



## Template for comments

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

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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	Guidelines at consolidated and subsidiary levels	4	Clarification	In sub-paragraph 7 , reference is made to a "high degree of consistency" between the group-wide principles and guidelines and those developed by relevant entities. Clarification on the definition of "high-degree" would be useful in order to define a "threshold acceptance"	Ensure consistency and comparability across the different institutions
2	Overarching principles for internal models	Guidelines at consolidated and subsidiary levels	4	Clarification	In sub-paragraphs 7 and 8 , reference is made to "relevant entities" . Clarification is required for the term "relevant" . Are all the entities within the consolidation scope relevant ?	Ensure consistency and comparability across the different institutions
3	Overarching principles for internal models	Guidelines at consolidated and subsidiary levels	4	Amendment	Additional requirements should be included for a common taxonomy (terms of reference or definitions) across entities so that key concepts are defined consistently	Ensure consistency and comparability across the different institutions
4	Overarching principles for internal models	Guidelines at consolidated and subsidiary levels	5	Amendment	We suggest to amend the sub-paragraph 8 in order to allow institutions to apply the proportionality principle : "The effective implementation of the policies should be periodically monitored and assessed. In order to ensure an efficient control, the frequency and depth of the monitoring/assessment shall be consistent with the nature, size and complexity of the entity's business and organisational structure, in particular the complexity of the rating systems and their implementation"	Promote the proportionality principle when applicable
5	Overarching principles for internal models	Guidelines at consolidated and subsidiary levels	5	Amendment	Should include documentation from third party vendors for audit and training purposes	Ensure that all relevant information (documentation included) are registered
6	Overarching principles for internal models	Documentation of internal models	5	Clarification	Shall the annual review mentioned in sub-paragraph 12 be performed by the 1st, the 2nd or the 3rd line of defence ?	Clarify the ECB's expectations
7	Overarching principles for internal models	Documentation of internal models	5	Clarification	Sub-paragraph 9 : Does 'replicate' mean the entire model lifecycle needs to be rerun/ re-generated?	Clarify the ECB's expectations as operational consequences may be very different (in particular in terms of resources)
8	Overarching principles for internal models	Documentation of internal models	5	Clarification	Does instructions refer to a user guide?	Clarify the ECB's expectations
9	Overarching principles for internal models	Documentation of internal models	5	Amendment	Amend Sub-Paragraph 11 so that the following be included : - the job title of the model owner(s) - description of when and why the model was last updated - time frame during which the model is expected to remain valid - whether the model is functioning properly	Give more information to reviewers so that they can easily assess whether models are due for a refresh
10	Overarching principles for internal models	Documentation of internal models	5	Amendment	Sub-Paragraph 11: Specify the scope of models that should be registered (models implemented for use, models under development, models recently retired)	Ensure that the scope of models is consistent and comparable across entities
11	Overarching principles for internal models	Documentation of internal models	5	Amendment	Include a requirement for institutions to summarise all exclusions from source to development sample (e.g. by using waterfall chart)	Ensure more clarity in models documentation
12	Overarching principles for internal models	Implementation of a model risk management framework	6	Clarification	Sub-paragraph 14 (a) requires that institutions include a concept or definition of what constitutes a model. By requiring this, the model definition may become entity-specific and prevent from having an harmonised definition. We recommend that a general definition of what constitutes a model be given.	Give a definition of what constitutes a model in order to ensure consistency and comparability across entities
13	Overarching principles for internal models	Implementation of a model risk management framework	6	Amendment	Replace "under-estimation" with "mis-calibration" as the purpose is not to increase RWA but to achieve a better view of risk	Align the vocabulary used with the purpose followed : the purpose is not to increase RWA but to achieve a better view of risk
14	Overarching principles for internal models	Implementation of a model risk management framework	6	Amendment	For other uses, the respective owner should be linked in the model register so that dependencies can be identified and respective model owners informed of updates or limitations.	Provide more information to the model owner and ensure thus a better monitoring of model risk
15	Overarching principles for internal models	Implementation of a model risk management framework	6	Amendment	The institution should formally define materiality	Promote transparency
16	Overarching principles for internal models	Identification of management body and senior management	7	Amendment	We suggest to add the following comment at the end of sub-paragraph 17: "The aforementioned member of body management shall have a basic understanding of the internal models."	Ensure an efficient and effective chairing.
17	Overarching principles for internal models	General principles for internal validation	8	Amendment	For better clarity, we suggest to precise that possible arrangement options are ordered from the most robust independence option to the least one: "The ECB understands that the possible arrangements, ordered from the most to the least robust independence arrangement, are as follows."	Clarify the robustness level of each possible arrangement
18	Overarching principles for internal models	General principles for internal validation	8	Clarification	Clarification is required on the scope covered by "large and complex institutions" mentioned in sub-paragraph 21 of 2.5 General principles for internal validation "Consequently, the ECB understands that large and complex institutions should implement the most robust independence option". Does this expression refer to G-SIIs, O-SIIs, SIIs, other?	Clarify the ECB's expectations on the definition of "large and complex institutions"
19	Overarching principles for internal models	General principles for internal validation	8	Clarification	Clarification is required on the type of institutions for which option (b) could be suitable. It is our understanding that option (a) is the most robust independence option. As a consequence and consistently with sub-paragraph 21 large and complex institutions should apply this option. According to sub-paragraph 23 option (c) could be suitable for non G-SIIs and non OSIIs. What are the ECB expectations for option (b) in terms of applicants ?	Clarify the use of option b)
20	Overarching principles for internal models	General principles for internal validation	8	Clarification	Should material changes be considered as new or separate models ? As currently drafted, material changes should be subject to initial validation which usually refers to new model approval	Clarify the ECB's expectations on material changes
21	Overarching principles for internal models	General principles for internal validation	8	Amendment	What is supposed to be a "unit" as mentioned in sub-paragraph 20 of 2.5 ? Several teams can be involved in model build and independy across a of them needs to be ensured	Clarify the ECB's definition of "unit"
22	Overarching principles for internal models	General principles for internal validation	9	Clarification	we propose the following amendment in sub-paragraph 24 in 2.5 "To mitigate this risk, the institution should ensure that the staff of the validation function is separate from the staff involved in the model development process and that there is no undue influence between them"	Take into account the fact that independence not only comes from the staff structure but also from the absence of conflicts of interest/undue influence
23	Overarching principles for internal models	General principles for internal validation	9	Clarification	Clarification is required on the conditions in which the validation function shall perform the independent challenge. Does it mean that validation has to use its own models and own data to carry out the independent challenge ?	Clarify the ECB's expectations for the internal validation
24	Overarching principles for internal models	General principles for internal audit	9	Deletion	Unlike internal control and according to the current regulatory requirements, internal audit is not supposed to be efficient but effective and independent (EBA Guidelines on internal governance paragraph 22 and CRR article 191 ) We suggest to suppress the word "efficient" in 2.6 (26) and replace it by the word "independent". "(...) this regular review needs be independent and effective to meet that objective"	Ensure consistency between all the regulatory requirements : what is expected from Internal Audit should be consistent with the EBA Guidelines on internal governance and the CRR art. 191
25	Overarching principles for internal models	General principles for internal audit	10	Clarification	2.6-29 (c) specifies that "Institutions should submit a summary of the outcomes of the relevant audit reports, action plans and the status of findings to the competent authority". Clarification is required on the definition of the relevant aspect of the audit reports. What criteria shall be taken into account by the institution when assessing the relevance of the report? Shall this relevance be determined by the competent authority based on the institution's audit programme ?	Ensure a clear and harmonised definition of the criteria used to determine what is relevant in the ECB's eyes
26	Overarching principles for internal models	General principles for internal audit	10	Clarification	Shall the institution submit systematically the information described in 2.6-29 (c) to the competent authority or shall the competent authority ask for it?	Define the reporting process of audit reports to the competent authority

27	Roll-out and permanent partial use	Application of the IRB Approach	11	Clarification	Reference is made to initial and targeted IRB coverage : Is the initial referring to the original application or when a material change was last made? Material change is labelled as initial (earlier section). Makes a difference because this is the reference point to compare future iterations of the model	Clarify the ECB's expectation in terms of IRB coverage ratio
28	Roll-out and permanent partial use	Governance of the roll-out plan for the IRB Approach	13	Clarification	What if a person is member of both management body and senior management?	Clarify the difference between management body and senior management
29	Roll-out and permanent partial use	Governance of the roll-out plan for the IRB Approach	13	Amendment	Roles and responsibilities of those involved in the roll-out should be required	Encourage accountability
30	Roll-out and permanent partial use	Changes to the roll-out plan for the IRB Approach	14	Amendment	According to sub-paragraph 40, "If institutions have already completed the implementation of their roll-out plan but would like to extend the use of the IRB Approach (for instance following a merger or acquisition), the ECB considers that they should also seek formal approval from the competent authority". This proposal does not differentiate between minor and significant changes which doesn't seem consistent with the CRR nor the Commission Delegated Regulation (EU) 2015/942 nor the Delegated Regulation (EU) No 529/2014. We suggest the following amendment : "If institutions have already completed the implementation of their roll-out plan but would like to extend the use of the IRB Approach (for instance following a merger or acquisition), if the extension is deemed significant, then the ECB considers that they should also seek formal approval from the competent authority"	Ensure consistency with CRR, with Commission Delegated Regulation (EU) 2015/942 and the Delegated Regulation (EU) No 529/2014 Reduce the supervisory burden on both the competent authorities and the institutions
31	Roll-out and permanent partial use	Changes to the roll-out plan for the IRB Approach	14	Amendment	Include parallel testing and monitoring prior to implementation so that a smooth transition is achieved	Encourage a timely update of infrastructure and tools necessary for the changes coming through
32	Roll-out and permanent partial use	Monitoring of compliance with permanent partial use provisions	15	Clarification	Are averages computed using volume or exposures as weights?	Ensure consistency for the calculation of average
33	Internal governance	Materiality of rating systems	17	Clarification	Sub-paragraph 45 states that "institutions should review their classification on a regular basis". Clarification is required on the definition of "regular" - at least a minimum should be provided (annual)	Clarify the ECB's expectation on the frequency if the classification review
34	Internal governance	The CRCU	20	Amendment	Include controls and review of controls in the responsibilities of CRCU	Broaden the CRCU's scope of responsibilities
35	Internal governance	The CRCU	20	Amendment	4.5 (62) : The CRCU should not only address the deficiencies raised by internal validation but also those by internal audit and the regulator in a timely manner	Broaden the CRCU's scope of responsibilities for addressing deficiencies
36	Internal governance	Review of estimates	20	Amendment	Article 179(1)(c) of the CRR refers to an - at least - annual review of the internal estimates. In order to ensure consistency with the CRR, we suggest to keep the word "review" instead of "validation" as these terms don't cover the same scope of work. Thus, we propose the following wording for 63 (b) "the annual review of internal estimates performed by the validation function (as described in section 5 of this guide)"	Ensure consistency with Article 179(1)(c) of the CRR
37	Internal governance	Review of estimates	20	Amendment	Along with the estimates, data should be reviewed and qualitative assessments should be performed	Broaden the scope
38	Internal validation	Regulatory references	21	Amendment	Add reference to CRR article 174(b) as Evaluation of input data described in 5.2(69)(h)(viii) directly refers to article 174(b) (footnote 57)	Ensure that all relevant references are indicated
39	Internal validation	Regulatory references	21	Amendment	Consistently with CRR Article 144(1)(f) and with Article 185, we suggest to add Article 188 on validation and documentation of internal models approach for equity exposures.	Add references to validation and documentation for equity exposures
40	Internal validation	Content and frequency of tasks of the validation function	22	Amendment	Footnote 48 should be amended in order to also refer to CRR article 188(b)	Add references to validation and documentation for equity exposures
41	Internal validation	Content and frequency of tasks of the validation function	22	Amendment	Footnote 49 should be amended in order to also refer to CRR article 188(a) for "consistently and meaningfully" and article 188	Add references to validation and documentation for equity exposures
42	Internal validation	Content and frequency of tasks of the validation function	22	Amendment	Include a stability RAG (Red Amber Green) grading of models for ease of comparisons	Facilitate visualisation and understanding of metrics for model performance
43	Internal validation	Content and frequency of tasks of the validation function	23	Amendment	Sub-paragraph 69 (g) : add reference to article 188 (c) of the CRR alongside article 185 (b)	Add references to validation and documentation for equity exposures
44	Internal validation	Content and frequency of tasks of the validation function	23	Clarification	Should validators be given direct access to the customer credit data? Says they need access to the database. May not be practical as IT approval process and relevant access needs to be applied. Can use prepared data with documentation by modellers	Clarify ECB's expectations
45	Internal validation	Content and frequency of tasks of the validation function	24	Clarification	Are the analysis required to be generated using different sets of default definitions?	Clarify ECB's expectations
46	Internal validation	Content and frequency of tasks of the validation function	24	Amendment	Replace the word "conversion factor" by "credit conversion factor"	Ensure consistency with the CRR
47	Internal validation	Content and frequency of tasks of the validation function	26	Amendment	Analysis mentioned in paragraph 69(h)(vi) must be performed at least every three years. What is the rationale behind the frequency specified?	Understand the ECB's choice regarding the analysis frequency
48	Internal validation	Content and frequency of tasks of the validation function	26	Clarification	Evaluation of input data described in paragraph 69(h)(vii) includes the tracking of the number and reasons for technical past-due situations. Could you confirm that it is expected from institutions to track all the technical past-due situations, regardless of the exposure's materiality and even though they have not reach the threshold above which the defaulted status would be assigned?	Clarify ECB's expectations
49	Internal validation	Content and frequency of tasks of the validation function	25	Amendment	69(h)(v) - Margin of conservatism can be applies to adjust for unwarranted or excessive variability. We suggest to add information of the margin of conservatism when mentioning the excessive variability	Ensure prudent treatment
50	Internal validation	Content and frequency of tasks of the validation function	26	Amendment	69(h)(vi) - Margin of conservatism can be applies to adjust for unwarranted or excessive variability. We suggest to add information of the margin of conservatism when mentioning the excessive variability	Ensure prudent treatment
51	Internal validation	Content and frequency of tasks of the validation function	26	Amendment	This chapter should start with the evaluation of data (5.2)(69) Logical starting point for review is on data before the modelling components although likely run in parallel	Present validation process and content in a more efficient and logical way
52	Internal validation	Content and frequency of tasks of the validation function	27	Clarification	Benchmarking analysis mentioned in paragraph 69(h)(vi) are expected to be performed at least every three years. What is the rationale behind the frequency specified?	Understand the ECB's choice regarding the benchmarking analysis frequency
53	Internal validation	Content and frequency of tasks of the validation function	27	Amendment	The Data cleansing analysis paragraph [69(h)(xi)] should be completed in order ensure consistency with the Final draft RTS on assessment methodology for IRB and take into account the outlier detection and data [Art. 32(3)(b)] ] adaptations analysis as well as the analysis of the impacts that data cleansing may have on internal estimates [Art.45(1)(e)]. We suggest the following wording : "These analyses refer to the exclusion/filtering of observations, outlier detection and treatment and data adaptations (and the reasons behind this) applied to the risk database for the construction of the reference dataset for the modelling. An analysis of the impacts caused by data cleansing on internal estimates must also be performed both at the individual (for each individual data cleansing action) and aggregated level (cumulative impact of all data cleansing actions)."	Ensure consistency with the Final draft RTS on assessment methodology for IRB and take into account the outlier detection and data [Art. 32(3)(b)] ]
54	Internal validation	Content and frequency of tasks of the validation function	27	Amendment	Benchmarking should use the same reference date as development sample	Ensure comparability
55	Internal validation	Content and frequency of tasks of the validation function	27	Amendment	Include a section on the review of governance of risk estimate calibrations	Ensure compliance with governance framework
56	Internal validation	Content and frequency of tasks of the validation function	27	Amendment	Data cleansing analysis should also be performed when making material model changes as well	Ensure a robust validation for material model changes

57	Internal validation	Content and frequency of tasks of the validation function	27	Amendment	Data cleansing analyses : these analyses should include the impact of the data exclusion/filtering	Complete the scope of work for data cleansing in order for it to be comprehensive
58	Internal validation	Content and frequency of tasks of the validation function	28	Amendment	In order to ensure consistency with the EBA final draft RTS for on the conditions for assessing the materiality of extensions and changes of internal approaches, we suggest that the Replication of the model development phase be performed at initial validation and when there is a material change or extension to the IRB approach (Art. 3 of the aforementioned RTS) that require permission from the relevant authorities. As a consequence we propose the following amendment : "This analysis should be performed at initial validation and when there is a material change and/or extension to the IRB approach"	Ensure consistency with the EBA final draft RTS for on the conditions for assessing the materiality of extensions and changes of internal approaches,
59	Internal validation	Content and frequency of tasks of the validation function	28	Amendment	In order to ensure consistency with the EBA final draft RTS for on the conditions for assessing the materiality of extensions and changes of internal approaches, we suggest that the Quality assurance analysis be performed at initial validation and when there is a material change or extension to the IRB approach (Art. 3 of the aforementioned RTS) that require permission from the relevant authorities. As a consequence we propose the following amendment : "These analyses should be performed at initial validation and when there is a material change and/or extension to the IRB approach"	Ensure consistency with the EBA final draft RTS for on the conditions for assessing the materiality of extensions and changes of internal approaches,
60	Internal validation	Content and frequency of tasks of the validation function	28	Amendment	Internal validation should re produce exactly the documented results (not model) under review	
61	Internal validation	Reporting and follow-up	29	Amendment	Include an issues register with owner, planned completion date and status (red amber green)	Improve the monitoring process
62	Internal validation	Reporting and follow-up	29	Amendment	Include requirements on circumstances of delegating attendance to someone else, minimum attendances at committees, minimum attendees	Ensure that sufficient challenge is provided
63	Internal audit	Regulatory references	30	Amendment	It is our opinion that the final reports on Guidelines on internal governance under Directive 2013/36/EU issued by the EBA on the 26/09/2017 and that will enter into force on 30 June 2018 must definitely be part of the relevant regulatory references as it will repeal the existing guidelines on internal governance, published on 27 September 2011 (GL 44). As a consequence we propose to replace the existing reference (GL44) by the EBA's Guidelines on internal governance under Directive 2013/36/EU (Title V (22)) issued on the 26/09/2017	Replace reference (GL44) with the Guidelines on internal governance under Directive 2013/36/EU issued by the EBA on the 26/09/2017 and that will enter into force on 30 June 2018
64	Internal audit	Scope and frequency of the review of the rating systems	31	Amendment	The text should mention that the scope depends on the materiality and on the minimum requirements set by competent authority	Ensure the review is proportionate with size and complexity of the institution
65	Internal audit	Scope and frequency of the review of the rating systems	31	Amendment	Deep-dive should also occur when requesting material change in models not just when losses have not appeared yet. Should consider the current economic climate as there are lags in emergence of risks / losses	Ensure a robust control of material change in models through systematic deep-dive
66	Internal audit	Scope and frequency of the review of the rating systems	32	Amendment	According to us, the definition of default is part of the methodology and shall be reviewed by the Validation unit at initiation or when there is a material changes. However we agree that Validation is not supposed to review the operational implementation of the default definition within the IRB systems. As a consequence we propose the following modifier of sub-paragraph (84) "Insofar (...) process-related aspects of material changes (including the operational implementation of changes in the definition of default), those..."	Ensure that all key assumptions are appropriately validated
67	Internal audit	Scope and frequency of the review of the rating systems	32	Clarification	Is it a condition of approval to have both internal audit and internal validation reports completed?	Clarify the ECB's expectations regarding the model approval process
68	Model use	Use test requirement	33	Clarification	Experience test described un 8.5.3 (100) of 2017 TRIM guide has been suppressed. Could you confirm that no experience test is required even for material change in the rating system?	Clarify the ECB's expectations regarding use test and experience tests
69	Model use	Use test requirement	33	Clarification	CRR Article 145(3) requires experience test to extend the use of the IRB Approach. The 8.5.3 paragraph related to Experience Test in the 2017 TRIM guide being suppressed, does it mean that experience test are not expected from the institution in the context of extension of IRB Approach?	Clarify the ECB's expectations in the context of an IRB Approach extension
70	Management of changes to the IRB approach	Classification	44	Amendment	Sub paragraph 109 should be amended in order to incorporate the same organisational arrangements as the ones mentioned in 2.5 (20), in particular option (c) applicable to small legal entities. As a consequence we suggest to mention the following. "The possible organisational arrangements to set up the aforementioned independent unit are the same as the ones described in 2.5 from (20) to (23) included.	Ensure consistency across the different parts of the guide
71	Management of changes to the IRB approach	Impact assessment	45	Clarification	According to sub-paragraph 112(a), in the case of ex-ante notification the time between the reference date and the date of notification should not exceed nine months. Clarifications are required for situation where the time between these two dates actually exceeds nine months: will the notification be void? will the institution be required to explain the reasons for the difference and for exceeding the limit defined ?	Clarify the ECB's expectations when the time between the reference date and the date of notification should not exceed nine months
72	Management of changes to the IRB approach	Impact assessment	45	Clarification	Most recent data may not be practical. Could institutions choose a slightly older dataset to perform impact assessments given time taken for this analysis?	Optimize resources and time management
73	Management of changes to the IRB approach	Re-rating process	47	Clarification	Is the 3 month transition period mentioned in 7.4.1 (94) applicable to the time frame described for amending the rating system as described in 8.5 (121)(a)	Clarify the time frame applicable for amending the rating system
74	Model use	Corporate governance functions	37	Amendment	Sub paragraph 92 should include monitoring of risk drivers (actual and potential) used in models	Enhance a better understanding and sense check of results
75	Model use	Assignment of exposures to grades or pools	38	Clarification	Clarify the circumstances that could trigger out of cycle reviews?	Clarify the ECB's expectations
76	Model use	Assignment of exposures to grades or pools	38	Clarification	Should the stale rating criteria be applied at the obligor or parent/ group level for wholesale lending?	Clarify the application of stale rating criteria
77	Management of changes to the IRB approach	Re-rating process	47	Amendment	Includes information on the risk rating of wholesale customers, in particular the consistency across parent, subsidiary, connection	Ensure consistency for wholesale rating
78	Management of changes to the IRB approach	Re-rating process	47	Amendment	In order to avoid any misuse of models' output, we suggest that guidance be added to the current text regarding the possibility for an entity to use the risk estimates for other purposes than the ones the model was originally designed for.	Ensure models used in accordance with design / purpose
79	Third party involvement	Preliminary principles	48	Clarification	Can you specify the circumstances under which an engagement is deemed as outsourcing. For example is asking questions informally over an office communicator or via email deemed as outsourcing?	Ensure consistency in the definition of outsourcing
80	Third party involvement	Preliminary principles	52	Amendment	In order to ensure consistency with the CEBS Guidelines on outsourcing, the preliminary principles should distinguish between material outsourced activities and non-material ones so that the monitoring process of the third-party performance could be performed consistently with the risks incurred.	Ensure consistency with the CEBS Guidelines on outsourcing
81	Third party involvement	Preliminary principles	53	Amendment	Contingency plan described in 10.2.7 of 2017 TRIM guide has been suppressed, in order to ensure consistency with the guideline 6 of CEBS guidelines on outsourcing, the paragraph should be maintained	Ensure consistency with the CEBS Guidelines on outsourcing