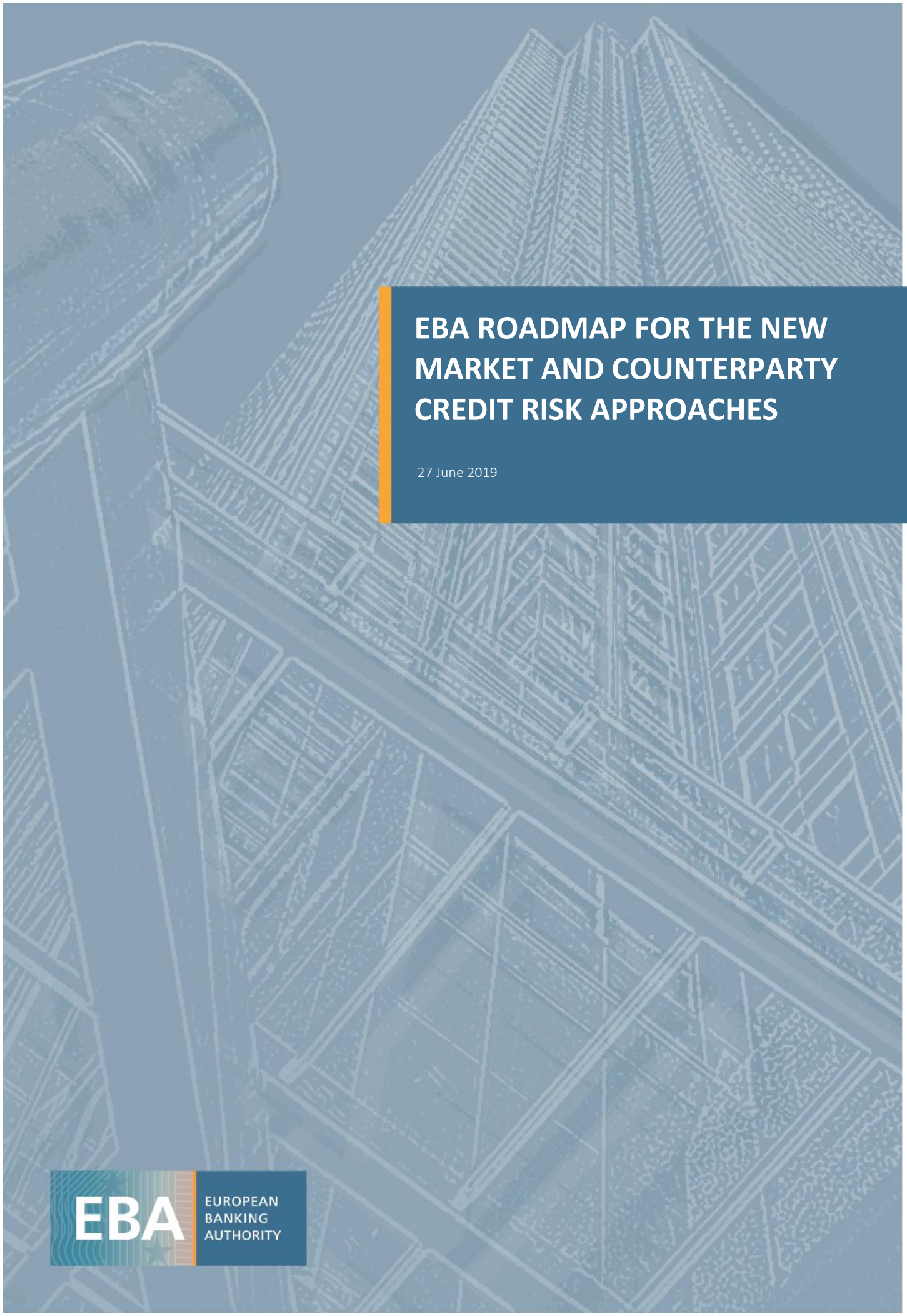

EBA ROADMAP FOR THE NEW MARKET AND COUNTERPARTY CREDIT RISK APPROACHES

27 June 2019

EBA EUROPEAN BANKING AUTHORITY

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Executive summary

The European Banking Authority (EBA) outlined its considerations about the main implementation issues expected to arise from the new market risk and counterparty credit risk approaches in its Discussion Paper (DP) entitled 'Implementation in the EU of the revised market risk and counterparty credit risk frameworks', published on 18 December 2017. The present report contains an overview of responses received from the industry to this DP, provides a comprehensive overview of EBA deliverables in the area of market risk and counterparty credit risk and outlines the EBA's intentions and a roadmap, with a view to ensuring the smooth implementation of the new approaches in the EU.

The EBA envisages delivering on its market risk and counterparty credit risk deliverables in four phases, starting with the implementation of essential parts of the framework and ending with regulatory products that require, for their development, some experience or feedback from the early stages of the implementation of the framework. In addition to the work on its mandates, the EBA is highly committed to work on the implementation issues that are likely to arise once supervisors and the industry start preparing and implementing the framework.

In setting out the expected roadmap for the implementation, the EBA took into account the industry's concerns regarding the operational burden related to the implementation of the new internal model approach (IMA) and corresponding supervisory approval processes. Therefore, most mandates relating to the IMA will be dealt with as a matter of priority in the early phases of implementation. This should also provide institutions with the necessary legal certainty required to conduct the investments in and improvements to their current systems and processes that the new IMA requires.

At the same time, the EBA roadmap also aims to deliver swiftly on the new standardised approach for counterparty credit risk (SA-CCR) and on the specific reporting requirements for market risk, which constitute the first step towards the full implementation of the fundamental review of the trading book (FRTB) in the EU.

Finally, the EBA roadmap recognises the importance of technical standards developed in line with international standards that specify clear, applicable and enforceable requirements, thus creating a level playing field and encouraging the harmonised application of the new approaches. With regard to the technical standards on the SA-CCR, published for consultation on 2 May 2019, and those on the FRTB IMA, published for consultation on the publication of this report, the EBA will continue to seek to deliver on its mandates according to its roadmap and to contribute to the smooth implementation of the new approaches in the EU.

1. Introduction

1.1 Background

In April 2014, the Basel Committee on Banking Supervision (BCBS) finalised *The standardised approach for measuring counterparty credit risk exposures* (standardised approach for counterparty credit risk – SA-CCR).[1] In January 2016, it published *Minimum capital requirements for market risk* (fundamental review of the trading book – FRTB).[2]

In December 2017, when publishing the Basel III post-crisis reforms, the BCBS communicated that the Group of Central Bank Governors and Heads of Supervision had endorsed the BCBS's proposal to extend the implementation date for the revised minimum capital requirements for market risk, which had originally been set to be implemented in 2019, to 1 January 2022 (which is both the implementation and regulatory reporting date for the revised FRTB framework). The BCBS thus aligned the start date for the revised market risk framework with the start date for the remaining Basel III post-crisis reforms.

In order to address issues identified in the course of monitoring the implementation and impact of the FRTB framework, the BCBS published in March 2018 a consultative document on revisions to the standards on market risk, which put forward proposals to review the FRTB standards on targeted areas, as well as a proposal for a simplified standardised approach for market risk.[3] Following this, the BCBS published a revised version of its *Minimum capital requirements for market risk*[4] in January 2019.

1.2 EU implementation

1.2.1 EBA Discussion Paper

In April 2016, the EBA received two Calls for Advice (CfAs) from the European Commission on the adoption into EU legislation of the new SA-CCR and FRTB standards. The EBA published its response to the CfA on the introduction into the EU of the market risk and counterparty credit risk revised frameworks[5] on 3 November 2016. Taking into account the EBA's response, the Commission published the CRR2 legislative proposal on 23 November 2016.[6]

[1] The SA-CCR standards are available here.

[2] The FRTB standards are available here.

[3] The BCBS consultative document on revisions to the market risk framework is available here.

[4] The revised version of the BCBS Minimum capital requirements for market risk (January 2019) is available here.

[5] The response to the CfA is available here.

[6] The CRR2 proposal issued by the Commission in November 2016 is available here.

On 18 December 2017, the EBA published a DP on the implementation in the EU of the revised market risk and counterparty credit risk frameworks.[7] The DP put forward – without pre-empting the outcome of the CRR2 legislative procedure – initial proposals and preliminary views on how to address eight mandates included in the CRR2 proposal (two on the SA-CCR and six on the FRTB) and requested stakeholders' views on any additional implementation issues that they had identified. In addition, the DP outlined a possible roadmap and priorities for the development of the regulatory deliverables on the SA-CCR and the FRTB included in the Commission's CRR2 proposal, while noting that priorities might change as a result of the CRR2 legislative process.

1.2.2 CRR2

Regulation (EU) No 575/2013 (Capital Requirements Regulation 2 – CRR2)[8] was adopted on 20 May 2019 and published in the *Official Journal of the European Union* on 7 June 2019. CRR2 fully incorporates the SA-CCR standards into EU law. The revised counterparty credit risk framework is expected to apply from 2 years after the entry into force of CRR2.

With respect to the FRTB, CRR2 introduces, as a first step towards the full implementation of the FRTB framework in the EU, a reporting requirement. However, key parts of the framework relating to the FRTB revisions published by the BCBS in January 2019 will be implemented through a Commission Delegated Act and EBA technical standards.

The reporting requirement will apply only to institutions whose trading book business is above a threshold of EUR 500 million or 10% of total assets. Institutions below this threshold are exempt from the reporting requirement. The reporting requirement is expected to come into force 'no later than one year after the adoption' (recital 40) of the delegated act referred to in Article 461a (deadline: 31 December 2019). They will consist, for all trading book positions and for all non-trading book positions that are subject to foreign exchange (FX) or commodity risk, in the reporting of (Article 430b):

- 'from the date of application of the delegated act referred to in Article 461a', the results of the calculations based on using the alternative standardised approach set out in Chapter 1a of Title IV of Part Three;

- 'from the end of a three-year-period following the date of entry into force of the latest regulatory technical standards referred to in Articles 325bd(7), 325be(3), 325bf(9), 325bg(4)' (i.e. the FRTB Phase 1 RTS mandates), the results of the calculations based on using the alternative IMA set out in Chapter 1b of Title IV of Part Three.

As a second step, in order to convert this reporting requirement into a capital requirement, the Commission should 'submit, where appropriate, a legislative proposal to the European Parliament and to the Council by 30 June 2020 on how the FRTB framework should be implemented in the Union to establish the own funds requirements for market risk' (recital 41 and Article 519b).

[7] The DP is available here.

[8] CRR2 is available here.

2. Summary of responses to the Discussion Paper

The DP identified eight main implementation issues. For each issue, the DP provided some background and rationale and presented the outcome of preliminary discussions within the EBA, which included discussions of options or proposed ways forward; the DP also presented 74 questions for stakeholders.

In total, the EBA received 14 responses, in addition to a response from the EBA's Banking Stakeholder Group. Six of the respondents requested that their responses be kept confidential, while the remaining eight responses were published on the EBA's website. This report therefore clarifies the EBA's intentions as regards the finalisation of the work mandated to it and the EBA's commitment to work on the implementation issues that are likely to arise once supervisors and the industry start preparing and implementing the framework.

In general, respondents raised concerns about the potential time inconsistencies between the finalisation of the FRTB and the implementation of the FRTB standards in the EU through CRR2. In a similar vein, respondents advocated for an EU framework as close as possible to the Basel framework. Some respondents mentioned their support for postponing the EU implementation of the FRTB until the BCBS had finalised all details. Similarly, a few respondents stated that they did not think the EBA should launch transposition work on technical aspects that are still being discussed at the international level. One respondent went further, advocating that the EBA should ask for a mandate to amend the design and calibration of the SA-CCR prior to implementation.

A short summary of the responses regarding each of the eight implementation issues is provided below. The responses have been taken into account in the development of the corresponding regulatory deliverables, and further considerations are outlined in the consultation papers that have been published alongside this report or that will be published at a later stage. Furthermore, the input received on the DP has also been used by the EBA during the finalisation of the Basel framework, in which the EBA actively participated.

2.1 Views of the Banking Stakeholder Group

The EBA received comments from the Banking Stakeholder Group (BSG) on a number of points arising from the DP. There was, in general, support from the BSG for the proposals included in the document, as well as agreement with the background information provided.

Concerning the SA-CCR, and in particular the calculation of the supervisory delta using a λ shift, the BSG suggested clarifying the meaning of 'market convention for the λ parameter'. Particularly where the same λ parameter would be applied for all interest rate options in the same currency, possible issues, including inconsistency with actual market conditions, can be envisaged.

Regarding the treatment of non-trading book positions subject to FX risk, the BSG highlighted that a transversal assessment of FX structural positions was needed given that non-trading book positions bearing FX risk are also within the scope of the EBA's DP on the treatment of structural FX (EBA/DP/2017/01). These positions can be particularly relevant for entities having a capital structure with a significant number of subsidiaries in third countries with reporting currencies different from that of the parent country.

With respect to the use of simplified approaches below the threshold, the BSG expressed its view that there was a need for a recalibrated version of the current standardised approach, with the recalibration being aligned with the recommendations made by the BCBS. In particular, an upwards recalibration of the current standardised approach would mitigate concerns over market risk capital requirement underestimation. The BSG argued that both banks with small trading books and subsidiaries of larger banks should fall within the scope of this simplified approach, as long as they met the criteria on a standalone basis for the calculation of market risk own funds requirements.

2.2 SA-CCR – mapping of derivatives transactions to risk categories

With respect to step 1 proposed in the DP, namely allocation of the transactions for which the relevant unique risk category can be easily identified, the respondents were generally supportive of the product list (possibly to be enlarged to also include forwards on investment grade bonds in the interest rate risk category and forwards on non-investment grade bonds in the credit risk category, as well as other derivatives such as commodity swaps, dividend swaps and FX fader options).

On step 2, the quantitative approach preferred by respondents takes into account both sensitivities and volatilities (possibly using FRTB standardised approach (SA) risk weights for the purpose). Further refinements, such as the use of SA-CCR supervisory factors or aggregation by risk category, were proposed. No clear view was expressed on the threshold levels to be used.

As for step 3, a simple and conservative approach was welcome by respondents, given that this would be the preferred way forward in all those situations where the institution could not operationally compute the figures required for the quantitative approach.

Further comments related to the frequency of the assessment and the appropriateness of a cap on the number of risk categories to which a single derivative transaction is required to be allocated. A preference for a cap at two risk categories was expressed in the feedback.

2.3 SA-CCR – corrections to supervisory delta

In the DP, a 'λ shift' adjustment is proposed in order to make the supervisory delta formula for options compatible with a negative rates environment. Respondents' preferred option is to allow institutions to reflect the market convention for the λ parameter, which should be applied at sub-portfolio level. Alternatively, the λ parameter could be set according to a formula, such as $\min(\mathrm{P}+\lambda, \mathrm{K}+\lambda) = 1\%$.

Alternatives to the shifted lognormal model were proposed by respondents to obtain delta for interest rate options: FRTB SA sensitivities, normal model, internal model.

Finally, the majority of respondents were of the opinion that the definitions of a long position in the primary risk driver and a short position in the primary risk driver were sufficiently clear.

2.4 FRTB – trading book boundary

Although the subject was not up for discussion in the DP consultation, the majority of respondents expressed a preference for a more flexible framework, relying less on prescriptive lists, and recommended that the 'trading intent' of instruments remain the deciding factor.

Alignment with the Basel text once issues have been addressed by the BCBS was recommended. Respondents deemed it beneficial to differentiate between reallocations from the trading book to banking book and vice versa that are due to factors beyond the control of banks (e.g. automatic reallocation) and reallocations that are triggered by reasons specific to the credit institution. In particular, according to some respondents, the first type of reallocation should not be subject to supervisory approval, or possibly only to a light approval process, and should not lead to the allocation of an additional capital charge if the reallocation leads to lower own funds requirements. Finally, examples of exceptional circumstances that might warrant the approval of reclassification were provided.

2.5 FRTB – treatment of non-trading book positions subject to FX or commodity risk

The majority of respondents stated that there were no issues in identifying non-trading book positions subject to FX or commodity risk, and that these positions were not material in terms of own funds requirements for market risk.

With regard to valuation, some respondents claimed that it would be difficult to include positions that were not fair-valued in notional trading desks. In addition, it seems that there are different practices among firms with respect to the frequency with which non-trading book positions are revalued, and there are instruments that cannot be revalued daily. In general, respondents have not faced problems in revaluing positions under IFRS 13.

With respect to the requirements regarding notional trading desks, respondents advised against setting a minimum number of notional trading desks; however, others advocated a minimum of one desk per asset class (i.e. one for FX and one for commodity). In general, respondents thought that qualitative requirements regarding trading desks should not apply to notional trading desks. However, some respondents would welcome limited requirements specifically adjusted for notional trading desks. Most respondents stated that the backtesting and profit and loss (P&L) attribution requirements could not be applied to positions that were not valued daily or fair-valued, which seems to be the case with regard to some of the respondents' non-trading book FX and

commodity positions. However, some respondents would welcome requirements having a limited scope.

2.6 FRTB – residual risk add-on

The majority of respondents agreed with the proposed general definitions of instruments referencing an exotic underlying and instruments bearing other residual risks. However, the majority were not in favour of a list complementing the two definitions; instead, a principles-based approach was preferred.

All respondents were in support of the possibility of excluding some instruments from the residual risk add-on (RRAO). Several examples of instruments that, according to the respondents, should be excluded from the RRAO or should receive a different treatment were provided. In particular, respondents raised concerns related to variance and volatility swaps, and, more generally, concerns regarding instruments without optionality but still bearing vega risk were raised.

Respondents felt that no option types were missing from the list of instruments bearing other residual risks, and that those listed did meet the general definition of instruments bearing other residual risks. Finally, the majority claimed that no more instruments should be subject to the RRAO.

With regard to the proposed treatment for behavioural risk, some respondents noted that RRAO should apply only where the uneconomic exercise of the option could increase the duration or resulted in a loss.

Finally, some respondents noted that variance swaps may fall into both the category of instruments referencing an exotic underlying and that of instruments bearing other residual risks.

2.7 FRTB – IMA liquidity horizons

In the DP, without pre-empting any conclusion, preliminary views were provided on how the liquidity horizon implementation issues could be addressed. Feedback was sought on all four mandates included in CRR2.

Mapping of risk factors to relevant liquidity horizons

In the DP, the EBA proposed setting out some specific rules for mapping risk factors to already established risk factor categories or giving further guidelines for some types of risk factor. The DP clarified (i) that the approach would essentially specify the mapping for certain types of risk factor where further guidance was needed and (ii) that the content would partly rely on the existing FRTB FAQs on liquidity horizons.

In the feedback to the DP, respondents generally supported the approach outlined. However, concerns were expressed regarding the risk of relaxation of mapping rules at the risk factor level; specifically, some respondents highlighted that mapping the whole instrument (i.e. all the risk

factors of a given instrument) to the liquidity horizon of the most relevant risk factor in terms of materiality – a possibility investigated in the DP – could potentially lead to capital benefits and certainly to differing capital requirements among institutions for the same exposures.

Most liquid currencies for interest rate risk

Feedback on the DP was relatively critical with respect to the criteria that were proposed for identifying the most liquid currencies. Generally, respondents claimed that it was restrictive to consider only the over-the-counter (OTC) market for the purpose of determining the most liquid currencies. In addition, some respondents claimed that a 3-year revision would not be appropriate given the dynamic nature of the market, and suggested a yearly revision.

Several respondents suggested having a single liquidity horizon of 10 days for all currencies.

Most liquid currency pairs for foreign exchange risk

Although it was noted that institutions would generally adopt a more meticulous approach than just looking at a defined turnover level for the purpose of determining the liquidity horizon of a currency pair, in general respondents supported the approach outlined in the DP. In particular, respondents were in favour of the proposal to allow triangulation among currencies pairs that are particularly liquid in the OTC FX derivatives market.

However, some respondents were not in favour of the triennial update, despite acknowledging the importance of being consistent with other jurisdictions with respect to this matter.

Definition of large capitalisation

For the purpose of defining what constitutes a large market capitalisation for equities, the BCBS standards on minimum capital requirements for market risk establish a threshold of USD 2 billion.

In its DP, the EBA proposed complementing this absolute threshold with other criteria to reflect the differences among EU Member States in terms of market capitalisation. In particular, it was proposed that the composition of national indices be taken into account. Respondents, in the feedback on the DP, broadly supported the EBA's proposal.

2.8 FRTB – backtesting and P&L attribution requirements

With respect to backtesting and P&L attribution (PLA), the specification of the technical elements to be included in P&Ls for the backtesting and PLA requirements was the only implementation issue that was raised in the DP, due to ongoing discussions in Basel on the PLA metrics and the consequences of failing the test.

Composition of the hypothetical P&L

Some respondents expressed a preference for excluding all valuation adjustments (VAs) from the hypothetical P&L (HPL), while others agreed with the EBA's view on the exclusion or inclusion of

VAs from or in the HPL. There was a general request for clarification of the scope of valuation adjustments by specifying the composition of the P&Ls. It was noted that it could be required that VAs be included only in the HPL performed at the top of the house.

In general, respondents reported that it would be possible to calculate VAs at trading desk level, although the process for doing so might be too burdensome.

Some respondents asked for confirmation that only VAs related to market risk might need to be included in the P&Ls relevant for backtesting and P&L attribution requirements.

All respondents claimed thought that the criteria presented in the DP were sufficient. Accordingly, they were against the development of additional guidance. Finally, all respondents stated either that they did not have overshootings due to VAs included in the HPL or that VAs were not a driver.

Composition of the actual P&L

The vast majority of respondents agreed with the list of criteria for the exclusion or inclusion of valuation adjustments from or in the actual P&L (APL). However, it was noted that it could be required that VAs be included only in the APL performed at the top of the house. All respondents stated either that they did not have overshootings due to VAs included in the APL or that VAs were not a driver.

Specific issue of time/theta effect and net interest income

The majority of respondents agreed with the EBA's view that net interest income is part of the time effect. The majority supported a more generic definition of the time effect as 'P&L due to the passage of time'. In general, respondents agreed that the second proposal (among the three put forward) would achieve the best outcome, although concerns were raised about whether the VaR/expected shortfall should capture time effects.

Composition of the risk-theoretical P&L

In general, respondents agreed with the EBA's view that consistency should be preserved between the criteria defining the scope of valuation adjustments to be included the HPL and in the risk-theoretical P&L.

2.9 FRTB – non-modellable risk factor stress scenario risk measure

Comments on the specifications of the general methodology included:

- With regard to the definition of the observation period to be used for collecting representative data for each non-modellable risk factor (NMRF), the majority of respondents were in favour of including the 1-year stress period used for modellable risk factors in the expected shortfall calculation (option c)).

- With regard to types of data acceptable for the observations, the majority of respondents proposed using option b) with option c) as a fallback. Accordingly, the data used in the computation of the stress scenario risk measure (SSRM) for NMRFs should be of the same type as the data used in the expected shortfall calculation for modellable risk factors. NMRF 'gauge' risk factor data should be used where there is not enough other data available.

- With respect to additional conditions on the data observed for the NMRF SSRM, respondents expressed a preference for computing the SSRM using different data from those used for assessing modellability. In their opinion, both market quotes and stale observations should be allowed, even if there needs to be a minimum number of observations (e.g. 40), one for each observation date. Otherwise, respondents argued, a fallback approach should be applied.

- With respect to the definition of liquidity horizons for NMRFs, the majority of respondents were in favour of using the definition provided in the FRTB, disregarding the introduction of the additional maturity dimension.

- With regard to the parameter L_{sigma}, some participants claimed that the correction using CL_{sigma} would have an overly conservative effect.

- In relation to the calibration of $CL_{ES\ equiv}$, option b) and option c) were the preferred options. Option b) proposed setting a conservative base value for $CL_{ES\ equiv}$ and letting the institutions set the value for each NMRF, subject to a floor of 3. Option c) would allow the institution to set the value of $CL_{ES\ equiv}$ for each NMRF, subject to a floor of 3.

- On the calibration of κ_t^j respondents were in favour of setting it to 1.

Although the subject was not up for discussion in the consultation, respondents' main concern was the conservativeness of the simple-sum aggregation scheme. Any further elements of conservatism – in particular the layering of conservative adjustments in the approach presented – were therefore deemed unnecessary. In addition, respondents expressed some observations/concerns (e.g. regarding the scaling of NMRF returns) and proposed some adjustments to the methodology outlined.

With respect to the calculation of an extreme scenario of future shock, some respondents advocated allowing institutions to apply a reduced approach when they were able to demonstrate that their portfolio was monotonic or even linear with respect to certain NMRFs, while some other respondents suggested allowing a 'direct loss-based approach' for certain NMRFs.

In general, participants in the consultation welcomed the idea of a direct loss-based approach, which was described as more logical when targeting equivalence to expected shortfall. It was also advocated that institutions should be allowed to use the direct loss-based approach whenever sufficient data were available.

Examples of what might be the most relevant NMRFs were provided. However, many respondents highlighted that these were difficult to identify considering the uncertainty about the final Basel text on this aspect.

With respect to the fallback solution to determine the scenario of future shock applicable to NMRFs, the majority of respondents were in favour of an approach prescribing a specific range of stress scenarios that institutions should apply to their NMRFs to determine the SSRM capital requirements (option 2). However, the majority of respondents claimed that the SA risk weights were too high for the purpose of determining stress scenarios under option 2.

2.10 Other implementation issues

Generally, respondents endorsed the EBA's high-level proposal for an updated RTS on the assessment methodology for approvals of the new FRTB models, with the caveat that, in the absence of the revised standards, articles of the already published RTS on assessment methodology would represent only guidance for institutions and competent authorities.

All respondents endorsed the EBA's proposal for a recalibrated version of the current standardised approach for institutions below the trading book business threshold of EUR 300 million.

Some respondents raised concerns relating to the scope of application of the potential EBA mandate on the default risk charge (DRC) set out in Article 325bq(12). As the mandate was drafted in the CRR2 proposal, the RTS would apply only to institutions with no internal ratings-based approach (IRBA) approval to estimate internal PD/LGD. The respondents believed that the RTS should also be applicable to IRBA-validated institutions for those issuers within the scope of the DRC that are not covered by internal credit methodologies. In addition, they suggested that the abovementioned DRC RTS mandate be tackled, together with the guidelines, in the revised RTS on assessment methodology.

3. Roadmap for SA-CCR and FRTB deliverables

Table 1 provides an overview of the mandates assigned to the EBA on the SA-CCR and the FRTB as part of CRR2 by the Commission, Council and Parliament proposals, as well as the proposed deadlines. The references to the legal bases are those of CRR2 as published in the *Official Journal of the European Union* on 7 June 2019. The deadlines are relative to the date of entry into force of CRR2 ('after entry into force' – aeif) or the date of application of CRR2 ('date of application' – doa).

It is worth noting that some mandates included in the Commission's proposal have been removed, as a result of the legislative process, in particular:

- the RTS on risk weights for positions in CIUs – revised market risk standards for CIUs are expected to be dealt with later on, in particular in the Commission Delegated Act;
- the GL on the internal default risk model – the internal default risk model will be covered in the RTS on assessment methodology.

In contrast, some mandates (e.g. the RTS on assessment of risk factor modellability and the GL on criteria for use of data inputs in the risk-measurement model) have been added and some existing mandates (e.g. the RTS on PLA requirements under the IMA and the RTS on a stress scenario risk measure for non-modellable risk factors) have been extended in order to fully cover the range of changes published as part of the BCBS's revised FRTB standards in January 2019.

Finally, new or amended mandates are specifically intended to apply the EU two-step approach towards full implementation of the FRTB framework: reporting requirements (the ITS on specific reporting requirements for market risk) followed by a new legislative proposal from the European Commission, taking into account the assessment of the impact of the latest FRTB revisions presented in an EBA report (Report on the impact of the FRTB).

CRR2 includes a total of:

- 5 mandates on the SA-CCR: 4 RTS and 1 report;
- 30 mandates on the FRTB: 26 RTS, 1 ITS, 2 sets of guidelines and 1 report[9].

Please note that Table 1 does not take into account the additional adjustments to the framework that will be required at the same time, including updates to the disclosure and COREP reporting templates for the SA-CCR, disclosure templates for the FRTB, the EBA's work on structural FX, updates to previously published EBA Q&As and similar requirements.

[9] Please note that, in Table 1, one mandate is attributed to each specific legal basis (i.e. for each subdivision a, b, c, etc., of an article).

Table 1. List of SA-CCR and FRTB mandates in CRR2 and proposed deadlines

	CRR2 7 Jun. 2019	European Parliament resolution (Jun. 2018)	Council Presidency compromise (May 2018)	European Commission proposal (Nov. 2016)
FRTB mandates				
(1) GL on the meaning of exceptional circumstances for the reclassification of a position (Article 104a(1))	28 Jun. 2024	Mandate deleted	5 years aeif	2 years aeif
(2) RTS on treatment of non-trading book positions subject to FX or commodity risk (Article 325(9))	28 Sep. 2020	6 months aeif	3 years aeif	6 months aeif
(3) RTS on instruments exposed to residual risks (Article 325u(5))	28 Jun. 2021	15 months aeif	2 years aeif	15 months aeif
(4), (5), (6) RTS on gross jump-to-default (JTD) amounts (Article 325w(8)(a),(b),(c))	28 Jun. 2021	15 months aeif	2 years aeif	15 months aeif
(7) RTS on emerging markets and advanced economies (Article 325ap(3))	28 Jun. 2021	15 months aeif	2 years aeif	15 months aeif
(8) RTS on material extensions and changes under the IMA (Article 325az(8)(a))	28 Jun. 2024	2 years aeif	3 years aeif	2 years aeif
(9) RTS on the assessment methodology for the IMA (Article 325az(8)(b))	28 Jun. 2024	2 years aeif	3 years aeif	2 years aeif
(10) RTS on extraordinary circumstances for being permitted to continue using the IMA (Article 325az(9)(a))	28 Jun. 2024	mandate deleted	5 years aeif	6 months aeif
(11) RTS on extraordinary circumstances for being permitted to limit the backtesting add-on (Article 325az(9)(b))	28 Jun. 2024	N.A.	N.A.	N.A.
(12), (13), (14), (15) RTS on liquidity horizons for the IMA (Article 325bd(7)(a),(b),(c),(d))	28 Mar. 2020	6 months aeif	9 months aeif	6 months aeif
(16) RTS on assessment of risk factor modellability under the IMA (Article 325be(3))	28 Mar. 2020	N.A.	9 months aeif	N.A.
(17), (18), (19), (20), (21), (22) RTS on backtesting requirements and PLA requirements under the IMA (Article 325bf(9) and Article 325bg(4)(a),(b),(c),(d),(e))	28 Mar. 2020	6 months aeif	9 months aeif	6 months aeif
(23) GL on criteria for the use of data inputs in the risk-measurement model under the IMA (Article 325bh(3))	28 Sep. 2020	N.A.	3 years aeif	N.A.
(24), (25), (26), (27) RTS on a stress scenario risk measure for non-modellable risk factors under the IMA (Article 325bk(3)(a)(b)(c)(d))	28 Sep. 2020	6 months aeif	15 months aeif	6 months aeif
(28) RTS on PDs and LGDs for the default risk model under the IMA (Article 325bp(12))	28 Sep. 2020	15 months aeif	15 months aeif	15 months aeif
(29) ITS on specific reporting requirements for market risk (Article 430b(6))	30 June 2020	N.A.	30 June 2020	N.A.
(30) Report on the impact of the FRTB (Article 519b(1))	30 Sept 2019	5 years aeif	30 Sept 2019	5 years aeif
RTS on risk weights for positions in CIUs (Article 325k(3))	Mandate deleted	15 months aeif	2 years aeif	15 months aeif
GL on the internal default risk model (Article 325bn(2))	Mandate deleted	2 years aeif	Mandate deleted	2 years aeif
Report on the appropriateness of the level of own funds requirements for market risk (Article 501b(2))	Mandate deleted	By doa + 2 years	Mandate deleted	by doa + 2 years
SA-CCR mandates				
(1), (2) RTS on mapping of derivatives transactions to risk categories under the SA-CCR (Article 277(5)(a) and (b))	28 Dec. 2019	6 months aeif	6 months aeif	6 months aeif
(3), (4) RTS on the supervisory delta formula for interest rate options and determination of long or short positions under the SA-CCR (Article 279a(3)(a) and (b))	28 Dec. 2019	6 months aeif	6 months aeif	6 months aeif
(5) Report on the impact and relative calibration of the SA-CCR, simplified SA-CCR and OEM (Article 514(1))	28 Jun. 2023	4 years aeif	4 years aeif	N.A.
RTS on the specification of 'large and concentrated commodity derivative portfolios' (Article 280e(3))	Mandate deleted	15 months aeif	Mandate deleted	15 months aeif

The roadmap presented in Table 2 is an updated version of the roadmap that was published in the DP; it sets out priorities for the EBA's work that broadly follow the deadlines included in the final CRR2 and introduces a sequence in four phases, starting with the implementation of essential parts of the framework and ending with regulatory products that require, for their development, some experience or feedback from the early stages of the implementation of the framework.

The prioritisation recognises the importance, for the smooth implementation of the revised standards in the EU, of EBA technical standards that specify clear, applicable and enforceable requirements, thus providing the legal certainty that both institutions and supervisors need at this early stage of implementation, thus creating a level playing field and encouraging the harmonised application of revised standards in the EU.

Therefore, Phase 1 and Phase 2 will be dedicated to the development of technical standards that are deemed essential for the application of the SA-CCR and the FRTB. This includes, for example, most mandates relating to the IMA, due to the substantial investments and improvements to institutions' current systems and processes that the new IMA is expected to require.

Although the EBA had envisaged in the DP that new FRTB models could be approved according to updated, harmonised standards on assessment methodology, the proposed prioritisation also acknowledges that the update to the RTS on the assessment methodology for the IMA would benefit from valuable supervisory feedback gained from assessing and approving new IMA models. Therefore, the mandate is now included among the Phase 4 deliverables.

Regulatory deliverables in the same phase may be delivered at different dates. For example, Phase 1 will consist in the successive delivery of:

- the report on the impact of the FRTB – in practice, this report, with a 30 September 2019 deadline, will be dealt with jointly with the response to the CfA;
- the two SA-CCR RTS documents,[10] which were published on 2 May 2019 for consultation and have a 6-month deadline;
- the three RTS documents on the FRTB IMA,[11] with 9-month deadlines, whose entry into force will trigger the 3-year period after which IMA institutions will be required to report their IMA figures under the reporting requirements.

[10] Four RTS mandates in terms of distinct legal bases.

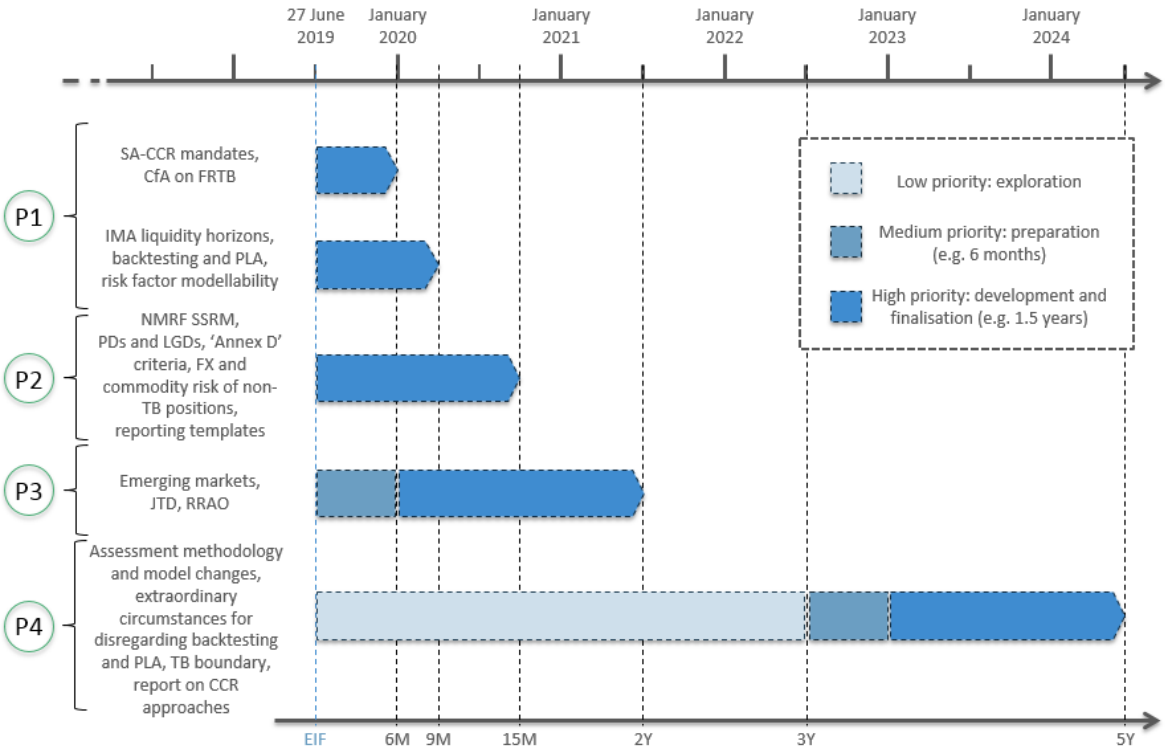
[11] Eleven RTS mandates in terms of distinct legal bases.

Table 2. Priorities for deliverables, in four phases

Priorities	Regulatory products
Phase 1: Implementation of the SA-CCR and of essential parts of the FRTB revisions for the IMA	Report on the impact of the FRTB RTS on mapping of derivatives transactions to risk categories under the SA-CCR RTS on the supervisory delta formula for interest rate options and determination of long or short positions under the SA-CCR RTS on liquidity horizons for the IMA RTS on backtesting requirements and PLA requirements under the IMA RTS on assessment of risk factor modellability under the IMA
Phase 2: Implementation of the FRTB reporting requirements (FRTB SA) and of essential parts of the FRTB revisions for the IMA and for the treatment of non-trading book positions subject to FX or commodity risk	ITS on specific reporting requirements for market risk (FRTB SA) RTS on a stress scenario risk measure for non-modellable risk factors under the IMA GL on criteria for the use of data inputs in the risk-measurement model under the IMA RTS on PDs and LGDs for the default risk model under the IMA RTS on treatment of non-trading book positions subject to FX or commodity risk
Phase 3: Implementation of the FRTB reporting requirements (FRTB IMA) and of the regulatory products related to the FRTB SA	ITS on specific reporting requirements for market risk (FRTB IMA) RTS on instruments exposed to residual risk RTS on emerging markets and advanced economies RTS on gross jump-to-default (JTD) amounts
Phase 4: Regulatory products whose substance will be derived from the monitoring of the application of the revised frameworks	RTS on material extensions and changes under the IMA RTS on the assessment methodology for the IMA RTS on extraordinary circumstances for being permitted to continue using the IMA RTS on extraordinary circumstances for being permitted to limit the backtesting add-on GL on the meaning of exceptional circumstances for the reclassification of a position Report on the impact and relative calibration of the SA-CCR, simplified SA-CCR and OEM

Figure 1 provides a possible timeline for EBA deliverables, resulting from a consideration of the deadlines included in CRR2. The timeline is in many respects challenging, since, except in the case of the Phase 4 deliverables, the preparation of the Consultation Papers (CPs) for a given phase of deliverables will generally coincide with the finalisation of deliverables from the previous phase. The EBA will therefore monitor the feasibility of the timeline.

Figure 1. Possible timeline for CRR2 deliverables on market risk and counterparty credit risk, based on CRR2 deadlines



It is to mitigate this effect to some extent that, as announced in the DP, CPs on Phase 1 deliverables were prepared by the EBA, taking into account industry feedback on the DP, as soon as there was sufficient certainty with respect to the mandates included in CRR2 and the extent of international developments, and were published either before or simultaneously with the entry into force of the final CRR2 regulation.

Aware of the challenges ahead, the EBA will continue to seek to deliver on its mandates according to its roadmap and to contribute to the smooth implementation of the new approaches in the EU.

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