Brussels, 13th February 2020

EACB key issues on EBA amendments to ITS on benchmarking of internal models (EBA/CP/2019/15)

The EACB welcomes the opportunity to comment on the EBA amendments to the ITS on benchmarking of internal models.

We appreciate the fact that the EBA has decided to maintain an open dialogue with the industry on defining a suitable approach to integrate IFRS 9 models in the overall benchmarking exercise.

Process for a full Benchmarking

We would also encourage EBA to take full consideration of what it indicated in its roadmap for IFRS 9 deliverables (July 2019), i.e. that: "*the process for a full benchmarking exercise is quite a lengthy one, taking generally 3 years, starting with the design of the template for data collection, taking in the integration of the exercise into the legal framework and ending with the publication of the horizontal report.*"

In this respect, we would stress the need to avoid rushing in integrating IFRS 9 templates if there are still elements on which more refinement is needed.

In particular, while the EBA indicates that the use of qualitative information for the exercise would be part of the next phase of the project (see para. 6 and 41 CP), it would be useful to consult also on of what kind of qualitative information the EBA would aim to collect, and what kind of remittance process the EBA would envisage (as we understand this information would be somewhat distinct from the ITS templates). In general, the qualitative assessment seems still not necessary at this point. We would not see as appropriate the development of qualitative templates. Since assessments must be provided on a group level, and there may be different business models within a group, the relevance of the information could be difficult to put in context. Some members indicated that the benchmarking exercise from October 2019 has shown such shortcomings. If qualitative assessments were to be required it is essential that further information on the templates and on the benchmarking process itself is provided.

Design of the ITS

We broadly agree with the staggered approach focusing on the PD of low default portfolios to begin with and to move towards including other portfolios and LGD and EAD over a gradual path and discussing with the industry (para. 8 CP).

We believe that the scope and relative instructions of the benchmark exercise should be more precise. Some members for instance, indicated that their LDP portfolio would consist of different type of exposures (e.g. loans and bonds) which follow different ECL estimations. For example, it could be that loans have own internal IFRS 9 ECL models while bonds rely on an external provider

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tool. In such a case, the ECL calculation are clearly quite different thus making it difficult to combine the figures for the quantitative templates, or understand them after (for supervisors). It should be ensured that such cases are appropriately reflected, with clear solutions, in the templates.

Furthermore, we would appreciate if EBA could more precisely frame the overall goal of including IFRS 9 in the benchmarking exercise.

We understand the supervisory aim to gather information on possible variability of outcomes in implementing IFRS 9, however it should be clearly indicated that the benchmarking is not intended as a tool to lead to harmonization of modelling across institutions.

While there is a clear link between the prudential and the accounting models, it should also be noted that IFRS 9 is applied also by SA banks. More generally one should avoid that, after the constraints being introduced on the prudential side, also accounting models become less risk sensitive, also given the fact that this would be a purely EU initiative while IFRS 9 is a global standard.

Finally, we would also point at the fact that it could be difficult to assess the use of benchmarking on IFRS 9, and it could even open the door to misinterpretations. In fact, there is no one-to-one correspondence between parameters and provisions. The calculation in itself is a model that further depends on both national features and the individual institutions' setup of credit processes, liquidation schemes etc. While we understand that the intention of EBA is only to produce a report when there is a certain stability in the results, it would be relevant if EBA could already provide some clarity on the approach it would take in consolidating the results of the exercise.