risk (or 'ITS on FRTB reporting') in 2020. These ITS required institutions to activate the reporting of information on the size of their trading book and the volume of their business subject to market risk, as well as on the own funds requirements calculated on the basis of the Alternative Standardized Approach for market risk (A-SA), starting from the end of 2021.

1.2 EBA consultation

With the approach of the full implementation of the FRTB in the European context, in order to support the institutions in their implementations, in March 2023 EBA published a consultation paper setting out proposals for the expansion of the FRTB reporting framework. These proposals complement the existing reporting requirements with a set of templates aimed at capturing details on instruments and positions in scope for both the A-SA and the Alternative Internal Model Approach (A-IMA). Since the A-SA represents a fallback-approach for calculating own funds requirements for A-IMA desks, institutions will also have to report details on the A-SA own funds requirements for their A-IMA desks.

Besides amendments to the existing FRTB reporting, the consultation paper also sets out some concrete, first proposals regarding amendments to [Regulation \(EU\) 2021/451](#) (ITS on Supervisory Reporting), related to the introduction of the FRTB in the EU. The most noteworthy of those proposals is a template for reporting information on reclassifications of positions between the regulatory books (MOV template).

Concerning the consultation paper, the EBA requires institutions to provide feedback on the proposals by the 21st of June 2023. This deadline would allow the authority to conduct proper analysis on the responses before the finalization of the draft amending the ITS and their submission to the European Commission for adoption. The entry into force of the amended ITS is expected for the second half of 2024, targeting an application in Q3 2024. Depending on the official date of adoption, institutions are given approximately a year to implement the requirements.

The amendments to the Implementing Technical Standard are considered one of the key deliverables of the roadmap leading to the full implementation of the new prudential treatment of market risk. Considering the relevance of these topics within the revisited framework to compute own funds requirements, the jointly commission AIFIRM – ASSIOM FOREX deems necessary to actively participate to the Consultation phase proposed by EBA, providing feedbacks on the aforementioned topics.

In particular, since at European Level most of the institutions are oriented in apply the Standardized Approach for the capitalization of market risk in the FRTB framework and also the participants of this Working Group, the Position Paper is mainly focused on questions related to the A-SA and governance topics, as better detailed in the following paragraphs¹.

Overall A-SA reporting

The information included in the templates capturing the OFR and other information calculated on the basis of the A-SA will be reported both by institutions exclusively applying the A-SA and institutions that have obtained the permission to apply the A-IMA at least to some of their positions of the trading book.

The OFR calculated based on the A-SA are summarized in template C 91.00. This template remains unchanged in terms of the type of information requested compared to the version already in use. However, a breakdown by off-setting group is being added, as well as an indication of the scope of positions covered by the template. In addition, the proposal presented foresees the addition of twelve templates dedicated to a specific type of risk² or OFR calculated based on the A-SA. The templates reserved for reporting information on the OFR calculated on the basis of the sensitivities-based method (SBM) closely follow, in their design, the process of calculating own funds requirements. Information is requested on core steps and interim results of the calculation process.

Similar templates are also required for the reporting of the Residual Risk Add-On (RRAO) and the Default Risk Charge (DRC). In particular, for the latter, there are three different templates for capturing the instruments subject to default risk, and their associated OFR: One for non-securitizations, one for securitizations not included in (outside) the Alternative Correlation Trading Portfolio (ACTP) and one for instruments in the ACTP.

Reporting of P&L information

Institutions applying internal models are asked to calculate different types of (regulatory) profit and loss (P&L) figures to their supervisors in the context of back-testing requirements. No comparable regulatory or reporting requirement has been in place so far for institution exclusively using the standardised approach. However, the future A-SA, with its main component, the sensitivities-based method, is based on risk sensitivities and strongly resembles a market risk model.

¹ See Questions 3, 5, 6, and 7 as detailed in the Section below "*JC'S response to the EBA Consultation*"

² There is one template for each broad category of risk, apart from foreign exchange risk). This is due to the requirements specified in CRR, which foresees two different rules for the identification of the relevant buckets, one covering delta / curvature risk, the other one capturing vega risk.

Against this background, the proposal presented in this consultation paper includes a template for collecting data on the economic P&L, both from institutions applying the A-SA and the A-IMA. As all the other information presented in this proposal, the P&L data would be reported with a quarterly frequency. Institutions are asked to provide the P&L for every business day of the quarter.

Furthermore, institutions are asked to report the total economic profits and losses generated by all their activities subject to market risk, and to attribute or allocate those economic P&L to the risk classes of the sensitivities-based method, to the extent possible.

Reporting of information on the reclassification of positions between trading book and non-trading book

Besides the A-SA and the A-IMA, the CRR II also introduced the revised framework for allocating positions to the trading book and banking book. Since reclassifications are expected to be a rare occurrence and should be subject to close supervisory scrutiny, the proposal presented in the consultation paper includes a template capturing the reclassification of instruments between books.

The template aims to provide the supervisors with all information about reclassifications relevant as of the reference date. Its scope does not only include any reclassifications in the reference period (three months period ending with the reference date), but also reclassifications that took place in preceding reporting periods, to the extent they either still attract the OFR for the reclassification as of the reference date or ceased to be subject to own funds requirements during the reference period because of a decision by the competent authority.

Trading Book Boundary

In addition to monitoring reallocations between the two regulatory books, supervisors also identified the need to monitor the boundary between the two regulatory books. For the purposes of monitoring the boundary, the EBA is considering the possibility of introducing a template (or templates) that capture the composition of the banking and trading books. Therefore, institutions are required to provide some feedbacks on the topics should be covered by such reporting template.

1.3 AIFIRM - ASSIOM FOREX Commission

Such Position Paper has been drafted by FRTB Working Group of the Jointly Commission AIFIRM - ASSIOM FOREX (hereinafter the "JC"), composed by stakeholders involved in both Risk Management and Front Office activities of the main Italian institutions.

In particular, the JC has among its goals and strengths the possibility to take advantage of the synergies that exist between the Business Function (i.e., Finance Desk) which actively manages trading activities in financial instruments on behalf of the Institute and of customers and the Control Function (i.e., Risk Management) involved in controlling the risks generated by this activity and to carry out a validation activity of the related models.

Within the JC, to each Working Group, such as the FRTB Working Group, investigates specific topics that are significant for financial service industry from risk both management and trading side through operational meetings and the relevant outcome of the analysis are progressively formalized by the Captains, selected within the Working Group, in appropriate deliverables (e.g., position papers, articles, responses to Authorities' consultations).

Regarding the FRTB Working Group, the participants have investigated the EBA Consultation Paper in order to reply to the consultation with particular regard to the questions related to the Standardized Approach (A-SA)

as well as governance topics. Moreover, this Position Paper includes the aforementioned answers, and it also may be useful for Italian intermediaries to individually reply to the EBA consultation.

JC'S RESPONSE TO THE EBA CONSULTATION

Question 1 - Offsetting group-based reporting

- A) Did you identify any issues regarding the implementation and use of the offsetting group concept of Article 325b CRR in the context of these ITS?
- B) Are instructions regarding the reporting by offsetting group clear? If you identify any issues, please include suggestions how to rectify them.

In relation to the level of detail provided in the draft ITS regarding the diversification of different positions under offsetting groups, in accordance with Article 325b of the CRR, it would be beneficial if the EBA clarifies whether the information pertaining to each individual entity, whose positions are not eligible for netting against the positions of any other group entity, should be referenced in other regulatory template (e.g., template C 06.02). Otherwise, we see a potential information gap, as the offsetting group naming – which appears to be left open to banks' discretion –, may lose significance if not read together with the legal entities that are comprised within.

Moreover, we would appreciate further clarifications from EBA in relation to how the reporting should be done when a group has a partially authorised netting perimeter. We are assuming that the authorised perimeter should be provided as sole offsetting group, and that the following unauthorised entities should be reported as single offsetting groups – i.e., one offsetting group per single entity as they are most likely not authorised to net with any other entity of the group –, together with an aggregate template for the group as the sum of each single offsetting group.

Should this be the case, the requirement to report at offsetting group level may add some reporting burden that is in our view against the original purpose of the CRR. Let us consider a group that comprises two offsetting groups: offsetting group 1 with significant trading activity in accordance with art. 94(1) of CRR, and offsetting group 2, with little to no trading book business.

In this example the group level – i.e., the sum of the two offsetting groups – needs to submit the reporting templates. So, it does the offsetting group 1, which has material trading activity as per art. 94(1). However, what remains unclear is whether the offsetting group 2 should as well. This last offsetting group is below the thresholds of art. 94(1) and, even though it contributes to some extent to the consolidated entity figures, it would be disproportionate to have to submit the templates at the required level of detail for this offsetting group as well. Notice that this offsetting group on an individual basis would not have the obligation to comply with the reporting requirements.

In our view, the EBA should consider some materiality thresholds at single offsetting group level in order to avoid reporting for entities or offsetting groups without material trading book activity: in other terms, the whole set of templates specified in the Consultation Paper might be filled provided that the materiality thresholds specified by C90.00 are exceeded. Following the example above, this would imply reporting at group and offsetting group 1 levels only. Being the offsetting group 2 considered within the consolidated group reporting, without requiring a stand-alone reporting for it. We therefore believe that the aforementioned two reports would be sufficient for EBA's monitoring purposes. Otherwise, the regulatory burden is further increased for no additional value added from a reporting standpoint.

Question 3 - Comments on the overall A-SA reporting

A) Did you identify any issues regarding the representation of A-SA (policy) framework in the reporting templates?

B) Are

- the scope of application of the requirement to report the different templates,
- the scope of positions/instruments/profits and losses etc. included in the scope of every template,
- the template itself and
- the instructions

clear? If you identify any issues, please clearly specify the affected templates and instructions, and include suggestions how to rectify the issues.

In analysing the representation of the A-SA (policy) framework in the reporting templates, there have identified several concerns: in our opinion the requests outlined in the ITS impose a significant burden, appear disproportionate compared to the intended benefits.

The level of data granularity required, together with the increase in the number of templates with respect to the current reporting framework. All this implies significant interventions in existing processes that are not necessarily covered by current calculation frameworks

In short, the number of templates required, together with the notorious amount of data-points to be filled in in each, adds a significant cost that one may question whether it is offset by the benefits, adding a significant net regulatory burden on banks.

Question 5 - Profit and loss data

The objective of this template is to obtain (economic) profit and loss values, that can be compared to the own funds requirements calculated on the basis of the FRTB approaches, i.e., which are, at least to some extent, conceptually compatible with the latter. Against this background, and as explained above, the instructions specify only certain 'minimum requirements' regarding the profit and loss data to be reported. Beyond those minimum requirements, institutions are free to make their own methodological choices.

Does this approach work for you? Or do you need any further, or different, guidance regarding the elements of the P&L and the scope of the positions to be covered by that P&L? Which additional specifications could facilitate your compliance with this reporting requirement? Which general methodology would you envisage to allocate P&L to the risk classes of the sensitivities-based method?

The compilation and management of the Reporting of P&L information, particularly in relation to offsetting groups, present a significant increase in effort and the requirement to provide daily P&L data on each risk factor appears to be excessively burdensome, especially considering that daily data is not useful for the EBA in terms of compared to the own funds requirements calculated on the basis of the FRTB approaches. There are also challenges in clustering P&L within different risk factors.

Should we assume that the purpose of the EBA is to somehow use the P&L together with the relative sensitivity values in order to fine tune the calibration of the model from these data or analyse other sort of effects, please note that the sensitivities are referred to a portfolio as of the end of quarter, while the daily P&Ls might have been generated from an entirely different portfolio, due to the high turnover that this kind of business has.

Additionally, there may be necessary further clarification regarding the field 0025, specifically whether it is optional or should be populated in each row.

In addition, given that Article 105(3) of the CRR of the current legislation provides that the data concerning the losses and gains of all the positions placed in the trading book are available to institutions, the compilation of the template "C99.00 MKR PL" would result challenging in light of the greater level of detail with which such recorded information must be represented. It should be noted that the complexity is greater for institutions that use the Standardized Approach (A-SA).

Following this premise and in order to correctly represent the information requested, the following significant concerns are listed:

- Profits and losses not attributable to market risk: Since P&L can arise from arbitrages, bid-ask spreads, and commissions, it is questioned whether these should be included in the C99.00 template. If the answer is affirmative, it is asked whether they should be entered in the "Total" column as a complement to the P&L to which a risk factor has been assigned.
- Intraday P&L: Since the representation of gains and losses for each business day of the reference quarter is required, the question arises whether the P&L of intraday deals should also be represented.
- An additional clarification concerns the compatibility between daily P&L and the market risk requirement calculated based on the end-of-quarter snapshot. With regard to this point, it is wondered whether the interpretation for which information regarding profits and losses on the closing positions of each business day is required, which could in fact differ from the regulatory picture at the end of the quarter, is correct.
- The last additional specification concerns the completion of the "Comments and explanations" field. In regard to this item, it is asked in which cases this field should be filled out and whether the frequency should be daily.

Question 6 - Reporting on reclassifications between books

- A. Did you identify any issues regarding the representation of the prudential framework for reclassifications and the associated own funds requirement in the reporting template?
- B. Is the scope of application of the reporting requirement, the scope of transactions to be reported in the template, the template itself and the instructions clear? If you identify any issues, please include suggestions how to rectify them.

With regard to the provisions relating to the reclassification of instruments, the institutions, by transposing the non-action Letter of 27 February 2023, will standardize their entry into force on 1 January 2025, aligning it with the entry into force of the FRTB regulation. It is a common opinion that the non-action Letter was used to replace the opening of a process dedicated to updating the legislation, reducing its publication times. It should be specified, however, that this interpretation does not yet appear to be supported in terms of primary legislation at Community level.

Since the reclassification of a position is precisely regulated by Article 104a, and the guidelines for determining the boundary between the trading book and banking book are clearly defined by the regulations, it is hypothesized that the use of the MOV template should be limited to marginal circumstances.

However, the question arises as to whether the template should also be used in cases where an instrument effectively belongs to the trading book, and it is impossible to calculate the requirement using the reference regulations of the trading book. For example, let us consider the treatment of investment funds (OICR).

From a regulatory perspective, such instruments are subject to strict guidelines when information about their nature or market data is not available. Specifically, for investment funds where an institution is unable to apply the Look-Through Approach (LTA) or does not have the related mandate, they must be treated as part of the Banking Book, despite the fact that they are trading instruments. With regard to this case study, as well as for any similar case studies, it is wondered if there is a need to compile the MOV template.

Question 7 – Reporting on the boundary between trading and banking book

- A. With regard to the data to be provided in such a template, which measures (book value, notional value, market value, other measure) do you deem most appropriate for the monitoring of the boundary between the books? Which measures do you use or plan to use for your monitoring of the allocation between the two books and can you therefore provide, considering possible breakdowns by instrument type or element of the boundary framework (as per Article 104 of the draft CRR3), accounting treatment and allocation to regulatory books? Which breakdowns do you monitor internally, and are there any constraints regarding the use of certain metrics for certain breakdowns?
- B. Which benefits and challenges do you foresee as regards this reporting? Which issues should be taken into account or addressed, to maximize the benefit and reduce the cost of compliance with this particular reporting requirement?

In terms of the data to be provided in the template, we deem market value as the most appropriate measure for monitoring the boundary between the books.

Regarding the current monitoring of the boundary, we assume that individual policies within banks should govern the allocation of each deal to the trading (TB) or banking book (BB) based on the established boundary framework. Concerning the existing boundary supervision, in our view no additional templates are necessary, as they would only result in resource and time expenditure for information already produced.

Furthermore, with the amendments introduced by CRRII and subsequently with the prescriptions provided in CRRIII, the elements on the basis of which institutions will have to redraw their internal policies have been clearly provided to determine which instruments should belong to the trading book and which to the banking book. Currently, therefore, since the reference regulations for the boundary are already comprehensive and stringent, especially when read in conjunction with reclassification issues, the introduction of an additional template dedicated to the boundary between accounting books would not be seen as a benefit for institutions.

Question 9 – Cost of compliance with the reporting requirements

Is or are there any element(s) of this proposal for new and amended reporting requirements that you expect to trigger a particularly high, or in your view disproportionate, effort or cost of compliance? If yes, please

- specify which element(s) of the proposal trigger(s) that particularly high cost of compliance,
- explain the nature/source of the cost (i.e., explain what makes it costly to comply with this particular element of the proposal) and specify whether the cost arises as part of the implementation, or as part of the on-going compliance with the reporting requirements,
- offer suggestions on alternative ways to achieve the same/a similar result with lower cost of compliance for you.

As previously addressed, the proposal for new and amended reporting requirements raises concerns regarding the disproportionate effort and cost of compliance it may entail, not offset by the benefits it may bring to EBA in terms of monitoring of the measures. Namely, the considerable number of reporting templates, the quantity of data-points required in each – some of which are by products of the calculation, some of which require further methodological developments to be calculated –, especially when considering smaller trading books, is deemed excessive and not proportionate to the benefits. The extensive amount of detailed information requested, such as to provide daily P&L data for each offsetting group, would result in an excessive burden.

As already stated above, the requirement to report at offsetting group level can in some cases result in having to report the trading book activity at individual legal entity level where part a group, even when these entities have a small or negligible trading book. This requirement implies that in a group formed of several entities, where some of which are not authorised to offset positions, the reporting obligation for the latter is equivalent to having to report at individual level. Notice that in the extreme of cases this implies having to report even when the only exposure might arise as a result of foreign exchange risk in the banking book, without no trading book activity.

In our view, a comprehensive revisitation of the regulatory requirements is recommended to achieve a more balanced and feasible approach that gives answer the intended objectives while containing the regulatory burden.

The EBA should aim at finding a balance between compliance requirements and operational feasibility for banks. It is paramount to ensure that the requested amendments to the reporting requirements are proportionate and do not create an excessive net regulatory burden. Additionally, the level of detail and granularity associated with certain monitoring aspects may not be relevant for FRTB reporting purposes, as this information is already captured in other financial reports.

Our suggestion would be that of diminishing the amount of reporting requirements by tackling the following:

1. **Offsetting group reporting requirements:** This in our view is relevant only if the offsetting group itself has material trading book or foreign exchange activity, otherwise it does not. We strongly recommend EBA considering reporting only at individual and/or (sub-)consolidated level, if applicable. In case the offsetting group requirement is deemed unmovable, we recommend adding some thresholds on reporting requirements at offsetting level – e.g., in line with those of the 94(1) or 325a(1) of CRR2 –. This would, at least, avoid having to report for offsetting groups that contribute little to nothing in terms of consolidated requirement.
2. **Templates required:** Although we realise that EBA needs to have certain insights into the inputs and intermediate steps of the OFR calculation, we retain this number of template and datapoints too extensive as to justify the benefit that EBA will obtain from having them.

All in all, we urge EBA to reconsider the requirements described in this draft ITS.