



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

## Template for comments

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

**Institution/Company**

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**General comments**

ID	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated
1	Overarching principles for internal models	General principles for internal audit	9 Par 26	Amendment	The CRR requires internal models to be subject to regular review by the internal audit or another comparable independent auditing unit (hereinafter internal audit). In the understanding of the ECB, also taking into account EBA guidelines on internal governance, this regular review needs to be efficient and effective to meet that objective. It is based on a sample of models selected by the risk assessment	In the ECB guidelines for IRB models review, it is stated that these reviews could be based on IVF assessment.
2	Overarching principles for internal models	General principles for internal audit	10 Par 29 B	Amendment	Where weaknesses are identified, action plans and related measures should be approved by the audit committee and/or the appropriate management level of the audited areas. The internal audit function should monitor that the audited areas implement the corrective measures in a timely manner.	Bullet 29/b and footnote 24: The appropriate level of management which should approve the action plans and related measures should depend on the severity of the finding. For findings with the highest severity the approval should be addressed to the senior management or management body, while for findings with lower severity the approval could be addressed to an adequate lower hierarchical level. Moreover the EBA GL/2017/11, it is also stated this way.
3	Internal audit	Scope and frequency of the review of the rating systems	30 Par 80 a	Clarification	The expectations on "deep dive" audit mission should be clarified (different triggers of "deep dives" in the "Guide to on-site inspections" and "ECB Guide on internal models"). The term "mission" is unclear: separate audit, a range of audits or themes of audits?	
4	Internal audit	Scope and frequency of the review of the rating systems	30 Par 80 b	Amendment	Areas not showing any sign of an increased risk are subject to a deep dive mission in line with the normal audit cycle in order to provide a thorough update of the internal audit opinion on them.	It is inappropriate to impose a minimum frequency of three years, for models like for other areas; each bank should be consistent with its own approach combining audit cycle and risk assessment.
5	Internal audit	Scope and frequency of the review of the rating systems	30 Par 81 c	Clarification	The interpretation is that Audit has to regularly assess the process of materiality classification and impact evaluation. While, for the purposes of the general risk assessment, it can rely on validation assessment of the compliance with the regulatory requirements of all the changes of the rating systems.	
6	Internal audit	Scope and frequency of the review of the rating systems	31 Par 81 g	Amendment	The correctness of credit risk parameters for calculating own funds requirements	The process for calculating own funds requirements relies on the rating system but it is independent from the performance of models and, therefore, should not be part of the general model risk assessment. Anyway, we recognize as necessary to ensure that the correct credit risk parameters are used within the own funds requirements calculation process.
7	Internal audit	Scope and frequency of the review of the rating systems	31 Par 82	Amendment	The procedures and results of the general risk assessment and prioritisation, the annual work plan, and the subsequent production of the internal audit reports are properly documented and approved, according to the internal audit governance.	The procedures and results of the general risk assessment and prioritization as well as different auditing techniques and guidelines should not be approved by a defined body. It depends on the internal audit process in place in the institution
8	Internal audit	Scope and frequency of the review of the rating systems	31 Par 83	Amendment	To avoid delays in the procedures related to an initial IRB application or an application to extend the IRB Approach to an exposure class or a type of exposure that is currently treated using the Standardised Approach, it is beneficial, depending on its materiality level if the internal audit provides the competent authority with an independent assessment of the compliance of the initial IRB application or extension package with all applicable requirements	The word "beneficial" should be defined to specify the requirement on auditing. Audit function is an independent 3rd Line of defense advisory function for management body. The audit engagements are planned on basis of the risk assessment results. The third level assessment should follow a second level review by the independent validation function. Furthermore, an IRB application means a significant process change for the credit institution. In this case a new process/new product work-flow starts with the involvement of the audit function.
9	Internal audit	Scope and frequency of the review of the rating systems	32 Par 84	Deletion	The internal validation should be performed by the second line of defence. We should avoid overlapping between internal audit and the internal validation activities in order to make efficient the control function activities. The audit engagement is not mandatory in this case (only applicable if there is no second line of defence). Therefore, we suggest deleting point 84.	
10	Management of changes to the IRB approach	Classification	44 Par 109	Amendment	To ensure the accuracy of the impact assessment and the correctness and consistency of the resulting classification, the institution is expected to establish a four eye principle. This means that the assessment and classification are confirmed by a second line unit independent of the one responsible for the assessment and classification of the change/extension.	This paragraph is unclear about which unit would be considered independent for the role of confirming the assessment and classification of model changes. The more reasonable should be considering CRCU as initial responsible. The internal audit would only assess the material change in the case of no validation by the internal function.