

What is ISDA SA Benchmarking?

ISDA benchmarking of standardized approaches (SA) helps firms and regulators achieve consistent and accurate implementation of the standardized approaches for regulatory capital for market risk (known as the Fundamental Review of the Trading Book, or FRTB), counterparty credit risk (CCR) and credit valuation adjustment (CVA) risk.

Why ISDA SA Benchmarking?

- ISDA has developed a unique technical expertise on FRTB-SA, and has been at the forefront of industry and regulatory discussions on FRTB-SA design, impact and operational aspects.
- Monitoring implementation of FRTB-SA requires a detailed technical understanding of the requirements, enabling ISDA to provide a comprehensive analysis of FRTB-SA benchmarking results.
- ISDA has become the go-to organization for discussion on all aspects of the standardized approach, including impact assessment and implementation aspects, and is uniquely positioned to assist regulators in benchmarking standardized approaches by:
 - A. Designing unit tests to ensure the fitness of implementation across firms using a prescribed input;
 - B. Overseeing a hypothetical portfolio exercise (HPE) to identify, assess and explain any observed variances, and coordinating remediation where necessary (eg, through Basel Committee on Banking Supervision FAQs).
- The unit test and HPE together form part of an assurance framework for both banks and regulators.
- ISDA was selected in the UK to help coordinate the first FRTB-SA benchmarking exercise and run an industry working group, leveraging the capabilities and experience gained in performing similar exercises for the ISDA Standard Initial Margin Model.

What are the benefits?

- ISDA has been working with a group of banks on the FRTB-SA benchmarking initiative since 2018, and there has been regular engagement from regulators throughout the process. The first phase of the project was completed in June 2019.
- Participating institutions benefit from a peer-to-peer review of their SA model implementation, enabling them to address possible interpretation issues in the regulatory text.
- Following interest from other institutions and regulators, ISDA has expanded the scope of this initiative to cover other participating institutions and other capital models, including SA-CCR and SA-CVA.

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 900 member institutions from 73 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and

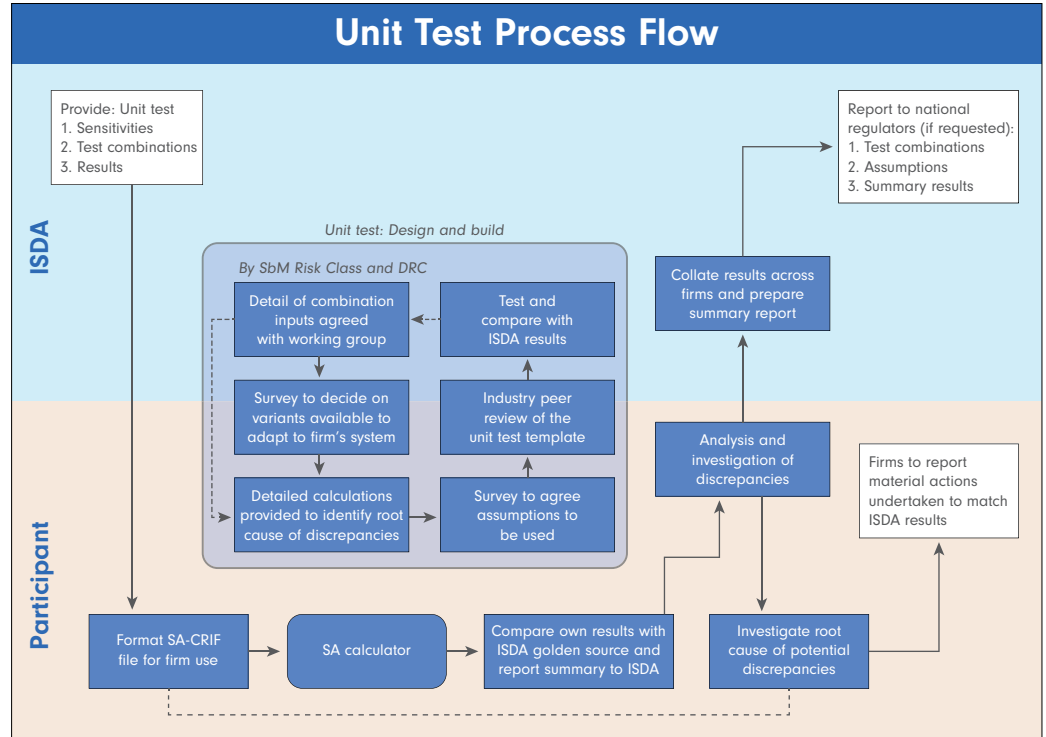
regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter @ISDA.

Unit Test

Goal: Ensure a consistent and accurate implementation of the standardized approach by each bank, by testing the risk engine aggregation (not valuation models).

Process: Each bank runs its SA engine using prescribed input sensitivities, bucketing and other reference data (SA-CRIF¹). Combinations are designed to test all possible risk types. Assumptions and interpretation issues are agreed and logged to ensure a common set of results, which feed into the global FRTB FAQ process. Any differences from a golden source of results need to be explained.

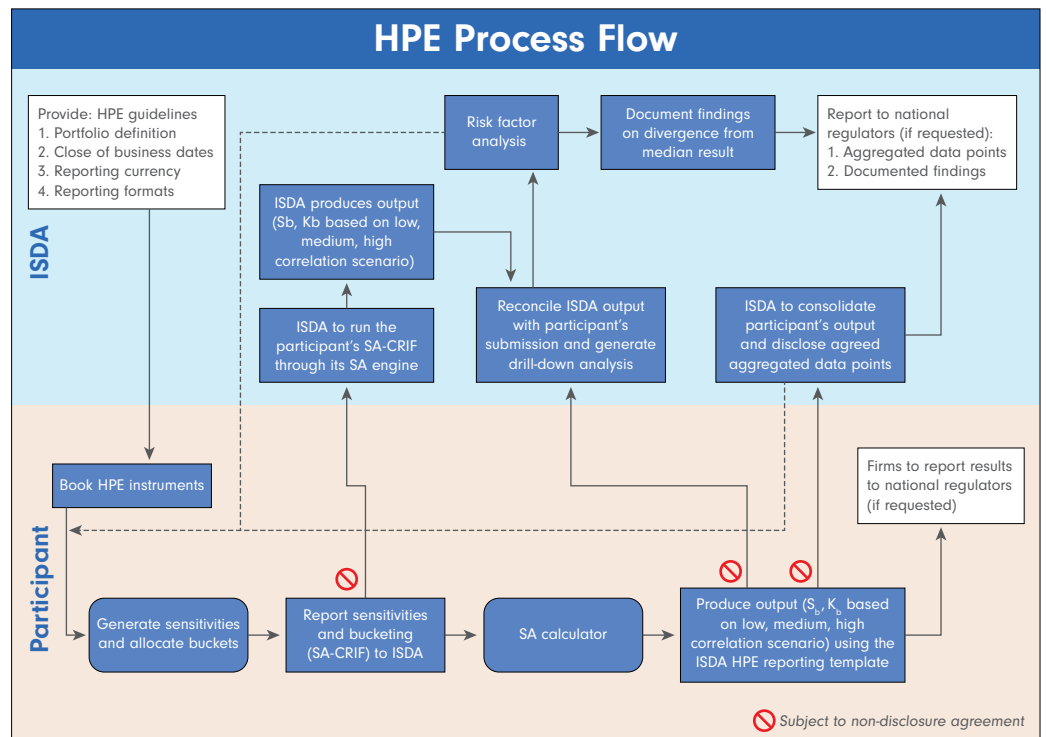
¹ Common risk interchange format



HPE

Goal: Obtain a preliminary estimate of the potential for variation in risk-weighted assets across banks using hypothetical portfolios.

Process: Each bank generates risk measures across hypothetical portfolios. Results are submitted by risk class and risk measure. Banks also submit input data using the SA-CRIF format to enable further drill down into any differences in results. ISDA generates aggregated and anonymized results for the whole group. A detailed analysis is prepared for each institution to explain variances.



For more information on ISDA SA benchmarking, contact ISDABenchmarking@isda.org