The European Banking Authority
20 Avenue André Prothin
92400 Courbevoie
France

Subject: Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models[1]

The International Swaps and Derivatives Association ('ISDA') and the Association for Financial Markets in Europe ('AFME'), the 'Joint Associations' and their members ('the Industry') welcome the opportunity to comment on the European Banking Authority's ('EBA') Consultation on ITS amending Commission Implementing Regulation EU 2016-2070 on Benchmarking.

Market Risk

The Industry welcomes the EBA efforts to improve the effectiveness of the exercise such as the re-numbering of instruments / portfolios and notes that the EBA has incorporated some of the instruments / portfolios also included by the Industry within ISDA's FRTB-SA benchmarking exercise[2].

Notwithstanding the improvements made from the instruments now in scope, the growth of the hypothetical portfolios year on year requires considerable more maintenance and computation capacities for the IMA exercise, therefore we kindly request that the number of instruments are kept stable moving forward.

The Industry has identified two of the additional instruments as problematic and requests these from be removed from the EBA exercise.

In addition, the IMV (and initial SBM) as well as the Risk Measure (and final SBM) remittance dates have been brought forward and that will result in a shorter period for banks' submission as well as to perform the necessary data validation; the Industry recommends the timelines from the 2022 exercise be retained.

We thank you in advance for your consideration and please do not hesitate to contact the undersigned associations with questions.

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[1] https://www.eba.europa.eu/regulation-and-policy/supervisory-benchmarking-exercises/its-package-2023-benchmarking-exercise
[2] https://www.isda.org/a/Q6DgE/ISDA-SA-Benchmarking-Factsheet.pdf

Question 4: Do you agree with the new instruments added, according to section 3.3.2? Please provide any issues specified by instruments and provide an actual suggestion of potentially missinginformation in the instruments' descriptions (as provided in Sections 2 and 5 of the Annex 5 of these ITS).

Response:

The Industry has identified issues with certain instrument specifications and is proposing the below amendments.

The Industry requests that instruments 122 and 123 be dropped from the exercise as both instruments are non-standard products which could increase the dispersion of the benchmarking results. These were instruments 1004 and 1005 in the Phase 3 benchmarking exercise conducted by ISDA and both instruments have subsequently been dropped from ISDA's Phase 4 benchmarking exercise. At a minimum, instrument 123 should have additional specifications in Section 5.

Further Proposed actions:

Instrument 117 –	Nikkei futures, expiry date should be **8** June Year T
Instrument 123 –	Total return swap, should be Pay **1-month** EURIBOR.
Instrument 202 –	Swaption, should reference instrument 201. It is not clear if the swaption should hedge the swap, therefore the Industry recommends to restate the swap details
Instrument 205 –	Collared note, should explicitly state 'Base Currency USD'
Instrument 220 –	MtM reset xccy swap, the Industry suggests to make this forward starting (6 months) so the exchange at Effective Date has not happened and there can be no confusion over the cash balance to be included or not NB in Section 5, the Coupon Rate should be **3-month** USD LIBOR (*leg 1 and leg 2*)
Instrument 221 –	Receive ESTER pay floating rate, the description should be amended as ESTER is also a floating rate: 10-year IRS EURO – Receive ESTER and pay EURIBOR ESTER leg: receive annually 3-month EURIBOR + Basis, pay quarterly
Instrument 223 –	ZC inflation swap, should explicitly state 'Base Currency EUR'
Instrument 224 –	Swaption (+100bps), should reference instrument 219. It is not clear if the swaption should hedge the swap, therefore the Industry recommends to restate the swap details
Instrument 311 –	EUR / BRL NDF, the instruction "cash settled" should be deleted
Instrument 532 –	AT&T callable bond, **USD** 1 000 000
Instrument 533 –	Bayer callable bond, **EUR** 1 000 000
Instrument 534 –	AT&T callable bond, **USD** 1 000 000
Instrument 602 –	iTraxx CDS, hedges instrument 601, not 6002. In addition, the Industry proposes: CDS on iTraxx Europe index **most recent** on-the-run series Also, the Notional adjusted to fully hedge the CS01 of 601 **with no re-hedging required**
Instrument 604 –	iTraxx CDS, hedges instrument 603, ditto

Instrument 606 –	iTraxx CDS, hedges instrument 605, ditto
Instrument 608 –	iTraxx CDS, hedges instrument 607, ditto
Instrument 610 –	iTraxx CDS, hedges instrument 609, ditto
Instrument 605 –	Short position in iTraxx Europe, contrary to how this was specified in the ISDA Phase 3 exercise, the Industry would now recommend an attachment point of **12%**
Instrument 607 –	Long position in iTraxx Europe with an attachment point of **12%**

The proposed templates for the collection of OFR data for the SBM (C 120.02 and C 120.03) follow the draft implementing standards on specific reporting requirements for market risk under Article 433b of Regulation (EU) No 575/2013 (CRR) (EBA/ITS/2020/01)

Question 5: Do you agree with the new portfolios added, according section 3.3.3? Please provide any issues specified by portfolio and provide an actual suggestion to clarify the potentially misspecification in the portfolios' composition (as provided in Sections 3 and 4 of the Annex 5 of these ITS).

Response:

The Industry asks below for further clarification on various portfolios:

Portfolio 2013 –	Long 10 000 Bayer shares, short 1 000 Stellantis futures (1 000 shares / contract) Is the mismatch in notional amounts designed to be as stated?
Portfolio 2015 –	Swap USD 10m, US Govt bond USD 1m Is the mismatch in notional amounts designed to be as stated?
Portfolio 2018 –	209 - 10 instruments. The change made for the 2022 exercise to normalise all notional amounts such that all portfolios had just 1 of each instrument was a significant simplification and greatly reduced the chance of booking errors. It would be good to keep this approach for the 2023 exercise. The Industry notes that instrument 209 is defined as EUR 1m so it is sized appropriately for portfolio 2016. However, to avoid the need to re-introduce instrument quantities all notional amounts could be set to 10 000 000 where appropriate.
Portfolio 2022 –	No instruments defined. Should this be the below; Instr. 209 – Long Italy Govt Instr. 222 – Long Italy Govt (HICP) (tests FRTB-SA aggregation of GIRR rates & inflation)
Portfolio 3002 –	Long USD 1m cash, Long USD/EUR option EUR 10m Is the mismatch in notional amounts designed to be as stated?
Portfolio 6002 –	Need to specifify "Base currency is EUR"
Portfolio 6003 –	Need to specifify "Base currency is EUR"
Portfolio 6004 –	Need to specifify "Base currency is EUR"
Portfolio 6005 –	Need to specifify "Base currency is EUR"
Portfolio 6007 –	Long FTD swap, should be 611, not 612. Furthermore, the Industry recommends the CTP portfolios be hedged with CDS and not bonds

Question 6: Do you agree with the current wording provided in the Instruction of Annex 5, Section 1 in the letter (aa)? Please provide any suggestion that would be required, in your opinion, to updatethe instruction.

Paragraph (aa) leaves it up to institutions to substitute the prescribed reference rate with the alternative rate. Instead, for 2023, the instruments descriptions in Section 2 should be amended to explicitly specify the alternate rate where necessary:

Instrument 204 – GBP swap, replace LIBOR with SONIA rate compounded and paid annually

Instrument 220 – MtM reset xccy swap, the Industry suggests to make this SOFR/ESTER as this is the new market standard, with adjusted details per below;
EUR: ESTER, pay quarterly compounded with a payment lag 2D
USD: SOFR, receive quarterly compounded with a payment lag 2D
Leg 1: USD Notional EUR 10 000 000 equivalent adjusted on a quarterly basis
Leg 2: EUR Notional EUR 10 000 000

Other observations

Remittance dates
The IMV (and initial SBM) remittance date has been brought forward from 15 October in the 2022 exercise to 4 October in the 2023 exercise. Likewise, the Risk Measure (and final SBM) remittance date is brought forward from 04 March to 24 February. That means the time during which the banks may produce the submission and do necessary validation to ensure correct data would become shorter. Considering the significant increase in number of instruments and portfolios the period between reference and remittance dates should not be reduced. Also given the impending Basel IV and FRTB implementation, the EBA benchmarking exercise will be key and care should be taken to make sure the outcome is not undermined by a shorter-than-necessary process.

Annex 6 Templates 106.01 and 120.01

The template related instructions in Annex 6 are generally quite helpful but the Industry would like clarification on the guidance for the Risk factor identifier in the reporting of templates 106.01 and 120.01. Specifically for CSR Curvature:

CSR_NON_SEC	VEGA	0,5 years		CSR_NON_SEC_V_0.50	Article 325m of Regulation (EU) No 575/2013
CSR_NON_SEC	VEGA	1 year		CSR_NON_SEC_V_1.00	Article 325m of Regulation (EU) No 575/2013
CSR_NON_SEC	VEGA	3 years		CSR_NON_SEC_V_3.00	Article 325m of Regulation (EU) No 575/2013
CSR_NON_SEC	VEGA	5 years		CSR_NON_SEC_V_5.00	Article 325m of Regulation (EU) No 575/2013
CSR_NON_SEC	VEGA	10 years		CSR_NON_SEC_V_10.00	Article 325m of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	0,5 years	Upward shift	CSR_NON_SEC_CU_0.50	Articles 325m, 325g of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	1 year	Upward shift	CSR_NON_SEC_CU_1.00	Articles 325m, 325g of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	3 years	Upward shift	CSR_NON_SEC_CU_3.00	Articles 325m, 325g of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	5 years	Upward shift	CSR_NON_SEC_CU_5.00	Articles 325m, 325g of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	10 years	Upward shift	CSR_NON_SEC_CU_10.00	Articles 325m, 325g of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	0,5 years	Downward shift	CSR_NON_SEC_CD_0.50	Articles 325m, 325g of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	1 year	Downward shift	CSR_NON_SEC_CD_1.00	Articles 325m, 325g of Regulation (EU) No 575/2013
CSR_NON_SEC	CURVATURE	3 years	Downward shift	CSR_NON_SEC_CD_3.00	Articles 325m, 325g of Regulation (EU) No 575/2013

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For GIRR only one CU and one CD is requested – as expected:

GIRR	CURVATURE		Upward shift	GIRR_CU	Articles 325l, 325g of Regulation (EU) No 575/2013
GIRR	CURVATURE		Downward shift	GIRR_CD	Articles 325l, 325g of Regulation (EU) No 575/2013