



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

## Template for comments

### Public consultation on the ECB guide to internal models - General topics chapter

**Institution/Company**

Austrian Federal Economic Chamber, Division Bank and Insurance

**Contact person**

**Mr/Ms**

[Redacted]

**First name**

[Redacted]

**Surname**

[Redacted]

**Email address**

[Redacted]

**Telephone number**

[Redacted]

Please tick here if you do not wish your personal data to be published.

**General comments**

[Redacted]

ID	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated
1					<p>With regards to principles of separation for 3 lines of defense, i.e. scope of tasks for credit risk control unit (CRCU), validation and internal audit, we would like to point out the following.</p> <p>The current version allows a very wide interpretation of these functions resulting in overlapping tasks. We appreciate the flexibility of distribution of defense tasks as this can be necessary for reflecting the diverse organizational structure and complexity banks. Still the current wording is confusing and can be interpreted very widely in its extremes.</p> <p>Validation function could be interpreted as narrow as reviewer of CRCU inputs when conducting the annual validation, while internal audit as wide as having an operative function and actually do validation tasks based on validation concepts. On the other hand, a literal reading of the required tasks could also result in a supervisory expectation of the three lines repeating the same tasks and for example as an additional aspect reporting the same message three times to senior management/management body.</p> <p>We are of the opinion that further clarification is necessary for the minimum scope of the tasks for each of the three defense lines, and where a task can be transferred to another defense line this doesn't mean that the same task has to be repeated twice three times. This needs to be stated clearly to avoid unrealistic expectations and inefficient practices. We are also of the opinion that internal audit should not have an operative function, which could be interpreted from the current wording (see especially paragraph 81.(a)), but should assess the compliance, concepts and output of the CRCU and validation functions.</p> <p>We appreciate the readability of the guide compared to a legal text. Nevertheless we often see that important words such as 'should/shall' etc. are used when this might not necessarily meant to be a requirement. Please refer for example to paragraph 89 vs 89.(d)(i).</p> <p>Similarly, the word 'material' is used in many different contexts, in certain sections defined very precisely, while in others not at all. It is often not clear when it is to be read in its precise definition, and when as an indication.</p>	
2	Overarching principles for internal models	Please select data			<p>In our opinion the design, the scope and the purpose of such a framework are still to be further defined - preferably in consultation with the industry. The requirements can be interpreted very widely, thus they do not assure a comparable supervisory interpretation either. It can be misinterpreted that all models (not just those used for own funds calculation) are covered by such a framework and the enforcement of such a framework for not regulatory relevant models would also be questionable.</p>	
3	Roll-out and permanent partial use	Please select data			<p>• Paragraph 33: The current and draft legal requirements foresee a discussion and agreement with the competent authorities and JSTs to reflect the complexity of a banking group in the length of the roll-out period. Paragraph 33 and specifically the requirement of 5 years contradict this possibility. In our opinion, it needs to be made clear that JSTs can reach agreement for longer time period when justified. It also should be considered that when portfolios are acquired and rating systems needs to be built from scratch, the required data history is longer than the currently expected 5 years.</p> <p>• Paragraph 37: In our opinion it needs to be clarified what is expected by the last half-sentence 'initial/current/planned exposure amounts and risk weighted exposures'. Is this requirement only applicable to initial IRB applications? And can RW exposures be calculated on current approaches, or otherwise how future approaches could be simulated if no internal model exists for portfolios in the roll-out plan.</p>	
4	Internal governance	Please select data			<p>• Chapter 4.1 Materiality of rating system: We believe that further work is necessary to clarify the concept and definition of material rating systems. We would strongly support such identification and related maintenance work, if the raised and detailed requirements for IRB rating systems could somewhat be eased for immaterial portfolios. The current wording allows for a lot of variety in identification across the banks. Also, the referred Art 189 relates to material changes and not to material rating systems.</p> <p>• Paragraph 49: It is not proportionate to require management board approval for all outsourcing policies. It is understandable in cases when entire functions are out-sourced, but not when for example external data is used as model or validation input. Such data is replaceable and the outsourcing only consist of a small element of the rating systems.</p>	
5	Internal audit	Please select data			<p>Paragraph 81.(a) including footnotes: the wording is misleading and could be specifying that internal audit reviews validation tasks, but doesn't conduct them itself.</p>	
6	Model use	Please select data			<p>• Paragraph 88.(b)(i): It is not clear what is to be understood as monitoring of individual exposures. The draft RTS on IRB Assessment relates this requirement to EWS, collection, provisioning etc. Especially problematic is that while for such individual position monitoring, the expectation is that IRB ratings should be used; for EWS, collection and provisioning this is not such a strict requirement and the expectation is that the use of ratings only needs to be considered.</p> <p>• Paragraph 93.(b) It is not clear why 'and/or' is in the last half-sentence for 'reviewed by the internal validation function and/or internal audit'. An 'or' relationship should be enough. This example also relates to the comment about overlapping validation/ internal audit tasks.</p> <p>• Paragraph 97: This paragraph implies that each deviation from any internal policies needs to be analysed by CRCU and validation function. This is a disproportionate requirement and also doesn't seem to be well justified or purposeful. While the requirements to overrides are detailed through the chapter, this requirement is written in one paragraph and causes enormous workload. It is not clear whether it is really meant like that, so we suggest revising.</p>	
7	Management of changes to the IRB approach	Please select data			<p>• Paragraph 112.(c): It is not clear why a behavioral scoring is an example for scoring where human judgement of qualitative variables is needed.</p> <p>• Paragraph 121: It is not clear why a linear reduction of simulated RW exposures would be the best practice and how such treatment can be justified in light of recent data quality requirements for RW exposure amount calculations.</p>	

8	Third party involvement	Please select data			Requirements are the same for internal outsourcing within a group as for external outsourcing. These requirements endanger centrally developed rating models. We suggest eliminating the requirements if the group members are located within SSM and ease the requirements if group members are located in the EU but outside of SSM. Stricter requirements should generally be applied for external outsourcing than for internal.	
---	-------------------------	--------------------	--	--	--	--