

# THE EUROPEAN BANKING AUTHORITY TO BE TRANSFERRED TO PARIS AFTER BREXIT

## ENHANCE ATTRACTIVENESS OF PARIS

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**USPA NEWS** - The European Banking Authority (EBA) published today its final Guidelines on the estimation of risk parameters for non-defaulted exposures - namely of the probability of default (PD) and the loss given default (LGD), and on the treatment of defaulted exposures under the advanced IRB Approach, including estimation of parameters such as ELBE and LGD in-default. These Guidelines, which are part of the EBA's regulatory review of the IRB approach, aim to restore market participants' trust in internal models by reducing the unjustified variability in their outcomes, ensuring comparability of risk estimates while at the same time preserving risk sensitivity of capital requirements.

THE GUIDELINES OF THE EUROPEAN BANKING AUTHORITIES (EBA)-----The European Banking Authority (EBA) published today its final Guidelines on the estimation of risk parameters for non-defaulted exposures - namely of the probability of default (PD) and the loss given default (LGD), and on the treatment of defaulted exposures under the advanced IRB Approach, including estimation of parameters such as ELBE and LGD in-default. These Guidelines, which are part of the EBA's regulatory review of the IRB approach, aim to restore market participants' trust in internal models by reducing the unjustified variability in their outcomes, ensuring comparability of risk estimates while at the same time preserving risk sensitivity of capital requirements. The Guidelines provide clarification on the estimation of risk parameters under the IRB Approach, with focus on PD and LGD parameters, as well as on selected aspects of the application of these risk parameters and on the regular reviews of estimates. The clarifications focus on the main concepts and definitions underlying the calibration of risk parameters, as these are the basis for the calculation of capital requirements and, therefore, have to be identified in an objective manner. The Guidelines allow for sufficient flexibility in model development to ensure appropriate risk differentiation and to preserve the risk sensitivity of models.-----

The specific clarifications included in the Guidelines cover, among other items, the discounting factor used to calculate realised LGD on historical observations. To ensure comparability of LGD estimates, the EBA decided to introduce a simplified concept of discounting factor where the discounting rate is specified as Euribor or an equivalent interbank rate for currencies other than euro plus a fixed add-on of 5%, which will have to be applied by institutions. While the proposed level of the add-on provides an adequate balance between the currently used discounting rates across the EU, the adequacy of the level of the add-on will be further analysed and, if necessary, reviewed before the application of these Guidelines. The EBA is also planning to publish a list of equivalent interest rates for exposures in currencies other than euro to be used in the LGD estimation. The Guidelines are complemented by a Report on the results of the EBA qualitative survey carried out across the EU banks using the IRB Approach. The Report includes an overview of the current practices in IRB modelling and provides as a detailed impact assessment of the Guidelines. Changes are expected to apply to the majority of existing models in order to ensure compliance with these Guidelines. However, the materiality of these changes will have to be assessed and treated in accordance with the Commission Delegated Regulation (EU) No 529/2014 on the materiality of extensions and changes to rating systems.-----LEGAL BASIS IMPLEMENTATIONS AND NEXT STEPS-----

The EBA has developed these Guidelines on its own initiative in accordance with Article 16 of its founding Regulation, which mandates the Authority to issue guidelines and recommendations addressed to competent authorities or financial institutions with a view to establishing consistent, efficient and effective supervisory practices within the ESFS, and to ensuring the common, uniform and consistent application of Union law. The Guidelines will apply at the latest from 1 January 2021, but earlier implementation is encouraged. Institutions should engage with their competent authorities at an early stage in order to determine an adequate implementation plan, including the timeline for the supervisory assessment and approval of material model changes, where necessary. The EBA is currently finalising its draft Regulatory Technical Standards (RTS) on the nature, severity and duration of economic downturn. Once these RTS are finalised, the Guidelines will be updated with additional clarifications on how to use the specified concept of the economic downturn in the estimation of downturn LGD. Finally, these Guidelines include numerous references to the final draft RTS on the IRB assessment methodology and, therefore, these two documents should be read together. Once the RTS are adopted by the Commission, the Guidelines will be updated with references to the relevant Commission Delegated Regulation. Source EBA

Bruno LeMaire, Minister of Economy and Finance, Nathalie Loiseau, Minister for European Affairs, and Benjamin Griveaux, Secretary of State to the Minister of Economy and Finance, welcome the choice of Paris to host the European Banking Authority (EBA) and thank the Member States of the European Union for their confidence.

**THIS DECISION WILL HELP LOCATE MORE THAN 150 DRCT JOBS IN THE CAPITAL & ENHANCE THE ATTRACTIVENESS OF PARIS -----**

This decision will help locate more than 150 direct jobs in the capital and enhance the attractiveness of Paris. The measures taken by the Government, under the authority of the President of the Republic and the Prime Minister, have made Paris one of the most attractive places in the world. The State and the communities of Ile-de-France are fully mobilized through the "Choose Paris Region" one-stop-shop to help the EBA to be fully operational in its new headquarters without delay and to accompany on a case-by-case basis all of his staff. The attractive framework that will be offered to the agency and its employees will enhance the credibility and sustainability of the operation of a leading player in financial regulation and supervision in the European Union. This transition will be all the easier as the wealth of the Paris financial center will guarantee EBA easy access to a pool of talent and major players in banking and finance in Europe to carry out its activities: 145,000 people work in banking or finance in Ile-de-France. Paris and the Ile de France form, in fact, a global economic pole, with a broad spectrum of financial but also industrial activities, a rich cultural life, and the 3rd concentration in the world of seats of large groups after London and New York

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