EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

Public consultation on the revised ECB guide to internal models

Institution/Company

AFME and ISDA (Joint submission)

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General comments

AFME and ISDA welcome the opportunity to comment on the revised EGIM. We do not think the timing of this review is the most appropriate, considering that the current officially proposed implementation date of CRD6/CRR3 and FRTB is January 1st 2025. In the case of market risk, the FRTB changes are significant. In this sense, we would have expected instead to provide feedback on a Guide to Internal Models that was already adapted to the new capital requirements framework (CRD6/CRR3/FRTB). One further point with respect to process, to urge the ECB to provide in future updates a clear and transparent tracked version of the guide for ease of reference and identifying changes (e.g. like the BIS has recently done with regard to updated principles for effective supervision).

In terms of the changes we welcome the additional guidance on the roll back to less sophisticated approaches. Nonetheless, there should be a clear understanding that these guidelines will gradually be implemented and avoid bottlenecks in terms of validation (this would also raise the level playing field criteria between banks having already submitted models, and the ones in the process of submitting or getting the final report). Finally, we are concerned by some of the measures introduced, particularly for credit risk which run in parallel to CRR3 changes which are only being finalised and could be subject to revised mandates of the EBA (e.g. ESG provisions and Massive disposals), as per for Market Risk we think these should be considered post the implementation date of CRR3/CRD6.

For the CCR section, the industry has some concerns with respect to the introduction of Risk not in EPEE as it seems to be overly burdensome and largely duplicates existing processes to capture model deficiencies. We need reassurance that any Pillar 1 flaw should not receive two penalties i.e. increase in alpha multiplier and RNIEPE add-ons. We also believe that any risk which is not covered by the CRR should be dealt in Pillar 2 framework and not in Pillar 1 such as exposure spikes. In addition to these, we have highlighted some areas where we recommend amendments in terms of thresholds for RNIEPE and changes in timeline for use tests. Finally, the industry recommends some changes related to the identification of illiquid collateral and hard-to-replace transactions.

Template for comments

Public consultation on the revised ECB guide to internal models

Please enter all your feedback in this list.
When entering feedback, please make sure that:
- **each comment deals with a single issue only;**
- **you indicate the relevant chapter/section/paragraph, where appropriate**
- **you indicate whether your comment is a proposed amendment, clarification or deletion.**

Deadline:	15 September 2023

ID	Chapter	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated

1	General topics	1 Overarching principles for internal models	1	5	Amendment	We propose including a specific paragraph in the "Overarching principles for internal models" which reflects EBA concerns about LDP portfolios and in particular the necessity to accomodate to various estimation methodologies and types of portfolios as follows: ***"EBA Guidelines on PD-LGD estimation have been specified in a flexible manner, to accommodate various estimation methodologies and types of portfolios. Especially in the phase of model development, it is the ECB's understanding that institutions may use data and methods that are considered most appropriate for a given portfolio. While human judgement is an integral element of all models it is expected that in the case of models for low default portfolios it may be used to a greater extent. In the same vein, in case of data scarcity because of the low volume of defaults,and, when properly justified, the risk parameter calibration methods could be adapted to the features of data, in order to ensure that the model outcomes reflect economic expectations."*** The rationale for inclusion of such paragraph is the following: - There was a debate at the Basel Committee to remove IRBA for all LDP portfolios, however the choice was made to allow some LDP portfolios such as specialised lending to remain in IRBA approach in the Basel 3 finalisation. Therefore, the modelling expectations should be accommodated accordingly. - As a reminder, the EBA raised the application of its GL on PD-LGD estimation on LDP portfolios (page 117) : "The requirements of the GL have been specified in a flexible manner, to accommodate various estimation methodologies and types of portfolios. Especially in the phase of model development, institutions may use data and methods that are considered most appropriate for a given portfolio. While human judgement is an integral element of all models it is expected that in the case of models for low default portfolios it may be used to a greater extent". - Moreover, on application of MoCs, the EBA reflected in its GL on PD-LGD estimation (page 118) : "While many respondents expressed general support for the proposal, the majority expressed operational concerns, especially regarding the quantification and aggregation of MoC relating to different identified deficiencies and categories. The aspect of low default portfolios was also mentioned in the context of potentially higher MoC due to lower data availability. It was considered counterintuitive that greater conservatism would have to be applied to less risky portfolios. The EBA has carefully considered the feedback received and adjusted the concept of MoC by simplifying the aspects of categorisation, quantification and aggregation, and by providing additional clarifications where necessary" - As per CRR, Article 174 states that banks can use “statistical models” or “other mechanical methods”. “Other mechanical methods” can be interpreted as methods which can be replicated and have clear recurring/auditable patterns when rating the same risk profile. In footnote 29 of ECB Guide Credit risk chapter," the concept of model is not intended to refer to pure statistical models and can encompass other methods for assigning exposures to grades or pools". - In paragraph 50 of ECB Guide Credit risk chapter, "the higher the number of relevant observations, the more the institution should rely on the outcomes of the statistical model". Conversely, we may understand that for LDP portfolios, the expert input is more extensive.	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios in line with EBA views.
2	General topics	1 Overarching principles for internal models	1	5	Clarification	For the obligatory return to a less sophisticated approach for corporates and large corporates, requirements stated under Art. 149 are deemed not relevant. For sake of clarity we deem appropriate to introduce a specific reference within sub-section 2.6 stating "It is ECB understanding that the reversals to less sophisticated approaches in the context of the application of Basel IV provisions are not subject to Art. 149 of the CRR and do not constitute a model change in the sense of Reg. EU 524/2014 and, therefore, are not subject to approval by competent authorities".	Clarification on timing expectations

3	General topics	1 Overarching principles for internal models	16	9	Amendment	In our view the paragraph 16 on page 9 of the Guide should be amended as follow: *"Consequently, the ECB understands that large and complex institutions should implement ~~the most robust independence option.~~ the options a) or b). Such institutions may consider to reserve the appointment of the Head of the internal validation function to the Management Body in its supervisory function."* Please find below the supporting reasons: The Guide states that effective independence of the internal validation function from the model development process (i.e. model design, development, implementation and monitoring) shall be ensured and, therefore, institutions should have appropriate organisational arrangements in place. According to this principle, in order to ensure independence of the validation function from the function responsible for model development process and to allow for an objective assessment of the rating systems, the ECB sets three different possible organisational arrangements, depending on the nature, size and scale of the institution and the complexity of the risks inherent in its business model: 1. separation into two different units reporting to different members of the senior management; 2. separation into two different units reporting to the same member of the senior management; 3. separate staff within the same unit. Nevertheless, in the Guide it is expected that large and complex institutions implement the most robust independence option, as specified in point 1 above, although the Regulation 2022/439 explicitly allows such institutions to choose from the first two options. More specifically, according to the Regulation 2022/439, in large and complex institutions the Credit Risk Control Unit (CRCU) and the validation function - which is required to be set as a unit separated from the CRCU - can report to different members of the senior management or to the same member of the senior management. In the latter case, further measures are to be adopted by the institution in terms of adequacy of the decision-making process and effectiveness of the recommendations provided by the internal validation, along with a regular assessment of this requirements by the internal audit. In this regard, ECB specifies that, where option 2 is adopted, it is good practice if the institution fulfils the additional requirements specified in Article 10(3) of Commission Delegated Regulation (EU) No 2022/439 Having said the above, it is not clear why the Guide does not allow the large and complex institutions to freely choose between the above two options, as permitted by the Regulation 2022/439. Large and complex banks should be also allowed to set up two different and separated units reporting to the same member of the senior management (i.e Chief Risk Officer of the Bank), in compliance with all the measures protecting the independence of the validation function. Please note that, according to some national laws (i.e. Italian Bank of Italy supervisory provisions), the validation function is located - as an independent unit - within the risk control function and reports to the chief risk officer. A different organizational position of the validation function should not be allowed. This organization set up is adopted by the main Italian listed banks as well as other European banks, being also consistent in terms of organizational efficiency. Just consider that the chief risk officer is required to possess adequate skills and experience in his/her area of expertise, including the development and control of internal models. It is also worth noting that the complete separation of the internal validation and the function responsible for model development processes, reporting to different members of the senior management, raise issues from a business organizational perspective, being it necessary to locate the internal validation function within a different area ensuring an adequate and consistent level of independence especially from the business.	Allowing large and complex institutions to freely choose between the two options listed in the Guide (cfr. par.15, page. 9), as permitted by the Regulation 2022/439. Allowing large and complex institutions to set up two different and separated units reporting to the same member of the senior management (i.e Chief Risk Officer of the Bank), in compliance with all the measures protecting the independence of the validation function.

						The above issues lead to reconsider the proposed approach, by allowing large and complex institutions to choose between option 1 and 2, as provided by the Regulation 2022/439. In any case, in order to further strengthen the independence of the internal validation function, the appointment of the head of the function by the management body in its supervisory function could be positively considered by the Authority and explicitly recommended by the ECB Guide as an additional option.	
4	General topics	1 Overarching principles for internal models	25	12	Deletion	Prudential regulation and supervision has a key role to play in ensuring that banks manage climate and environmental risks. There are a number of areas where this is being addressed in banks prudential risk management frameworks already: - The CRR3 introduces a mandate for the EBA to report by the end of this year on targeted enhancements to the current P1 framework and additional revisions taking into account the international framework - The ECB guide on Climate and Environment risks which banks are expected to have implemented by the end of 2024. - The BCBS principles for the effective management and supervision of climate -related financial risks. This mandates banks to identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. - CRD6 sets out a number of mandates which will address the treatment of these risks in P2, and assessment of them through transition plans and climate risk stress testing We would urge the ECB not to introduce further requirements for banks to integrate C&E risks into their internal models while banks are implementing the aforementioned requirements. This could have a number of drawbacks as follows: - It may run counter to the advice and recommendations of the EBA report to be published at the end of this year, leading to inconsistent guidance and expectations. - The explicit incorporation of the C&E risks into the Internal models Guide would result in an uneven playing field between standardized approach banks and internal model institutions - The ECB does not set out any clear timeline for the C&E factors in EGIM, this is critical given the level of empirical data that would underpin the integration of these risk factors - The lack of data will also impact on the corresponding credit risk requirement for banks to apply margins of conservatism which will need to be applied. This risks double counting if - as proposed in the guidelines - an override process is set up so that the final grade reflect these risks. This is a good illustration that the proposed texts may lead to overlapping margins of conservatism. - For market risk OFR calculation, our view is that these emerging risks are potential drivers of the traditional risks, already captured in the risk assessment framework of internal models. Including them as a driver in itself, first poses the issue of technical feasibility considering that there is no clear methodology as to how to measure separately the impact of C&E drivers in market prices and, hence, derive an input for banks' internal models. Second, it opens the risks of double-counting as these drivers are potentially priced in the market. As to what counterparty credit risk refers, it is not directly in scope, as it is indirectly affected through credit risk parameters (PD, LGD, etc.). - Aside from the challenge of available empirical date (which is in the process of being addressed both through regulation and banks' own initiatives), there are a number of open methodological issues that need to be addressed including double counting between P1 and P2 and buffers, and the consistency with the modelling approach and other potential risk drivers. Until the points above have been addressedwe would urge the ECB to remove or remain silent on the C&E risks in this update to the guide.	Await ongoing initiatives on C&E risks to be implemented before integrating into EGIM.

5	General topics	1.9 General principals for the implementation of changed or extended model	26	12	Amendment	Regarding the statement "The ECB generally expects this time frame to be no longer than three months from the date of the notification. Exceptions to this expectation should be requested by the institution in question, which should provide reasons for the request, and can only be granted under specific circumstances (for instance in the case of implementation requiring a staggered approach or joint implementation, or in the case of technical constraints inherent to the IT framework)." The time frame of 3 months after the notification permission to implement the approved material model change or extension seems challenging and not achievable, in particular in cases where the model needs to be implemented across different jurisdictions and under different regulatory requirements. Moreover, given the differing approval times across multiple regulators, industry believes that the implementation timeframe of 3 months would imply applying multi risk rating (dual regulatory reporting) in some sites supervised by different regulators which is costly and complex to implement within a reasonable timeline. Therefore, we suggest amending this requirement to avoid implementation burden at a time where banks are struggling to get their IRB models approved by their respective regulators within the same timeframe, and factor in for implementation expectations such as an assessment of the changes by an independent function (typical internal audit). Suggested edit: "The ECB generally expects this time frame to be no longer than ~~three~~ ***twelve*** months from the date of the notification." In addition, we think the reference to "staggered approach" should be clarified: we suggest that it encompasses the modalities of the Re-rating process as defined under the section 7.6 Re-rating process, in case of an immediate re-rating is not possible (paragraph 131).	We believe that the three months' timeframe for the implementation of material model change is very challenging given in particular, in cases where the change will be implemented in different jurisdictions where such time frame is not required. Furthermore, additional IT developments may be required beyond 3 months after issuance of the Final ECB decision letter hence we suggest to amend this requirement to accommodate to banks IT implementation constraints. Clarifications on exceptions requiring "staggered approach" should encompass the modalities of the Re-rating process as defined under the section 7.6 Re-rating process, in case of an immediate re-rating is not possible (paragrgraph 131).
6	General topics	2.4 Changes to the roll-out plan for the IRB approach	28	13	Amendment	Paragraphs 28 and 32 of the ECB Guide requires edfinition of the internal criteria to trigger application of IRB roll-out. As IRB and PPU are interconnected, the criteria used for remaining in PPU also impacts the sequential application of IRB. Therefore, IRB banks will primarily look at article 150(1) of CRR in order to assess the exposures which could remain in PPU. In particular, banks should analyse items mentioned in article 150(1) of CRR: - as per subparagraph (a), exposures to central governments and central banks, where the number of material counterparties is limited, and it would be unduly burdensome for the bank to implement a rating system for these counterparties - as per subparagraph (b), exposures to institutions, where the number of material counterparties is limited, and it would be unduly burdensome for the bank to implement a rating system for these counterparties - as per subparagraph (c), the non-significant business units, as well as exposure classes or types of exposures that are immaterial in terms of size and perceived risk profile The ECB Guide provides general reference to the draft EBA RTS on roll-out and PPU (CP 2014/10), which in particular suggests clarification on article 150.1(a), (b) and (c) of CRR. However, such draft RTS was never finalised and voted, hence it should be made clear that this reference is not legally binding. The concept of materiality / immateriality should be defined by the bank and it is up to banks to decide whether they want or not to rely on specific aspects of the draft RTS to best reflect their internal portfolio specificities. Also, for large and significant banks, when assessing such criteria for material counterparties or immaterial business units or exposure classes / types, experience shows that the cumulative nature of the requirements such as having both quantitative and qualitative criteria will lead to consider materiality (or immateriality) criteria as primarily impactful. There may be business units/ exposure classes or types for which exposures / RWA are not negligeable, but the best choice would be to remain in STD because of strong impediments such as data constraints. The outcome of strict application of article 150(1) is to systematically conclude for banks to apply for the IRB, and leaves little room to remain in PPU. Even if banks maintain such exposures in STD, it does not prevent the bank from applying adequate IRB roll-out and PPU approach and maintaining a sound risk management approach. Therefore, when analysing criteria for the purpose of article 150.1 of CRR, materiality should only be an aid to the decision-making for roll-out approach. We propose as a consequence to amend the paragraph 28 : "[...] (b) Qualitative aspects which can overrule materiality criteria if justified : [...]"	The concepts of materiality / immateriality as per article 150(1) of CRR should only be an aid to decision-making when applying IRB/PPU, while the final choice for PPU (and in mirror the choice for roll-out) is not purely quantitative.

7	General topics	2.3 Governance of the roll-out plan for the IRB approach	29	14	Clarification	Some of the exceptions where the types of exposures within an exposure class can remain under STD exceptions in CRR3 are still under discussión, for example, exposures in foreign branches. We therefore strongly recomend reviewing these points to incorporate the CRR 3 new considerations, especially given the uncertainty over whether the CRR3 and ECB Guidelines enter into force at the same time, including a clarification on how to account for CRR/CRR3 exceptions in the definition of the IRB coverage rate.	To align with the new regulation (CRR3)
8	General topics	2.3 Governance of the roll-out plan for the IRB approach	34	15	Clarification	This paragraph of the General Topics chapter states that “if as the result of a merger or other type of transaction, an entity becomes a parent entity or entity that intends to apply the IRB, the IRB coverage ratio of the post-merger legal entity should meet the expectations set out in paragraph 28(a) of this chapter” (i.e. the initial IRB coverage ratio is expected to be above 50% (in terms of both EAD and RWEAs) at consolidated level). For instance, in the case of the acquisition of an institution using only the STA approach, the IRB coverage of the merged institution might be substantially affected and the 50% threshold might be breached. In a situation like this, it would be materially impossible to return to comply with the expectation in a short period of time. Hence, in line with the expectation depicted in section 2.7- Internal models in the context of consolidations, we would appreciate some mention to the possibility to breach this threshold in this kind of situations and to submit accordingly a "return to compliance" plan.	Avoid misinterpretation of the criteria and allowfor flexibility in the context of merging SA/IRB institutions.
9	General topics	2.2 Application of the IRB approach	40	16	Amendment	Regarding PPU, paragraph 40 of the ECB Guide only focuses on exposure class or type of exposures, while article 150(1)c also includes the concept of business units. We think that this should be reflected in paragraph 40.	Inclusion of business unit concept on top of exposure classes / types in order to align with article 150(1)c of CRR
10	General topics	2.6 Reversion to a less sophisticated approach	42	17	Amendment	Regarding the reversion to FIRB for financial institutions and very large corporates as per CRR3 requirement, we think that the ECB should include a specific paragraph clarifying that no trigger of article 149 of CRR is needed in this case, as banks will be required to apply CRR3 regulation when it enters into force. We would propose an amendment to delete and replace the current para 42 with the following: *"Reversion to IRBF approach for financial institutions and very large corporate as required by CRR3 can be implemented by institutions at CRR3 date of application, without applying article 149 of CRR or applying for a model change".* In addition we would note that this would allow more flexibility for each institution and the relevant JST to define a proper strategy that may encompass many aspects (i.e. modeling features, operational capability, IT readiness, business strategy, requests from NCAs, etc.).	Treating the cases where reversion to less sophisticated approaches is driven by compliance to new regulatory requirements and does not need any trigger of article 149 of CRR. Clarify that banks should not have to apply for Art 149 or a model change.
11	General topics		42	17	Amendment	If the ECB does not replace para 42 with our preferred drafting then we see the need for other amendments. The paragraph clarifies that institutions shall define group-wide internal models strategy and sugests that they might eventually reconsider the internal model landscape accordingly. In this context, however, it is stated that "institution should document any reasons or impediments that arose after the original authorisation and led the institution to reconsider the use of an advanced approach.". The reference to "arose after the original authorisation" might prevent the redefinition of the models strategy in most cases and therefore could be deleted.	Wider deployment of revised internal models strategies.
12	General topics	2.6 Reversion to a less sophisticated approach	42(b)	18	Amendment	If the ECB does not replace para 42 with our preferred drafting then we see the need for the following amendment to 42(b): "(a) the availability of minimum representative data for redeveloping a model ~~or for developing another admissible approach (for example, in the case of reversion to the SA, institutions should first consider whether other admissible IRB approaches, such as the F-IRB or, where relevant, the approach under Article 153(5) of the CRR known as the supervisory slotting criteria approach (SSCA) could be developed without disproportionate effort);"~~ We propose to simplify the expectation because, in our opinion, the most important point is the availability of minimum representative data for redeveloping a model and the justified strategic decision of the bank to return to less sophisticated approach. In addition, article 149 does not consider reversion to slotting approach.	The most important point for the return to less sophisticated approach is the availability of minimum representative data for redeveloping a model and the institution's justified strategic decision.

13	General topics	2.6 Reversion to a less sophisticated approach	42 d (i)	18	Amendment	If the ECB does not replace para 42 with our preferred drafting then we see the need for the following amendment to 42(d): On the sub point (d) (i) it is reported "the capital requirements produced by the approach currently used, including the effects of potential supervisory measures (such as limitations)". It is unclear why the EGIM refers to 'potential' supervisory measures. Indeed, following the regulation on model changes, the RWA impact should be always calculated considering the model change with respect to the RWA as it is in production. Therefore, the reference to "potential" limitation is unclear - i.e. if it should be relative to the ones already in place, also because the potential one (e.g. the one expected after an IMI) one could be not known in advance. We propose to replace the sentence "including the effects of potential supervisory measures (such as limitations)" with the one "*including the effects of ~~potential~~ supervisory measures already in place (such as limitations)*".	Better specify the type of supervisory measures to be included in the RWA impact.
14	General topics	2.6 Reversion to a less sophisticated approach	42	18	Amendment	If the ECB does not replace para 42 with our preferred drafting then we see a need for clarification to the final subpara of para 42 where it is reported that "*when the reversion leads to a non-negligible reduction of capital requirements, institutions should provide convincing evidence that there is no intention to reduce own funds requirements*". We do not support the inclusion of the word "convincing" and strongly recommend deleting it or replacing it with the word "supporting". Indeed, as already stated in respect of Basel 3, the RWA impact is one of the relevant aspects to be taken under consideration in the assessment of a reversion to less sophisticated approach~~,~~ especially given the introduction of the output floor in Basel 3.	Better specify the type of evidence to be included in case of relevant reduction of RWA impact.
15	General topics	2.6 Reversion to a less sophisticated approach	43	18	Deletion	If the ECB does not replace para 42 with our preferred drafting then we see a need to delete the following sentence in para 43 "*Institutions should consistently apply across exposure classes and/or exposure types with similar features in terms of modelling (in particular with regard to points (a) and (b) of paragraph 42) the criteria defined to assess whether the requirements set out in Article 149(1) and (2) of the CRR have been met*." It is deemed important to highlight that the decision to revert to less sophisticated approach or to STD can be driven by different evidences that are not necessarily linked only to modelling activities (such as internal operational capacity of the subsidiary to keep proper presidium of the IRB over time, IT plan, expected run down of the business, relation with peers).	Exclusion of any reference to specific modelling activities
16	General topics	2.6 Reversion to a less sophisticated approach	43	18	Amendment	As per previous comment on the final subparagraph of 42, If the ECB does not replace para 42 with our preferred drafting then we see a need to replace the word "convincing" with the word "supporting" related to the following sentence: *"Where a request is made to revert to a different approach (the SA or the F-IRB approach) for similar exposures of this kind, institutions are also expected to provide ~~convincing~~ supporting evidence that the request is not being made in order to reduce own funds requirements*".	Better specify the type of evidence to be included in case of relevant reduction of RWA impact
17	General topics	6.2 Use test requirement	97	38	Clarification	We propose the following amendment to the ECB Guide to allow application of rating systems during transitional period while returning to compliance: "Where, following the consolidation and while the institution is returning to compliance, a single exposure is in the scope of the IRB rating systems of the acquirer and of the target, the institution should have appropriate processes in place to ***monitor the use of*** ~~prevent~~ a rating system ***on both the acquirer and the target exposures*** ~~from used for the purpose of reducing own funds~~ ***during the transitional arrangements period while the return to compliance plan is implemented.***"	Need to allow application of rating systems during transitional period while returning to compliance
18	General topics	6.2 Use test requirement	97	38	Amendment	A new LEs might alternativelly refer to an already existing LEs for which the application of internal models was not authorised, as well as to new LEs established either to run new businesses as well as to run existing business under the perimeter of the already authorised models. We would refer to the latter as rather spin-offs, for which a consistent application of the authorised approach deserves some additional understanding as the provisions would otherwise realise an unintended reversal to a less sophisticated approach. In such cases the specific requirements for the extension to additional exposures that are not significantly different from the scope of the existing coverage might clarify that this is ***"without prejudice to the continued application of the IRB approach to exposure within the scope of the existing coverage".***	Avoid discontinuation of the IRB approach to the existing coverage in case of spin-offs.
19	General topics	6.2 Use test requirement	97	38	Amendment	Under the specific case outlined above, it is suggested the new LEs established as spin-off of portfolios in the scope of the existing coverage should be considered as having met the Use test requirments considering the existing experience of the institution also for the purpose of application at individual level.	Acknowledgement of experience requirements in case of spin-offs

20	General topics	6.6.1 Non-rated exposures to outdated ratings	103 (a)(ii)	43	Clarification	In retail rating systems ratings can be often based on older rating details (as some rating details are gathered only at application). Clarification of these paragraphs would be appreciated stating that as outdated are considered ratings ***solely*** based on outdated rating details. Clarification for the use of financial statement for retail: as no yearly update of financial statements is usually given for retail, we suggest to define more precisely the use of this type of information. More meaningful for retail would be to be able to use older financial statements, but consider MoC for outdated data for older cases.	
21	Credit risk	2.2 IT systems: infrastructure and implementation testing	7	62	Amendment	The requirement of "the institution is able to submit the respective COREP reporting (Article 144(1)(g) of the CRR" by the model extension or change application submission overlaps with the provision in paragraph 26 of General Topics chapter/ 1.9 section (page 12) of the EGIM where it is stated that :"The ECB generally expects this time frame to be no longer than three months from the date of the notification" of the permission. While it is clear that COREP reporting represents the last aspect of any IRB model use, from an IT perspective the COREP calculation layer is typically independent from the implementation of the Core Engine of an IRB model. Indeed the assessment of IT implementation should be based on the readiness of the institution to submit the COREP reporting upon model go-live, not on the actual IT link between the Core Engine of the new model (in a parallel production environment) and the downstream COREP reporting layer. For this reason, it is proposed an alternative wording, ie. to replace this sentence by "is able to evidence the readiness to implement the respective COREP reporting in a time frame consistent with par. 26 of the General Topics Chapter".	To align the General topics and CR chapters as well as not requiring undue burden to Financial Institutions.
22	Credit risk	2.2 IT systems: infrastructure and implementation testing	7a	61	Clarification	It is reported that *"the institution is able to produce risk parameter estimates for exposures in the scope of application"*. It is understood that the bank must be able to produce risk parameter estimates under a new model. This is already happening, to provide inputs to the RWA impact simulation, which is part of an application package. The new guidelines require the possibility to run such calculation in a live production environment (or parallel version) .However, it is of fundamental importance to clarify that the requirement of having an IT implementation able to produce risk parameters applies only to the Core Engine that is the algorithm for the quantification of the risk parameters (PD/LGD/EAD), and not its integration in an End-to-End Workflow which encompasses input collection and communication of the risk parameter outputs to downstream systems. In fact, the Core Engine needs to be integrated in a large and complex IT architecture, which serves a variety of bank's applications, not just a credit risk IRB model.	Overall IT framework definition
23	Credit risk	2.2 IT systems: infrastructure and implementation testing	7b	61	Clarification	It is not clear what the benefit of having IT user acceptance tests completed by the time of the application is. Indeed, an assessment of the IT implementation can be done only during the inspection phase of a new model inspection, which typically starts several months after model application. Considering that the longer the time a new model is kept in a parallel environment, the higher the unproductive IT cost, it appears reasonable to require the completion of IT implementations and user acceptance tests at a later stage, not at the time of application.	Implementation of user acceptance test by time of application
24	Credit risk	2.2 IT systems: infrastructure and implementation testing	7c	62	Clarification	It should be clarified that, from a technical perspective, the ability to calculate own funds requirements shall not prevent the use of proxies in such calculations. In fact, while the RWA impact simulation which is part of the application package is carried out with the maximum level of accuracy, the continuous feeding of the Core Engine with fully fledged inputs from the time of application to the go-live date is an expensive process, which does not necessarily have value added from risk magement perspective. The quality of IT implementations can be thouroughly assessed also in case some proxy inputs are used.	Potential use of proxies.
25	Credit risk	2.2 IT systems: infrastructure and implementation testing	7.e	61	Clarification	Further clarity on the definition of the "internal risk measurement and management purposes" term would be appreciated. Our understanding of the requirement of "is able to use the model for internal risk measurement and management purposes" when referred to estimation of risk parameters is that it would be met if there are previous versions in place for internal risk management. In other words, the requirement should not mandatorily demand having new versions of Economic Capital and IFRS 9 risk parameters calibrated by the time of the application submission. The grounds for such understanding is that Economic Capital and IFRS 9 models are not covered by the IRB regulation. This rationale shall be reflected when referring to the point in par. 8 if it's maintained.	Consistency with the scope of IRB regulation

26	Credit risk	2.2 IT systems: infrastructure and implementation testing	8	62	Deletion	We propose to delete paragraph 8. The introduction of the requirement of paragraph 8 to already have the IT implementation ready (in a non-live production environment) before material model change application to ECB is highly controversial and challenging. This could undermine other regulatory goals which at the end severely overcompensate the beneficial effects for the competent authority. On the one hand we understand that for Competent Authorities IT implementation can be audited within the Internal Model Inspection, hence, the CA has the ability to mandate an assessment by the IMI teams and does not need to rely on the assessment of the institution's internal validation or audit teams. We think, however, that the AT can, in case of material model change reusing large parts of an existing rating system, take considerable comfort from the existing production and the IT change and testing procedures in place. Further, the introduction of this requirement will have the following negative impacts: - Significant increase in time to market for an improved model: ○ For a material model change the required steps are 1) model development, 2) review by IVU, 3) review by internal audit and 4) IT implementation 5) Internal Model Inspection 6) ECB approval process. Steps 1), 2), 3), 5) and 6) cannot be performed in parallel they have to be done sequentially. Up to now it was industry practice to submit the material model change application to ECB after step 3) review by internal audit/IVU and IT implementation was finalised in the time period after material model change submission to ECB until final approval by ECB which took on average in the recent years approx. 2y, giving enough time for the model implementation - hence, IT implementation did not enlarge the time spam from the start of model development until its application in the IT systems ○ If ECB requires that all of the above mentioned steps will be performed sequentially it means that the time to market for a material model change will be enlarged by the time needed for IT implementation including testing activities as well as the assessment from IVU and internal audit ○ This means that i) productive models that obviously have weaknesses (otherwise a material model change application would not have to be submitted) will have to run for a longer period of time and ii) the newly developed models additionally will have further matured before their go life, making a subsequent material model change application more likely - Production of a significant amount of investment and maintenance costs for institutions, unnecessarily having a negative effect on CET1 ratio as institutions will be required to run two IT systems in parallel even though final own funds calculation will remain unchanged. This has two significant cost implications: (i) new IT environments with a sizing close to production needs to be purchased and set-up for a considerable number of IT systems (none of the current IT environments can be used as those are needed to maintain the productive rating system; (ii) two versions of the source code need to be held in sync – in fact any change in the productive system (e.g. non-material ex-post changes or improvements for the user) has to be done, tested and released in the non-productive version as well. For the latter the costs of having the two branches of the source code in sync increases with time and really becomes prohibitive considering the average approval time of at least 2 years. In terms of solution we therefore recommend that Paragraph 8 is either removed entirely. We would also note this wuld reduce the challenges associated with model approavals of several model changes at the same time - impacting both the supervisor and banks, and the time it takes to get approvals from different supervisors. This is particularly challenging given timing for granting approval does not have time limits, and this can result in significant operational challenges for a prolonged period.	

27	Credit risk	2.3 Policies, roles and responsibilities in data processing and data quality management	15(b)	64	Amendment	We would like to request an amendment on this point: "(b) IT functions are responsible for supporting the operation of the systems for data collection, processing, transformation, storage ~~and availability~~ during the entire life cycle of the data." We think that 'availability of the data during the entire life cycle of the data' is not clear. Indeed, according the definition of availability (being data are made available to the relevant stakeholders) and the definition of the life cycle of the data (being ' the whole data life cycle, from data entry to reporting, and encompass both historical data and current application databases'), the spectrum of data to be made available can be very broad (regarding the modelling, calibration, back testing and application data sets on the whole history, or the data based on which the RDS are built and regarding the outputs of the models, the data contributing to the regulatory reporting or use test and this on the whole history also). We think that "availability" should be deleted in order to allow a proportionate expectation.	Supporting availability during the entire life cycle of data is a too extensive expectation
28	Credit risk	3.6 Use of human judgement	46	74	Amendment	The requirement to make different analysts re-rate independently the same obligor generates an undue burden to institutions as it will be extremely complex and it's not clear that the exercise leads to meaningful results. In addition, it constitutes an unrealistic scenario as, generally, there will be an analyst that posseses a deep knowledge of the obligor. This knowledge will be crucial to properly rate the obligor considering human judgement and cannot be matched by an alternative analyst. Instead, the requirement should be substituted by the need to establish clear guidelines and instructions that limit the discretion of the analysts when applying human judgement. In such a way the generation of the rating can be traceable, but on the premise that there is an analyst with a deep knowledge of the obligor behind the generation of the rating.	Avoid undue burden for financial institutions

29	Credit risk	3.6 Use of human judgement	47	74	Amendment	Prudential regulation and supervision has a key role to play in ensuring that banks manage climate and environmental risks. There are a number of areas where this is being addressed in banks prudential risk management frameworks already: - The CRR3 introduces a mandate for the EBA to report by the end of this year on targeted enhancements to the current P1 framework and additional revisions taking into account the international framework - The ECB guide on Climate and Environment risks which banks are expected to have implemented by the end of 2024. - The BCBS principles for the effective management and supervision of climate -related financial risks. This mandates banks to identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. - CRD6 sets out a number of mandates which will address the treatment of these risks in P2, and assessment of them through transition plans and climate risk stress testing We would urge the ECB not to introduce further requirements for banks to integrate C&E risks into their internal models while banks are implementing the aforementioned requirements. This could have a number of drawbacks as follows: - It may run counter to the advice and recommendations of the EBA report to be published at the end of this year, leading to inconsistent guidance and expectations. - The explicit incorporation of the C&E risks into the Internal models Guide would result in an uneven playing field between standardized approach banks and internal model institutions - The ECB does not set out any clear timeline for the C&E factors in EGIM, this is critical given the level of empirical data that would underpin the integration of these risk factors - The lack of data will also impact on the corresponding credit risk requirement for banks to apply margins of conservatism which will need to be applied. This risks double counting if - as proposed in the guidelines - an override process is set up so that the final grade reflect these risks. This is a good illustration that the proposed texts may lead to overlapping margins of conservatism. - For market risk OFR calculation, our view is that these emerging risks are potential drivers of the traditional risks, already captured in the risk assessment framework of internal models. Including them as a driver in itself, first poses the issue of technical feasibility considering that there is no clear methodology as to how to measure separately the impact of C&E drivers in market prices and, hence, derive an input for banks' internal models. Second, it opens the risks of double-counting as these drivers are potentially priced in the market. As to what counterparty credit risk refers, it is not directly in scope, as it is indirectly affected through credit risk parameters (PD, LGD, etc.). - Aside from the challenge of available empirical date (which is in the process of being addressed both through regulation and banks' own initiatives), there are a number of open methodological issues that need to be addressed including double counting between P1 and P2 and buffers, and the consistency with the modelling approach and other potential risk drivers. Until the points above have been addressedwe would urge the ECB to remove or remain silent on the C&E risks in this update to the guide.	
30	Credit risk	3.7 Use of data in the case of consolidations	54-57	78	Clarification	We highly appreciate that the ECB has incorporated expectations regarding consolidations of institutions. Nevertheless, it seems that the new expectations are focused only on the modelling aspects of the IRB models and the integration of the data within the models as well as the application of the necessary adjustments. We would also recommend that the EGIM incorporate expectations in terms of a flexible process for aligning the DoD to be used after a consolidation process, as this is key for management purposes. Flexibility aligned to management needs in combination of a properly defined RTC is advisable.	Avoid misinterpretation of the criteria

31	Credit risk	3.7 Use of data in the case of consolidations	55	76	Amendment	There might be cases where the default history of the acquired portfolio is not representative to an extent which cannot be rectified by appropriate adjustments. There should be some freedom to exclude such data with the condition of justification. Potential rewording to para 55 could be as follows: "*In particular, for loss data, where the acquiring bank's workout processes are different from those of the acquired bank* ***and the contribution of the portfolio of acquired bank to the target entity would result in a fundamentally different portfolio composition as a result of the merger (e.g. the acquired bank covers geo-sectoral sub-portfolios not covered or scarcely covered by acquiring bank)****, the acquiring bank should apply paragraphs 33 and 38 of the EBA Guidelines on PD and LGD. However, in line with paragraph 163 of the EBA Guidelines on PD and LGD, it is the ECB's understanding that the defaults relating to the acquired bank's portfolio should not be excluded.* ***Nevertheless, in presence of pure acquisition with full extension of acquiring bank processes with no fundamental change of the application portfolio of target entity, historical loss data retrieval of closed default may be avoided, proving that no bias is introduced in the LGD risk quantification***"	
32	Credit risk	3.7 Use of data in the case of consolidations	56	76	Amendment	We propose to clearly state that the absence of legal rights represents an exception for which the bank is allowed not to acquire these data. Therefore, the text is proposed to be amended as follows: "Where the acquirer does not have the legal right to access the default and loss histories of the acquired portfolios (e.g., in the case of a portfolio acquisition), **the acquirer is not required to acquire these data**".	specific treatment in case of absence of legal right of the acquirer
33	Credit risk	4.2 Consistency of the application	60	78	Amendment	We suggest to clarify that the expected level of consolidation is at the highest level of consolidation. Regarding information on the behaviour of the obligor that has to be consolidated we want to underline that it goes beyond what is required in the EBA guidelines therefore we propose the following formulation : "This implies that, for a banking group, all information about the different exposures ~~and the behaviour~~ of the obligor across the banking group must be consolidated ***at the highest level of consolidation of the group.***".	We suggest to add amend where the ECB proposal goes beyond EBA guidelines on definition of default
34	Credit risk	4.2 Consistency of the application	62	79	Amendment	A breach of thresholds for more than 90 days in a given country (including a country out of EU) is not an indication that an obligor will default in other countries for the purpose of the default definition in these countries. It should trigger a global UTP assessment and then (if needed) a potential default downgrading but it should not lead automatically to a default. This ECB expectation goes beyond the EBA guidelines on DOD who don't require such action from banks and instead aknowledge that there can have different default triggers based on national discretion. We therefore suggest to remove the following sentences: ~~" "If an obligor has exposures under both SSM and non-SSM jurisdictions, institutions should check both the ECB materiality threshold and the materiality threshold (if any) applicable in the other jurisdiction. The default will be triggered in the jurisdiction where themateriality threshold is first exceeded for 90 consecutive days, and institutions are then expected to apply additional unlikely to pay triggers, making use of the provisions set out in paragraph 58 of the EBA Guidelines on DoD, to achieve a consistent default status across all jurisdictions."~~ We would also note that our understanding is that for cases where a global client has some exposure in jurisdictions where national authorities have set a different threshold, carrying out a parallel counting of days past due limited to the portion of the exposure within that jurisdiction, would not allow for an accurate assessment of the credit quality of the obligor (e.g. if a client holds 95% of its exposure in a jurisdiction falling under SSM threshold and 5% under other national regulation, the default may be triggered even if in overall terms is not material). It should also be noted that, applying this parallel counting of days past due is excesively burdensome in terms of processes specially in cases where most of the exposure of the client is booked in a ECB jurisdiction.	We propose to modify statements that go beyond EBA guidelines on definition of default

35	Credit risk	4.2 Consistency of the application	63	79	Amendment	We would like to underline that the term "best practice" used in this § for the JCO doesn't constitute a requirement but rather the ECB's desired process. We do not think this process should be mandatory, which would go against guidance given by the EBA Q&A 443). Moreover The Joint Credit Obligation (JCO) for retail and non retail is difficult to compare. For retail, the notion of co borrowers (equally resposnible) is homogeneous, but it is not the case for the non retail. For the non retail - there are cases when several companies have common liabilities, neverthess each case is very specific (e.g. extent of liability, partners, co-owners, guarantees, cash pooling …). It will be extremely complex and burdensome to apply this notion to the non retail as it is a case by case assessment for each JCO. This is why we suggest the following reformulation : *"~~In the ECB's understanding, it is best practice~~ ~~for~~ institutions ~~to~~ may foster consistency within the process related to the default identification by also applying these requirements to joint credit obligations44 involving non-retail exposures."*	We propose to modify statements that go beyond EBA guidance on definition of default
36	Credit risk	4.3 Days past due criterion	67	80	Amendment	Proposed rewording: However, in the specific case of factoring ***or leasing arrangements*** where the purchased receivables are recorded in the balance sheet of the institution, if the counter at obligor level reaches 90 but none of the receivables to the obligor is more than 30 consecutive days past due at facility level, then this should be recognised as a technical past due situation according to paragraph 23(d) of the EBA Guidelines on DoD and the default should not be triggered. In such a case, the counters at obligor and facility levels keep running (unless the obligor repays past due exposures) and default is triggered as soon as one receivable is more than 30 consecutive days past due. Due to the similar nature of the business of leasing this should be considered (as elsewhere in the text leasing and factorig are considered together).	
37	Credit risk	4.3 Days past due criterion	68	81	Amendment	Asset class attribution is driven by the criteria defined for RWA calculation in line with Regulatory Reporting operative criteria prescribed by CRR. The identification of past due exposures incorporates such asset class attribution and the calculation is performed according to EBA RTS on the materiality threshold for credit obligations past due. Consequently, our interpretation is that when switching from retail to non-retail classification matheriality threshold are modified accordingly and the ordinary past due identification process is applied so we would suggest to amend par. 68 as per below "*If the past due amounts cease to be material then the counting of days past due is reset and if the default trigger represented by the days past due criterion was active, it ceases to apply. ~~Past due amounts may cease to be material as a result of repayments from the obligor but also in cases where the obligor has an exposure of up to €50,000 and switches from retail to non-retail classification~~"*	asset class attribution in line with regulatory requirements
38	Credit risk	4.3 Days past due criterion	69	81	Amendment	The daily conversion of exposures in currencies other than Euro may imply an higher volatility of the days past due counter if the past due is close to the threshold. As the days past due counters would be reset as ionly effect of the exchange rate taking the past dues amount below the threshold, this volatility would generally turn to resolve in a late recognition of defaults. A stabilization mechanism might be considered as, for instance, that the exchange rate is keeped fixed at the day of first activation of the counter as the days passes by, so that the counter can be reset only if the past due amount in the currency of denomination decreases, or that the exchange rate is updated less frequently to riduce the volatility.	Avoid delay in recognising defaults and volatility in applying the absolute threshold.
39	Credit risk	4.3 Days past due criterion	70	81	Clarification	Paragraph 70 seems to suggest that fees with non-financial nature related to services provided by the Bank can be excluded from the recognition as a credit obligation past due. Is our understanding correct?	Treatment of fees on non-financial nature.

40	Credit risk	4.3 Days past due Criterion	73	82	Amendment	The paragraph clarifies that “situations where the bank has approved a moratorium or restructuring for an obligor that is less than 90 days past due on material credit obligations but the resulting suspension or reset of days in the past due counter is applied in the systems with some delay when the counter has already reached 90 days” shall be treated as technical default in accordance to EBA GLs on the application of the DoD, par. 23 a) that qualifies a default as technical “where an institution identifies that the defaulted status was a result of data or system error of the institution, including manual errors of standardised processes but excluding wrong credit decisions”. However such specification leaves uncovered all circumstances subject to payment suspension by law that were retroactively recorded in the systems after the definition and check of the eligibility criteria set by the law that prolongued the credit decision. To this end we suggest introducing a dedicated provision stating that "moratoria granted based on applicable laws having retroactive effects from a period where the obligor was less than 90 days past due on material obligation might be treated as technical default also in the case the credit decision approving a moratorium was taken when the counter had already reached 90 days"	Wider aknowledgement of technical default from moratoria.
41	Credit risk	4.3 Days past due Criterion	73	82	Deletion	Revised merger suggestion: While we agree that institutions shall evaluate without undue delay the conditions for suspending the counting of days past due in case of disputes, it shall be also aknowledged that a precondition for the suspension is having formal notice of the dispute which is exposed to notification delays. The possibility to avoid a mis-registration of a default shall not depend on such delays. Furthermore, we would note this para seems to contradict para 71, where disputes can be subject to DpD counting suspension. In case this cannot be done technically, this would classify as similar to technical default. As a consequence we suggest - that past due linked to disputes initiated before the classification shall be allowed for a treatment as technical default although the corresponding suspension of the counting of days past dues is recorded after the classification in Default - to delete the last part of the sentence related to disputes: ~~"This includes, for instance, issues with payments resulting from errors in the data or systems of the obligor and disputes under paragraph 19 of the EBA Guidelines on DoD. With regard to the latter, it is the ECB’s understanding that treating disputes as technical past due situations, for instance because of the impossibility of suspending the counting of days past due in the systems, would lead to an unwarranted inflation of technical past due situations."~~	
42	Credit risk	4.3 Days past due criterion	74	82	Amendment	Par. 25 c) of the EBA GL refers to 180 days past due. By applying the treatment only after 90 DpD, a counterparty which holds other past due exposures could be defaulted also because of the contribution of the exposures vs central governments, local authorities and public sector entities from the beginning. Thus, the application of the specific treatment for central governments, local authorities and public sector entities form the beginning by mean of a parallel calculation with and without exposures vs central governments, local authorities and public sector entities form the beginning(exclusion from DPD 1 and not after 90 DPD) allows the correct computation of the credit obligation past due at counterparty level. We would suggest to amend as per below "*The specific treatment under paragraph 25 should be applied ~~as soon as exposures have been materially past due for more than 90 consecutive days, and not before, but only~~ where all conditions specified in paragraph 25 are met.* *The specific treatment implies that, in accordance with paragraph 26, these exposures are not treated as being defaulted and, from the time of the application of the specific treatment, those exposures have to be excluded from* *the calculation of the materiality threshold for all other exposures of the obligor.* *The exposures that are subject to the specific treatment need to be clearly documented. If, after the application of the specific treatment, the materiality threshold is still exceeded on account of other exposures past due which are not covered by the specific treatment, the obligor in question, and all of its exposures, are immediately regarded as having defaulted."*	Correct past due computation at counterparty level.

43	Credit risk	4.4 Unlikeliness to pay criteron	79	84	Deletion	Proposed rewording: The calculation of the diminished financial obligation should be performed for all distressed restructurings in accordance with paragraph 52 of the EBA Guidelines on DoD when the distressed restructuring is agreed. ~~Hence, the calculation should also be performed in cases where the threshold is blatantly exceeded, for example if a large part of the principal is forgiven. In this regard, it should be noted that – for institutions using own LGD estimates – the calculated diminished financial obligation is also relevant for deriving the economic loss caused by a default whenever institutions open new facilities to replace previously defaulted facilities as part of a restructuring or for technical reasons (see paragraph 153(b) of this chapter), and the amount by which the financial obligation has diminished is included among the information that the reference dataset for LGD estimation should contain (see paragraph 109(c) of the EBA Guidelines on PD and LGD).~~ If an institution applies a material change to its definition of default by reviewing the threshold for assessing the materiality of the diminished financial obligation, the reviewed threshold should be applied to distressed restructurings that occur after the modification of the threshold and does not affect previous restructurings. Reasons for proposed rewording in comments on para 153 in the chapter Loss Given Default	
44	Credit risk	4.5 Return to non-defaulted status	85	85	Amendment	- The EBA NDoD GL mentions that a client should not have any past dues before return to non default status (para 73-c). We understand that the past dues are material past dues because the Guidelines always consider that there is a past due when the counter starts as both thresholds are breached. - Therefore, the monitoring and risk management has been built around the detection of material past due. A change in the detection of the past due could lead to significant IT and operational changes. - If an immaterial past due has an impact on the return to non default status for the 12M probation period but not on the 3M probation period, there is lack of consistency. Furthermore, Par. 71 of the EBA GL - that describes the minimum conditions for the reclassification to a non-defaulted status - requires at point b) to take into account the behaviour of the obligor during the 3 months c) to take into account the financial situation of the obligor during the 3 months We propose the following formulation : "Hence, it is the ECB's understanding that institutions should refrain from allowing the return to non-default status as long as exposures are subject to outstanding past due amounts, even if these past due amounts are ~~immaterial or are~~ less than 90 days past due." This would make the draft fully consistent with EBA Q&A 5860.	We propose to modify statements that go beyond EBA guidelines on definition of default
45	Credit risk	4.5 Return to non-defaulted status	86 b)	86	Clarification	Please clarify the sentence *"when a new default trigger becomes applicable the probation period keeps running but the exposure cannot return to non-default status until the new trigger and all other triggers cease to apply"*. Is our interpretation correct, namely that the presence of amounts past due does not stop the probation period but the exposure cannot exit the 1 year probation period as long as there are outstanding past due amounts (even if immaterial or less than 90 days). As an example, the 1 year probation period keeps running (e.g. probation period counter is not reset to zero) even if the client registers 60 days past due but at the end of the probation period the client cannot exit until there are no past due amounts.	amounts past due during the 1 year probation period
46	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	89	87	Amendment	We consider changes made by banks to "other indicators of unlikeliness to pay" as defined by EBA GL on DoD should not trigger any prior approval from the competent authority for a "Change in the definition of default according to Article 178 as per CRR" (Annex I - Part II - Section 1 - paragraph 3 from Regulation 529/2014). Rationale is that such "other indicators of unlikeliness to pay" are mentioned not to be in article 178 but "besides the article 178(3) of the CRR" (as mentioned by the EBA GL on DoD). Therefore, we think that the ECB should clarify this specific topic in paragraph 89.	Changes to "other indicators of unlikeliness to pay" should not trigger any prior approval from competent authority for a change in the definition of default

47	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	90	88	Amendment	As any change in the definition of default implies material model change (as changes are expected to be jointly managed across portfolios) and as changes in the light of para 91 might eventually imply a full redevelopment of a certain model, in our view the introduction of a two step approach would enhance flexibility and better ensure feasibility of the different expectations would be helpful. In a two-step approach mechanism similar to that envisaged for the adoption of the new DoD, the adoption of the DoD changes across portfolios might better be managed through material model change as first step, wheras the calibration/re-estimation of parameters follow a second step to be deployed across portfolios in a reasonable time-frame through, depending on the changes envisaged, either ex-ante notification or material model changes.Furthermore, In case each smaller adjustment to the DoD leads to material model changes for both, DoD AND risk parameters the required effort for the application is disproportionate and will motivate institutions to wait as long as possible for these changes contradicting to ECBs target to apply appropriate DoD and IRB models as early as possible. Proposed rewording - pls add at the end of the paragraph: ***In case of smaller changes to the DoD for which the institution can demonstrate that the expected impact on PD/LGD parameter estimation is not material ECB advises to apply for the material model change on the DoD without applying for model changes on the risk parameters at the same point in time to avoid disproportionate time frames and reduce effort needed for a joint application***	Higher flexibility and feasibility in adoptiong changes to the DoD. ECB should allow for a fast track process for smaller changes.
48	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	91	88	Amendment	When it is stated that "institutions should demonstrate the model's risk differentiation on a time series of realised default rates (or LGD or CCF) reflecting the new definition of default", ECB should take into account that in many countries the roll-out of the new definition of default coincided with the Covid-19 pandemic crisis. Both these events could deeply affect the model's risk differentiation, but to properly identify and separate the two effects could be a challenge for the institutions, considering also that the Covid-19 consequences are still not perfectly clear at a bank system level. Therefore, we suggest replacing "it is the ECB's understanding that a recalibration is not sufficient to adjust the models to the new definition of default and, in addition to the recalibration, institutions should perform a full redevelopment of their models ***or to analyze and justify that this is not necessary***".	NDoD implementation may occur at the same time with COVID pandemic, the expectation on maintaining good risk differentiation post NDoD implementation should be more flexible.
49	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	92	88	Amendment	We suggest to make clear that the paragraph 92 dedicated to the adjustment of risk estimates in case of changes of definition of default describes best practices (nice to have) or illustrative examples. The legal basis written by the EBA does not provide to date any detailed prescriptive quantitative/qualitative methods to adjust risk parameters in case of change of default definition. Therefore, the retrospective simulation, the parallel run or the similar classification of data are only examples, banks can use their internal adjustment methods as long as long they comply with CRR.	Need to explicitly clarify that the methods proposed by ECB are illustrative as there is no prescriptive detailed method in the legal basis. Banks may use their internal methods to adjust risk parameters as long as they are compliant with CRR.
50	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	93	89	Amendment	The systematic addition of a MoC triggered by modifications in the definition of default seems excessively restrictive and may limit the introduction of new changes in the definition of default as it would penalise model outcomes.	Avoid undue burden for financial institutions

51	Credit risk	5.1 Structure of PD models	94	90	Deletion	Prudential regulation and supervision has a key role to play in ensuring that banks manage climate and environmental risks. There are a number of areas where this is being addressed in banks prudential risk management frameworks already: - The CRR3 introduces a mandate for the EBA to report by the end of this year on targeted enhancements to the current P1 framework and additional revisions taking into account the international framework - The ECB guide on Climate and Environment risks which banks are expected to have implemented by the end of 2024. - The BCBS principles for the effective management and supervision of climate -related financial risks. This mandates banks to identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. - CRD6 sets out a number of mandates which will address the treatment of these risks in P2, and assessment of them through transition plans and climate risk stress testing We would urge the ECB not to introduce further requirements for banks to integrate C&E risks into their internal models while banks are implementing the aforementioned requirements. This could have a number of drawbacks as follows: - It may run counter to the advice and recommendations of the EBA report to be published at the end of this year, leading to inconsistent guidance and expectations. - The explicit incorporation of the C&E risks into the Internal models Guide would result in an uneven playing field between standardized approach banks and internal model institutions - The ECB does not set out any clear timeline for the C&E factors in EGIM, this is critical given the level of empirical data that would underpin the integration of these risk factors - The lack of data will also impact on the corresponding credit risk requirement for banks to apply margins of conservatism which will need to be applied. This risks double counting if - as proposed in the guidelines - an override process is set up so that the final grade reflect these risks. This is a good illustration that the proposed texts may lead to overlapping margins of conservatism. - For market risk OFR calculation, our view is that these emerging risks are potential drivers of the traditional risks, already captured in the risk assessment framework of internal models. Including them as a driver in itself, first poses the issue of technical feasibility considering that there is no clear methodology as to how to measure separately the impact of C&E drivers in market prices and, hence, derive an input for banks' internal models. Second, it opens the risks of double-counting as these drivers are potentially priced in the market. As to what counterparty credit risk refers, it is not directly in scope, as it is indirectly affected through credit risk parameters (PD, LGD, etc.). - Aside from the challenge of available empirical date (which is in the process of being addressed both through regulation and banks' own initiatives), there are a number of open methodological issues that need to be addressed including double counting between P1 and P2 and buffers, and the consistency with the modelling approach and other potential risk drivers. Until the points above have been addressedwe would urge the ECB to remove or remain silent on the C&E risks in this update to the guide.	

52	Credit risk	5.2 PD risk quantification	95	91	Amendment	In defining expectations in terms of control and mitigation of the risk of overfitting, it is required that for model development purposes both out-of-sample and out-of-time testing are provided unless there are no sufficient data available for the training sample. We deem, in this context, that: i) the opportunity to enhance the representativeness of data leveraging on most recent observation shall not be undervalued in a context where the effects of the most recent pandemic still need to be fully analysed in terms of their effects on the historical relations between risk drivers and observed defaults; ii) the subsequent opportunity to value potential emerging/new patterns in the risk differentiation in a forward looking perspective; iii) the availability of efficient alternative means to control and mitigate the risk of overfitting. As a consequence, we deem that exception to the requirements shall not be limited to cases where otherwise there wouldn't be enough information for modelling purposes. More specifically, we deem appropriate to amend the text of the paragraph by adding after "unless there are no sufficient data available for the training sample" the following ***"or the risk of mis-specification connected to the exclusion of this information outweighs the risk of overfitting of including them. In such cases, however, institutions should ensure that the risk of overfitting is adequately controlled.~~with alternative testing techniques and mitigated where appropriate~~***".	Extend aknowledged means to mitigate the risk of overfitting
53	Credit risk	5.2 PD risk quantification	95	91	Amendment	We propose to change this part: "Independent datasets should correspond not only to random sampling (out-of-sample), but also to different time periods **(out-of-time), unless** there are no sufficient data available for the training sample. ". **We suggest adding a comma** to make clear that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.	Testing on independent datasets: Need to clarify that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.
54	Credit risk	5.1 Structure of PD models	95	91	Clarification	Within the article 95, it is stated that “Independent datasets should correspond not only to random sampling (out-of-sample), but also to different time periods (out-of-time) unless there are no sufficient data available for the training sample. The expectations set out above in this paragraph are specifically related to the model development phase.” Please clarify whether the prescription of testing out-of-sample and out-of-time is only related to risk differentiation, while all data should be used for risk quantification, thus preventing out-of-sample/out-of-time calibration test?	Testing on independent datasets
55	Credit risk	5.1 Structure of PD models	95	91	Clarification	"Carving out" a part of a development sample (i.e. a sample used to define the process of assigning exposures to grades or pools) results in a smaller sample with more statistical uncertainty. It is our understanding that the calculation of Margin of conservatism can still be based on a full sample. Otherwise it would mean an increase in MoC and correspondingly the capital requirements for financial institutions as compared to the currently valid EGIM version. We propose to add the sentence on dealing with statistical uncertainty to the §95. Proposed rewording: ***"The expectations set out above in this paragraph are specifically related to the model development phase. Model calibration sample and the corresponding statistical uncertainty in the model estimates are not in the scope of the stated expectations and should reflect all available information on realised default rates."*** The same comment and proposal applies to the corresponding LGD and CCF paragraphs.	
56	Credit risk	5.1 Structure of PD models	95	91	Clarification	This para could lead to misinterpretation and deviating interpretations. On the one hand it is stated the described measures are in particular important for data poor portfolios. On the other hand it is stated that out-of-time sampling has to be performed unless there are nor sufficient data available.-Also what are the consequences if certain sampling cannot be performed due to data scarcity?	

57	Credit risk	5.1 Structure of PD models	96	92	Amendment	Paragraph 96 explains that it is the ECB's understanding that PD models should perform adequately on economically significant and material sub-ranges of application. It also introduces the non-exhaustive lists of drivers to use where relevant for portfolios, which can be low default in some cases. It is therefore essential to enhance the paragraph to accomodate for various estimation methodologies and types of portfolios. For this purpose, we suggest to rephrase the beginning of paragraph 96 in this manner: "In accordance with Article 144(1)(a) of the CRR, institutions' rating systems must provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk. To comply with this requirement, it is the ECB's understanding that PD models may perform adequately on economically significant and material sub-ranges of application, ***where applicable*** depending of the various estimation methodologies and type of portfolios. The sub-ranges are identified by splitting the full range of application of the PD model into different parts on the basis of potential drivers for risk differentiation, including the following non-exhaustive list of drivers, where relevant: [...]"	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
58	Credit risk	5.1 Structure of PD models	96	91	Amendment	Draft EGIM provides valuable reference for the definition of sub-ranges of application of a PD model over which model performances shall be tested. However, the level of granularity is rather big and therefore it shall be acknowledged that discriminatory power is ihnerently lower when tested at more granular level compared to the overall model and predictive power might find some form of compensation among different clusters, expecially for those clusters of lower materiality that were found not significant/appropriate to be integrated in the risk differentiation model and/or in the definition of calibration segments. To account for this it is suggested to amend the paragraph by allowing a proper justification of potential deviations that cannot be avoided at that level of granularity. Specifically while providing "should perform adequately on economically significant and material sub-ranges of application" we deem appropriate to add ***"or otherwise be properly justified"***	aknowledge that model might not perform as expected in every cluster defined at the required level of granularity
59	Credit risk	5.1 Structure of PD models	101	93	Clarification	This requirement is difficult to be evidenced with data for banks using the same predefined masterscale across all portfolios. Justification remains rather qualitative.	
60	Credit risk	5.1 Structure of PD models	102	94	Deletion	It has been noted in past audits that conditions of 102b) and 103 cannot be fulfilled at the same time with sufficient significance if rating grades are defined via thresholds on probabilities of default given by a risk differentiation model. We propose to drop either one of these conditions or restrict homogeneity violations to cases where also model fit is violated. In these cases additional MoC should be the preferred remediation, since model fit can also not be guaranteed under given modelling restrictions (e.g. interpretability of risk-drivers, linearity of model).	
61	Credit risk	5.1 Structure of PD models	102	94	Amendment	This paragraph relies in particular on paragraph 69 of EBA Guidelines on PD-LGD estimation. However the sub-paragraph b is added on top of EBA requirement. It seems essential to amend this sub-paragraph in order to cope with various estimation methodologies and types of portfolios. In particular for LDP portfolios, the volume of data conditions the number of possible grades, and it may be difficult to include additional risk drivers without ending with some grades with very scarce volume of default. We suggest therefore the following rewording: "*Articles 170(1)(b) and (d) and 170(3)(b) and (c) of the CRR require, among other things, that the structure of rating systems must ensure the homogeneity of obligors or facilities assigned to the same grade or pool. In accordance with this requirement and under paragraph 69 of the EBA Guidelines on PD and LGD:* *[...]* *(b) in cases where it is found (through the use of additional drivers or a different discretisation of the existing ones) that a material subset of obligors or facilities within a grade/pool yields a significantly different default rate to that of the rest of the grade or pool, this is considered to indicate a lack of homogeneity,* ***except*** *if the use of additional drivers will be detrimental to having minimum default data to perform LRA calibration, or except if the use of additional drivers would immaterially contribute to the risk differentiation capability of the model or in a way that cannot considered statistically robust."*	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios

62	Credit risk	5.1 Structure of PD models	103	94	Amendment	A sufficiently granular rating scale is a precondition for a high user acceptance of the rating model at hand. We appreciate the ECB expectation that choices from the institution in that regard need to be adequately justified and commensurate with the level of risk. This said, the requirement of "empirical confirmation" in a sense of a watertight proof based on the data is unreasonably high esp. for good rating grades where defaults are not that dense per definition. *"To comply with the requirement to ensure adequate risk differentiation across grades or pools, institutions should ensure that there are no significant overlaps in the distribution of the default risk between grades or pools. This should be ensured through a meaningful differentiation of the default rates of each grade. In particular, the ECB expects that a very granular rating scale will only be used in cases where the institution is able to* ***adequately justify*** ~~***empirically confirm***~~ *the risk differentiation across grades as described in this paragraph.* ***In order to accomodate for various estimation methodologies and types of portfolios, this paragraph may be applied with some flexibility."***	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
63	Credit risk	5.1 Structure of PD models	103	94	Amendment	Requirement practically does not allow for the use of global master scale, which is perceived as intervention in the bank steering. This makes comparability between portfolios and with this meaningful use test very difficult. 1. Without a master scale concept, comparability of ratings from different rating systems is not given anymore. This is in particular relevant in case of rating transfer and third party support. For example, when performing a rating transfer between a subsidiary and its parent – a more concrete example would be a bank subsidiary of a corporate entity, as e.g. often the case in the automotive industry – the ratings must be comparable as they are in certain cases either directly inherited or notched according to predefined rules. 2. Also the rating override process and respective policies are based on the master scale concept. Several parts (e.g. when it comes to notch downgrades or considerations of investment vs. non-investment grade) would need to be reworked from scratch when leaving or collapsing the master scale, with potential inconsistencies and reduced transparency being the result. 3. The concept of sovereign ceiling requires ratings of counterparties and their sovereign to be directly comparable and would hence not work without a master scale concept either. 4. W.r.t. granularity of the rating/master scale note that risk differentiation between grades is not only based on default observations, but also other criteria impacting the risk profile like data availability (for example for listed counterparties much more information can flow into the assessment) and support considerations.	

64	Credit risk	5.1.4 Use of ratings of third parties	108		Amendment	Regarding the first paragraph, our institution regularly encounters 2 types of guarantees issued within a corporate hierarchy: 1) a related party (i.e. the guarantor) issuing a guarantee to an obligor (i.e. the subsidiary), most notably a hard letter of comfort; 2) a related party issuing a guarantee on behalf of an obligor to its lender(s). In our view both types should qualify as “appropriate guarantees” to allow for a rating transfer. Hard letters of comfort (where a parent is obliged to fund a subsidiary always in such a way that it can meet its financial obligations) are definitely covered by the concept of rating transfer as they “reflect support provided by the third party to the obligor and not the institution itself”. Yet, it has to be noted that even if hard letters of comfort are directed to provide financial support to the obligor (and not the institution itself), they nevertheless provide a legally protected position for the lender. Also, the letter of comfort does not constitute a direct obligation of its provider (usually the parent company) to make a payment to the lender under the letter of comfort. Instead, in case the parent company does not fulfill its obligations under the LoC – and a default occurs in respect of institution’s claims against the subsidiary – this may give rise to a claim for damages by institution against the parent company. This indirect obligation by the protection provider is, however, usually issued in favor of the institution, also to ensure the required legal effectiveness and enforceability of the protection. In our view, also guarantees provided by the parent on behalf of the obligor to the lender should be are eligible for the rating transfer. Economically, such guarantees support a subsidiary in the same way as hard letters of comfort to avoid legal claims against the parent itself, whilst it is acknowledged that – from a contractual perspective – in case of a guarantee the institution would need to become active after a default of the obligor. From our point of view, however, there is no practical difference in the utilization of such parental support via guarantees or hard letters of comfort. Also in case of a guarantee, the parent company is strongly incentivized to provide the required support to the obligor in order to prevent the institution from making claims against the borrower under the guarantee and thus preventing the default of the obligor. If, however, a default occurs in respect of the institution’s claims against the subsidiary, and if these claims are covered by a guarantee, the default will trigger the institution’s right to make claims under the guarantee vis-à-vis the parent company (being the guarantor). Regarding the second paragraph, 1) it seems to mix up "rating scales" with "rating systems". Our institution has only one master rating scale for all rating sytems. However, the remainder part of the paragraph suggests that the paragraph actually refers to individual rating systems in a bank. In any case, the verbiage should be made unambiguous. 2) If indeed "rating systems" are meant, it is entirely unclear how the automated alignment of PDs including MoC after a rating transfer from one rating system to another should work. The PD rating is first determined based on the calibration via a long-run average default rate of the client portfolio rated on a given rating system and the MoC, which in turn differs from one rating system to another, is added thereafter. If the idea is now that PD ratings incl. MoC should be aligned automatically across rating systems, wouldn't this contradict the original principle behind separation of PD and MoC per each rating system?	
65	Credit risk	5.2 PD risk quantification	122(f)	101	Amendment	Regarding the migration of obligors between rating models, rating systems or approaches to calculation of capital requirements within the observation period, it seems that the requirement is inconsistent with model implementation: - For model implementation (application of risk parameters on sound portfolio), we cannot predict any migration to come, so it is consistent that the parameters applied to the obligor are based on the information at the photo date (for instance if an obligor is a mid-corp at the photo date, it will be applied the mid corp rating model without knowing that the obligor will become a large corporate). It is only in the re-rating process (within for instance one-year period time) that the obligor may be affected with another rating if need be, whereas the default rate calculation is based on one-year horizon observation.	Inconsistency between model development and model implementation

66	Credit risk	5.2 PD risk quantification	122(f)	101	Amendment	Regarding tracking of sale of credit obligations, it is considered as conservative not to take them into account as we have not observed all the workout process for such credit obligations. Therefore, flexibility in the application should be applied.	Flexibility needed because we can remain conservative
67	Credit risk	5.2 PD risk quantification	123	101	Amendment	The requirements of article 122 on the one-year DR calculation cannot be replicated at the same manner as for internal models due to intrinsic nature of external data thus introducing much more flexibility in case of external data and provided it can be grounded by supporting analyses. For this reason we propose the following rewording ***"For clarity, the above-mentioned requirements for the calculation of one-year default rates could be evaluated in case of external data for PD quantification being used at a more aggregated level than obligor or facility level"***	1 year DR calculation in case of external data
68	Credit risk	5.2 PD risk quantification	124	102	Amendment	This condition is very likely to be met for the reason that using overlapping time windows leads to overweighting of snapshots in the middle of the time period. Thus, the use of overlapping time windows should not be expected if any of the a) b) c) conditions is given. We propose b) to be used in conjunction with a) and/or c).	
69	Credit risk	5.2 PD risk quantification	125	102	Amendment	The requirements around the use of external data seem so complex we expect deviations/ inconsistent assessments and findings if external data is used (or even not used).	
70	Credit risk	5.2 PD risk quantification	126	103	Deletion	Which other analyses than testing for statistical significance should be used? The analyses required by this paragraph need to be performed on internal data only and lack of statistical evidence in case of scarce data (i.e. broad confidence intervals for wholesale portfolios) will not be accepted. This makes it difficult if not impossible for non-retail PD to meet those requirements, especially the following sentence which should be deleted: *"In particular, it follows from the applicable rules that under no circumstances should an approach be adopted to overcome data scarcity at grade or pool level, lack of evidence of discriminatory capacity, homogeneity or heterogeneity across grades."* This is also not required by the EBA. In our view, when the calibration to the LRA default rates are applied, as provided by the EBA GLs, at calibration segment level, it cannot be ensured that PD estimates are adequate at individual grade or pool level. While there shouldn't be a systematic deviation over the grades distribution, some deviations at individual grades level might be expected.	
71	Credit risk	5.2 PD risk quantification	126	103	Amendment	It is suggested to relax the point relying only on the period in which the information on the full series of risk drivers would be available in case of the impossibility to retrieve the same at all reference date, therefore the PD estimates will be applied where possible. In this sense it is suggested to amend the article as follows: "*…institutions, in order to assess whether the parameter estimates are biased as per paragraph 38 of this chapter, should compare the LRA default rate using only internal data with the average PD estimates (before adding an MoC) resulting from their application to the internal exposures over the set of all reference dates,* ***subject to availability of the information of risk drivers****, within the period representative of the likely range of variability.*	Additional specification for risk drivers
72	Credit risk	5.2 PD risk quantification	130 (b), (c)	105	Clarification	Provisions under article 130 (b) shall cope with the circumstance that not all risk drivers used to assign a counterparty/exposure to a certain grade might be available with an historical depth consistent with the likely range of variability of default rates that might be used, at a more aggregate level, to calibrate at calibration segment level. This can be the case, for instance, where ratings consider innovative information that either are not available with the same historical depth (e.g. information coming from big data) or where older data might not be fully representative. As a consequence LRA at rating grade level might be available on a subset of the population, possibly over most recent period, still allowing for a meaningful and robust comparison.	A meaningful comparison of Default rates at calibration segment vs. Rating grade level might be based on a subset of the overall poulation
73	Credit risk	5.2 PD risk quantification	130(c)	105	Amendment	This is a new position. Previous practice during last audits was rather to look at adequacy of LROV approach for determining the historical observation period. It is also in contrast to requirement to take at least 5 years of history and additional years if relevant. The term "long" needs to be defined as well as "reasonable efforts".	

74	Credit risk	5.2 PD risk quantification	130(c)	105	Clarification	In the specific case of changes in the method for assigning exposures to grades or pools, the requirement to make all reasonable efforts to recalculate the new assignment back through time is deemed fully reasonable. However, where the recalculation is not possible, a practice to use the historical rating assignments based on previous versions of the assignment methodology is not considered suitable for all purposes. Some analyses performed on these old rating assignments, such as e.g. - Representativeness of the likely range of variability - Calibration tests could be biased and therefore not conclusive. Therefore, we ask to leave the possibility no to use historical assignments to grades in case recalculation of historical ratings for the full historical observation period is impossible or too burdensome. Proposed rewording: Add in the end: <If re-calculation of the historical rating assignments is not possible and the usage of the historical rating assignments is not adequate, appropriate adjustments for the long-run average default rate shall be made. They can be based on approximated ratings using the new (changed) assignment methodology. Calibration tests as mentioned in point (b) of the paragraph.>	
75	Credit risk	5.2 PD risk quantification	130(e)	105-106	Clarification	It is indicated that institutions are expected to adjust the observed average of one-year default rates when they are unable to obtain long series of one-year default rates as described in point (c). This paragraph ends by stating the following "As a consequence, in the case of the LRA default rate at grade level, the necessary adjustment depends on the grade assignment dynamics among other things". The "other things" that shall be considered for the adjustment are open to each reader's interpretation and ultimately may cause undesirable variability of the outputs of models used to calculate RWA. Hence, we request a clarification of what "other things" should be considered when determing the adjustment in the case of the LRA default rate at grade level.	Open criteria may lead to different assumptions across banks and RWA unwarranted variability
76	Credit risk	5.2 PD risk quantification	130	105	Deletion	Taking into account the length of the usual historical observation periods employed to estimate regulatory PDs, the need to reproduce the method to assign exposures to grades or pools to cover the whole period generates a requirement almost impossible to meet in most portfolios. The requirement is an over-interpretation of the premises in the EBA/GL/2017/16, which consider acceptable ways to estimate regulatory PDs where such data requirement is not needed. It is expected that institutions should keep evolving their risk-ranking methods in order to consider the most relevant information to rate their exposures, especially in a fast-evolving and dynamic environment. Expecting that this evolving information will be available at all periods is not realistic and may end up generating a considerable burden to institutions when aiming to relate different risk-ranking methods employed over time (or, alternatively, substantial MoCs that may end up distorting the level of estimates). If the option were to build ranking methods applicable at all times, this would result in poor discrimination methods with little use for managemente purposes, as no new information could be incorporated into ranking methods. The requirement should be relaxed.	Strict interpretation of regulatory requirements in EBA/GL/2017/16
77	Credit risk	5.2 PD risk quantification	131	106	Clarification	Depending on calibration approach there might be deviations between average PD and LRA default rate for some grade or pools. As far as deviation does not affect significant proportion of the relevant population and are not systematic it should not be autmatically regarded as a violation of this paragraph.	
78	Credit risk	5.2 PD risk quantification	132	106	Clarification	This paragraph should not override the flexibility allowed for in the EBA GLs with respect to the adopted Rating and calibration philosophies and to the expectations around the required comparison. In particular, it should be clarified that it is deemed appropriate that both long run average metrics are similar but the time series of the PD may exhibit cyclical variation and deviation depending on the adopted philosophies.	To avoid any misinterpretations regarding the supervisory expectation.

79	Credit risk	5.2 PD risk quantification	133	107	Clarification	Point a) of the article is referring principally to situations of discrepancies that potentially could come up by comparing LRA DR and PD at grade level, but it is not clear how the comparison should be carried out in this case from a methodological perspective differently from what has been already indicated in case of analysis at calibration segments (i.e. art 132: "in performing this comparison, the institution should calculate the LRA PD at calibration segment level as the arithmetic average across time of the (arithmetic) average PD at calibration segment level for each reference date"). Therefore we propose to clarify if the aforementioned comparison has to be computed by using same approach as detailed in par 132 but related to grade or pool (LRA PD at the level of grade or pool to be calculated as the arithmetic average across time of the (arithmetic) average PD at grade or pool level for each reference date) or another one would be required and in the latter case please provide much more details on the computation.	Methodological apprach for analysis of dicrepancies between LRA DR and PD at grade/pool level
80	Credit risk	5.2 PD risk quantification	135	107	Amendment	The proposed challenger of quantifying the RWEAs resulting from the application of alternative PDs calculated on the basis of the LRA default rate at grade level is, in our understanding, not reasonable in the case when there are no systematic deviations between the estimated PDs and the LRA default rate of the grades. If any observed deviations are not systematic, they are random, meaning they have no statistical significance. Given the statistical insignificance of the difference, comparing RWA in this scenario would introduce uncessary confusion on how to interpret the results and also on what follow-up actions should be taken, ultimately leading to different steps across different banks and thus unwarranted RWA variability. Indeed, whatever it be the approach of calibration (by segment or by grade) the testing of the proper predictability should be ensured in both cases. As such the rationale is not clear on the need to have a parallel RWA simulations resulting from the alternative PDs calculation as a conclusive elements on the appropriateness of the adopted methodology. This requirement goes beyond what already set out by EBA Guidelines making increasingly complex and over-burdensome even the pure model maintenance activities. As such is is deemed extremely critical this expectations and it is expressed an high concern on this article. Hence, we propose the following amendment: *"…~~In any case, even if~~ **When** the deviations are ~~**not**~~ systematic, the ECB expects institutions to demonstrate that such grade-level deviations do not distort the RWEA calculations. ~~For that purpose, institutions should analyse any material difference between the RWEAs resulting from the current calibration and the RWEAs resulting from the application of alternative PDs calculated on the basis of the LRA default rate at grade level for the application portfolio, and reach a conclusion on the appropriateness of the adopted methodology on the basis of such a comparison."~~*	Potential unwarranted RWA variability

81	Credit risk	5.2 PD risk quantification	136	108	Clarification	This paragraph should not override the flexibility provided for in EBA/GL/2017/16 with respect to the adopted Rating Philosophy and with respect to the calibration approach. Currently, the previous paragraphs in the section tend to point towards prescribing a grade level approach, although in a much more restrictive view than that described in the EBA/GL/2017/16 (see Table 1 in the Background and Rationale section), as it is practically required to reproduce the grading structure in the whole historical observation period (disregarding simpler and more pragmatic options which may fit in the condition 'Adjust PD on rating grade level to LRA DR' stated in the GLs). If a calibration at segment level approach is employed, the expectation in the ECB Guide is that the results would be similar (disregarding then the range of alternative options described in the mentioned Table 1 under portfolio level approaches). Under the usual rating philosophy of risk-ranking methods employed by institutions to assign exposures to grades or pools (i.e., scoring and rating models based on the internal information of the exposures), the likely outcome of such an approach would be cyclical RWA calculations, by which it would be highly complex to meet the requirement of CDR 2022/439 in that 'With regard to risk quantification, it is desirable that the PD estimates are relatively stable over time in order to avoid the excessive cyclicality of own funds requirements'. In order words, any meaningful risk differentiation system will combine drivers predictive in the short and the long-run, thus generating scores/rating relatively sensitive to economic conditions. When taking into account the natural decision to use such ranking models to assign exposures to grades or pools, the prescribed methodology will result in cyclical RWA calculations (just varying depending on the rating philosophy of the institution) and thus significantly narrowing the range of options considered acceptable in the EBA GLs. However, a last requirement seems to exist in this paragraph forcing institutions to 'compare the average PD (before MoC) at calibration segment level with the one-year default rate and with the LRA default rate at calibration segment level for each of the calculation dates adopted for LRA default rate calculation'. Then it is required to judge whether the results are 'appropriate' on the basis of that comparison and of the grade assignment dynamics of the PD model. Indeed different rating philosophies may trigger rather different results from the required comparison and therefore the paragraph provides little clarity on the supervisory expectations. It shall therefore be clarified that it is not ECB expectation that average PDs and LRA default rate at calibration segment level are found aligned within the comparison.	To avoid any misinterpretations regarding the supervisory expectation.
82	Credit risk	5.2 PD risk quantification	136	108	Amendment	The article, making explicit reference to paragraph 89 of the EBA Guidelines on PD and LGD, says that institutions should ensure that for the purpose of calibrating PD estimates to the LRA default rate, any overrides applied in the assignment of obligors to grades or pools are taken into account and that in case it would not be possible an appropriate adjustment (AA) plus MOC should be calculated. It is deemed that the above requirement would imply an intensive data retrieval that could be cumbersome and therefore an huge effort for rating desk activities with the direct consequence of massive application of MoCs and AA with detrimental effect on capital impacts. Therefore, it is suggested to relax the assumption of MOC's application and AA in absence of specific overrides relying more on the bank's capacity to do override and the relative application of the override policy.	Treatment of overrides for calibration purposes

83	Credit risk	6.1 Realised LGD	143	113	Deletion	Prudential regulation and supervision has a key role to play in ensuring that banks manage climate and environmental risks. There are a number of areas where this is being addressed in banks prudential risk management frameworks already: - The CRR3 introduces a mandate for the EBA to report by the end of this year on targeted enhancements to the current P1 framework and additional revisions taking into account the international framework - The ECB guide on Climate and Environment risks which banks are expected to have implemented by the end of 2024. - The BCBS principles for the effective management and supervision of climate -related financial risks. This mandates banks to identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. - CRD6 sets out a number of mandates which will address the treatment of these risks in P2, and assessment of them through transition plans and climate risk stress testing We would urge the ECB not to introduce further requirements for banks to integrate C&E risks into their internal models while banks are implementing the aforementioned requirements. This could have a number of drawbacks as follows: - It may run counter to the advice and recommendations of the EBA report to be published at the end of this year, leading to inconsistent guidance and expectations. - The explicit incorporation of the C&E risks into the Internal models Guide would result in an uneven playing field between standardized approach banks and internal model institutions - The ECB does not set out any clear timeline for the C&E factors in EGIM, this is critical given the level of empirical data that would underpin the integration of these risk factors - The lack of data will also impact on the corresponding credit risk requirement for banks to apply margins of conservatism which will need to be applied. This risks double counting if - as proposed in the guidelines - an override process is set up so that the final grade reflect these risks. This is a good illustration that the proposed texts may lead to overlapping margins of conservatism. - For market risk OFR calculation, our view is that these emerging risks are potential drivers of the traditional risks, already captured in the risk assessment framework of internal models. Including them as a driver in itself, first poses the issue of technical feasibility considering that there is no clear methodology as to how to measure separately the impact of C&E drivers in market prices and, hence, derive an input for banks' internal models. Second, it opens the risks of double-counting as these drivers are potentially priced in the market. As to what counterparty credit risk refers, it is not directly in scope, as it is indirectly affected through credit risk parameters (PD, LGD, etc.). - Aside from the challenge of available empirical date (which is in the process of being addressed both through regulation and banks' own initiatives), there are a number of open methodological issues that need to be addressed including double counting between P1 and P2 and buffers, and the consistency with the modelling approach and other potential risk drivers. Until the points above have been addressedwe would urge the ECB to remove or remain silent on the C&E risks in this update to the guide.	

84	Credit risk	6.1 Realised LGD	153	116	Deletion	We propose to delete the entire paragraph 153 for the following reasons: ECB's proposal to additionally take into account NPV reductions stemming from prolonging the payback schedule and reduction of interests/fees contradicts to a) Paragraph 132 of the EBA Guidelines on PD and LGD which points out that the economic loss should be calculated based on the outstanding amount at the time of default (including interests/fees) minus any recoveries realised after the default. Additional losses due to a reduced NPV are not mentioned. b) Paragraph 134 of of the EBA Guidelines on PD and LGD which refers to losses incurred through only forgiveness or write-offs which to our understanding means reduction of the principal amount, not taking additionally reduction of interest/fee payments or to prolonging the payback schedule.Paragraph 137 of the EBA Guidelines on PD and LGD which points out that interests/fees need to be taken into account for the calculation of the realised LGD only up to the time of default but not thereafter. c) The accounting regime. Booking of LLP also only take into account book value changes with do not consider maturity / interest / fee changes for hold to maturity transactions (and only for those LLP needs to be calculated). d) The playing level field as the requirement to additionally include NPV losses for the calculation of realised LGDs into account (potentially leading to higher LGD estimates) is only relevant for those institutions regulated by ECB but not for institutions outside of the SSM area.	
85	Credit risk	6.1 Realised LGD	155	117	Clarification	We would request clarification with the CRR3 which extends the deadline for adjustments until 2024. This article should specifcy how to treat disposals from June 2022 until final approaval of the CRR.	Avoid misinterpretation of the criteria
86	Credit risk	6.1 Realised LGD	156	117-118	Deletion	For sake of clarification and in order to avoid any distorted used in the application of article 500 CRR, it is proposed to delete the following sentence "*…Since this date has passed, it is no longer possible to request additional adjustments under this Article*" since it is considered as redundant with respect to the last sentence of the same article that is "..*Only the date of disposal is relevant for determining whether this time limit has been complied with"* thus not adding any relevant information and in this sense it does not represents any added value to the overall understanding of the article. Moreover, it could be in contradiction with the CRR3 that will presumably extend the deadline for using these adjustments until 2024.	Specification on the date for requesting additional adjustments under article 500
87	Credit risk	6.1 Realised LGD	157	118	Clarification	We propose to better clarify the meaning of the following sentence: "*In the case of a parent, the ECB considers that the adjustment at the consolidated level should reflect the adjustment conducted by the qualifying subsidiary or subsidiaries only*."	Specification on the application of article 500 in presence of subsiduaries
88	Credit risk	6.1 Realised LGD	158	118	Clarification	We propose to better clarify the meaning of the following sentence " *It is the ECB's understanding that the threshold condition should be evaluated at the level of the institution submitting the plan referred to in Article 500(1)(a) of the CRR.*" Indeed, if the NPL strategy and related disposal plan is defined at the level of overall consolidated Group, the 20% threshold shall be defined accordingly. Indeed, the disposal plan aimed at reducinge the NPL ratio at Group level may have pushed to disposal price pressure in order to accelerate the run-down of NPE portfolio that can affect all portfolio at individual bank level (and related local LGD model) even not breaching the 20% threshold at individual bank level (but contributing to breaching it at consolidated level). It is deemed that looking purely to individual bank level would be highly detrimental in the adoption of Article 500 to the extentd that the fractioned disposal of each entities of a banking Group are concurrent to an overall consolidated NPL strategy that as such shall be the level of application of the Article 500 (if the institution submitting the plan at Group level is the parent company for the overall Group, the disposal plan and the related submission of Article 500 shall be consistent). It is deemed of utmost importance to clarify this aspect in order to avoid detrimental limitation to the adoption of Article 500 in consideration of its strategic importance in having supported banking sector de-risking without biased effect on LGD parameters and related implications on own funds requirement.	Specification on the type of level at which the 20% threshould should be applied

89	Credit risk	6.1 Realised LGD	160	118-119	Clarification	The last statement of art 160 point b) reports: "*…The ECB expects the update to the Article 500 adjustment to reflect the (economic) conditions and processes as of the date of disposal and not as of the date of the adjustment.*" meaning that each adjustment applied in line with art 500 would rely simply on the information available at the date of disposal and not at the date of the specific adjustment. This seems in contradiction to what has been required in the same point before when the text refers to the use of "*newly available information*" to be included in the annual review of estimates that would increase the accuracy of the Article 500 adjustment performed in the past. It is deemed beneficial to clarify if this new information refers to the date of disposal and, if so, how to interpret the meaning of the word "newly"? Moreover, immediately after in the same point, it is mentioned that institutions should have "*pre-defined, internally approved criteria to decide whether the accuracy of the Article 500 adjustment can be increased*" but it appears not clear which are exactly the aforementioned criteria to be applied. Based on these considerations it is suggested to better clarify each points of the article (especially of points b) and c)), with illustrative examples with the aim of supporting institutions to have a better understanding and ensure harmonized adoption of the supervisory expectations set out in this article. Indeed, the overall paragraph implies, in our understanding, that adjustments to disposals under CRR article 500 might be updated over time based, for instance, on a change in the methodology for the adjustment, but data referring to periods beyond disposals date shouldn't normally be considered in the application of the updated approach (i.e. data available within the date of disposals should normally be considered). To this purpose, in point (b) it is specified that "The ECB expects the update to the Article 500 adjustment to reflect the (economic) conditions and processes as of the date of disposal and not as of the date of the adjustment.". In this context, however, point (c) seems to imply a wider usage of post-disposals information. The reference to "sufficiently long time may be considered to have passed once most of the cases that were incomplete as of the date of the disposals have been closed or if the maximum period of the recovery process has been reached as of the time of the estimation)" seems not fully consistent with the reported point (b) provision.	Information and criteria to be used for increasing the accuracy of Art 500
90	Credit risk	6.1 Realised LGD	163	119	Clarification	The article reports that "*Regarding the treatment of incomplete workouts, in order to avoid circular logic if the Article 500 adjustment is based on the incomplete workout treatment, then from the date of the massive disposal onwards, and in the case of disposed assets only, supervised entities are not expected to analyse costs and recoveries as described in paragraph 159(a) of the EBA Guidelines on PD and LGD*". It is proposed to clarify better the meaning of "*circular logic*" in the context of incomplete workout process treatment since it seems misleading and not particularly meaningful. Moreover, we do not expect to observe any costs and recoveries after the date of disposal hence it is not clear why it is specified.	Treatment of incomplete workout process
91	Credit risk	6.1 Realised LGD	166	120	Deletion	Massive disposals should be disregarded from the calculation of the maximum recovery period. In the end, the recovery of such cases is projected, considering implicitly the possibility of obtaining flows in the future. If the affected facilities are maintained in order to calculate the maximum recovery period there is an intrinsic contradiction with the assumption used to obtain the flows. If disposals are significant, they would bias the calculation or generate disruptive effects in any relevant time series. At most, representativeness analyses could be required (for instance, if the massive disposals just applied to long-time-in-default facilities).	
92	Credit risk	6.1 Realised LGD	166	120	Clarification	The article mentions that "….*In particular, they should be treated as such for the purpose of determining the maximum period of the recovery process as referred to in paragraph 156 of the EBA Guidelines on PD and LGD with the date of the massive disposal as the closure date, unless institutions can provide firm evidence that this approach has a significant and unjustifiable biasing impac*t". Generally speaking, the presence of massive disposals always produces bias in the MRP calculation since the disposed transactions would be included purely with their disposal date and disposal price (without any inference on future recoveries), which are not representative of the ordinary recovery process.Therefore it is proposed to clarify better what is the exact meaning of the last sentence "*unless institutions can provide firm evidence that this approach has a significant and unjustifiable biasing impact*" and delete it in case of redundancy.	Maximum Recovery Period computation

93	Credit risk	6.1 Realised LGD	167	120	Deletion	The article reports as follows: "*The relevant downturn period in accordance with paragraph 15 of the EBA/GL/2019/03 and the LGD appropriate for a downturn should be identified based on the realised LGDs of the observed defaults after the application of the Article 500 adjustment*." It is suggested to delete the first part of the article "*the relevant downturn period period in accordance with paragraph 15 of the EBA/GL/2019/03*" and simply substitute the original statement with the following "*The LGD appropriate for a downturn should be identified based on the realised LGDs of the observed defaults after the application of the Article 500 adjustment*" since the DT period is usually identified based on the list of macroeconomic factors and not on the LGD observed.	Downturn period identification
94	Credit risk	6.2 LGD structure	172	121	Clarification	It is suggested to better clarify the goal of this article especially in describing, with illustrative examples, and how the consistency should be ensured among different reference dates for risk drivers that vary over time and the cases in which the fixed time horizon can be applied and when it is not appropriate. In particluar we would request cllarifiation of the following sentence: "where risk drivers vary over time, an approach consisting of a fixed (for all defaults) time horizon before default, particularly where this time horizon is less than 12 months, should not be used". Can the ECB set out approaches should be deemed as adequate for the case of behaviour risk drivers as those values specifically vary over time? Additionally, it is not clear what is meant by saying that the same approach "*should not be used unless the institution is able to show that such an approach does not result in a lack of representativeness (in the sense of the previous sentence) leading to the final LGD estimates (at grade or pool level) being underestimated*".	Risk drivers inclusion and relative consistency among different reference dates

95	Credit risk	6.2 LGD structure	172	121	Amendment	Prudential regulation and supervision has a key role to play in ensuring that banks manage climate and environmental risks. There are a number of areas where this is being addressed in banks prudential risk management frameworks already: - The CRR3 introduces a mandate for the EBA to report by the end of this year on targeted enhancements to the current P1 framework and additional revisions taking into account the international framework - The ECB guide on Climate and Environment risks which banks are expected to have implemented by the end of 2024. - The BCBS principles for the effective management and supervision of climate -related financial risks. This mandates banks to identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. - CRD6 sets out a number of mandates which will address the treatment of these risks in P2, and assessment of them through transition plans and climate risk stress testing We would urge the ECB not to introduce further requirements for banks to integrate C&E risks into their internal models while banks are implementing the aforementioned requirements. This could have a number of drawbacks as follows: - It may run counter to the advice and recommendations of the EBA report to be published at the end of this year, leading to inconsistent guidance and expectations. - The explicit incorporation of the C&E risks into the Internal models Guide would result in an uneven playing field between standardized approach banks and internal model institutions - The ECB does not set out any clear timeline for the C&E factors in EGIM, this is critical given the level of empirical data that would underpin the integration of these risk factors - The lack of data will also impact on the corresponding credit risk requirement for banks to apply margins of conservatism which will need to be applied. This risks double counting if - as proposed in the guidelines - an override process is set up so that the final grade reflect these risks. This is a good illustration that the proposed texts may lead to overlapping margins of conservatism. - For market risk OFR calculation, our view is that these emerging risks are potential drivers of the traditional risks, already captured in the risk assessment framework of internal models. Including them as a driver in itself, first poses the issue of technical feasibility considering that there is no clear methodology as to how to measure separately the impact of C&E drivers in market prices and, hence, derive an input for banks' internal models. Second, it opens the risks of double-counting as these drivers are potentially priced in the market. As to what counterparty credit risk refers, it is not directly in scope, as it is indirectly affected through credit risk parameters (PD, LGD, etc.). - Aside from the challenge of available empirical date (which is in the process of being addressed both through regulation and banks' own initiatives), there are a number of open methodological issues that need to be addressed including double counting between P1 and P2 and buffers, and the consistency with the modelling approach and other potential risk drivers. Until the points above have been addressedwe would urge the ECB to remove or remain silent on the C&E risks in this update to the guide.	

96	Credit risk	6.1 Realised LGD	173	121	Amendment	In defining expectations in terms of control and mitigation of the risk of overfitting, it is required that for model development purposes both out-of-sample and out-of-time testing are provided unless there are no sufficient data available for the training sample. We deem, in this context, that: i) the opportunity to enhance the representativeness of data leveraging on most recent observation shall not be undervalued in a context where the effects of the most recent pandemic still need to be analysed in terms of their effects on the historical relations between risk drivers and observed losses; ii) the subsequent opportunity to value potential emerging/new patterns in the risk differentiation in a forward looking perspective; iii) the availability of efficient alternative means to control and mitigate the risk of overfitting. As a consequence, we deem that exception to the requirements shall not be limited to cases where otherwise there wouldn't be enough information for modelling purposes. More specifically, we deem appropriate to amend the text of the paragraph by adding after "unless there are no sufficient data available for the training sample" the following ***"or the risk of mis-specification connected to the exclusion of this information outweights the risk of overfitting of including them. In such cases, however, institutions should ensure that the risk of overfitting is adequatly controlled~~with alternative testing techniques and mitigated where appropriate~~"***.	Extend aknowledged means to mitigate the risk of overfitting
97	Credit risk	6.1 Realised LGD	173	121	Amendment	Suggested rewording: […] Independent datasets should correspond not only to random sampling (out-ofsample), but also to different time periods (out-of-time) unless there are no sufficient data available for the training sample. ***However, when performing out-of-time analysis, most recent time slices should not be omitted to prevent for a potential bias with effects stemming from open cases in the analysis.*** LGD development in recent time slices is highly affected by open cases for which LGD realisations depend on the assumption of future cashflows. Performing an out of time analysis by just omitting recent time slices would have a high impact on the ratio between open vs. closed cases which would bias the outcome of the analysis	
98	Credit risk	6.2 LGD structure	174	122	Amendment	Paragraph 106 explains that it is the ECB's understanding that LGD models should perform adequately on economically significant and material sub-ranges of application. It is therefore essential to enhance the paragraph to accomodate for various estimation methodologies and types of portfolios (such as LDP portfolios). For this purpose, we suggest to rephrase the paragraph in this manner : "*Institutions' rating systems must provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk. It is the ECB's understanding that to comply with this requirement institutions should demonstrate that, in terms of the range of application of LGD models, the model performs adequately (in terms of discriminatory power and predictive power) on economically significant and material sub-ranges of application of the rating systems,* ***where applicable*** *depending of the various estimation methodologies and type of portfolios. The sub-ranges are identified by splitting the full range of application of the LGD model into different parts on the basis of potential drivers for risk differentiation, among which, where relevant, the drivers referred to in paragraph 121 of the EBA Guidelines on PD and LGD.*"	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
99	Credit risk	6.2 LGD structure	175(b)	122	Amendment	It seems essential to amend this sub-paragraph in order to cope with various estimation methodologies and types of portfolios. In particular for LDP portfolios, the volume of data conditions the number of possible grades, and it may be difficult to include additional risk drivers without ending with some grades with very scarce volume of default. We suggest therefore the following rewording : "*[...] (b) sufficient homogeneity of the risk within each grade or pool by providing empirical evidence that the grade-level LGD is adequate for all facilities in that grade. For this purpose, in cases where it is found (through the use of additional drivers or a different discretisation of the existing ones) that a material subset of facilities within a grade or pool yields a significantly different average realised LGD to that of the rest of the grade or pool, this is considered to indicate a lack of homogeneity,* ***except*** *if the use of additional drivers will be detrimental to having minimum default data to perform LRA calibration.*"	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios

100	Credit risk	6.3 Risk quantification	181	125	Amendment	The paragraph 159(a) of EBA Guidelines on PD-LGD estimation requires that for the purpose of estimation of the future costs and recoveries to analyse the costs and recoveries realised on these exposures until the moment of estimation, in comparison with the average costs and recoveries realised during a similar period of time on similar exposures. This part is interpreted by the ECB in a more prescriptive manner, imposing to base the extrapolation of future recoveries on defaults arising from vintages. However it is essential to enhance the paragraph to accomodate various estimation methodologies and types of portfolios such as LDP portfolios. For low volume of data, the extrapolation may in some cases be performed at more aggregated level in order to have sufficient data to estimate the projections. Therefore, we suggest to amend the sub-paragraph b : *"[...] (b) for the purpose of paragraph 159(a) of the EBA Guidelines on PD and LGD in particular,* ***when*** *the data volume allows such granular approach, base the extrapolation of future recoveries on defaults arising from vintages (i.e. group of exposures which defaulted in a given period of time) for which, during the period already observed, similar average past recoveries have been realised on similar exposures [...]"*	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
101	Credit risk	6.3 Risk quantification	190	129	Amendment	In order to have a harmonised view of Inspection teams, it is useful to remind several general principles regarding the downturn estimation: - The application of downturn requirements as provided by CRR cannot be boiled down to conservatism of risk parameters. Given complexity to reach consensual harmonization on downturn estimation, the EBA conducted a consultation by two times with the industry (one in March 2017, one in May 2018). Should the regulator had assumed that the downturn estimation to be only used for conservatism purposes, the EBA would have imposed a fixed and conservative approach such as the fallback approach (LRA LGD + 15%) harmoniously through the European banks. However, the legal basis decomposes the work in several structured steps, with the first step being the identification of downturn period based on studies on macroeconomic factors, and the second step the downturn impact on LGD. The downturn LGD quantification is done in such a way that the EBA provides the most risk-sensitive conditions when the banks have data to objectivize their downturn impact ("best estimates"). - From an economic perspective, the downturn conditions do not always lead to an increase of risk parameters, even less on an impact on specific grades. For some cases, economic crisis can imply that certain sectors being neutral to an economic crisis, even to benefit from an economic downturn - For low default portfolios, the choice of calibration may be more aggregated due to the high concern to keep enough volume of defaults to perform the calibration of downturn margin. Therefore it is important to accomodate various methodologies and types of portfolios. - As the EBA mentioned in its Guidelines by several times, the reference value acts as a non-binding challenger to the final downturn LGD estimation. The paragraph 32 of the Background and rationale states : "the reference value can be driven by other issues than the impact of an economic downturn period (e.g. low number of defaults, changes in the portfolio composition, fraud or operational risk cases, or even natural disasters such as an earthquake). Even if the reference value is driven by an economic downturn period, the reference value itself should not be considered an appropriate quantification of downturn LGD (as it may not comply with all the requirements laid down in these GL)". In other words, according to CRR, an appropriate downturn estimation quantification cannot be solely applying the highest years of LGD. We think that this should be reflected in the Guide.	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios and to follow the EBA logic in the donwturn estimation

102	Credit risk	6.4 Estimation of ELBE and LGD in-default	191	130	Deletion	Prudential regulation and supervision has a key role to play in ensuring that banks manage climate and environmental risks. There are a number of areas where this is being addressed in banks prudential risk management frameworks already: - The CRR3 introduces a mandate for the EBA to report by the end of this year on targeted enhancements to the current P1 framework and additional revisions taking into account the international framework - The ECB guide on Climate and Environment risks which banks are expected to have implemented by the end of 2024. - The BCBS principles for the effective management and supervision of climate -related financial risks. This mandates banks to identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. - CRD6 sets out a number of mandates which will address the treatment of these risks in P2, and assessment of them through transition plans and climate risk stress testing We would urge the ECB not to introduce further requirements for banks to integrate C&E risks into their internal models while banks are implementing the aforementioned requirements. This could have a number of drawbacks as follows: - It may run counter to the advice and recommendations of the EBA report to be published at the end of this year, leading to inconsistent guidance and expectations. - The explicit incorporation of the C&E risks into the Internal models Guide would result in an uneven playing field between standardized approach banks and internal model institutions - The ECB does not set out any clear timeline for the C&E factors in EGIM, this is critical given the level of empirical data that would underpin the integration of these risk factors - The lack of data will also impact on the corresponding credit risk requirement for banks to apply margins of conservatism which will need to be applied. This risks double counting if - as proposed in the guidelines - an override process is set up so that the final grade reflect these risks. This is a good illustration that the proposed texts may lead to overlapping margins of conservatism. - For market risk OFR calculation, our view is that these emerging risks are potential drivers of the traditional risks, already captured in the risk assessment framework of internal models. Including them as a driver in itself, first poses the issue of technical feasibility considering that there is no clear methodology as to how to measure separately the impact of C&E drivers in market prices and, hence, derive an input for banks’ internal models. Second, it opens the risks of double-counting as these drivers are potentially priced in the market. As to what counterparty credit risk refers, it is not directly in scope, as it is indirectly affected through credit risk parameters (PD, LGD, etc.). - Aside from the challenge of available empirical date (which is in the process of being addressed both through regulation and banks’ own initiatives), there are a number of open methodological issues that need to be addressed including double counting between P1 and P2 and buffers, and the consistency with the modelling approach and other potential risk drivers. Until the points above have been addressedwe would urge the ECB to remove or remain silent on the C&E risks in this update to the guide.	
103	Credit risk	6.4 Estimation of ELBE and LGD in-default	192	131	Amendment	The interpretation of the EBA/GL/2017/06 seems too restrictive, in that a too 'long-run view' of the ELBE parameter is prescribed. The description in the paragraph is likely to result in significant differences between the estimated parameter and 'the best estimate of the expected loss given current economic circumstances'. Furthermore, it may be the case that the ELBE significantly deviates from the specific credit risk adjustment associated to the exposure, disregarding the general expectation of certain alignment between the concepts (once factors like the discount factor are taken into account). On these grounds, it is suggested to modify the paragraph in order to not distort the nature of ELBE parameter.	Ammendment to avoid distortion on the interpretation of the regulatory concept.

104	Credit risk	6.4 Estimation of ELBE and LGD in-default	195	132	Amendment	We understand paragraph 195 of the ECB Guide to internal models such that only committed limits are considered to be regulatory off-balance sheet items in line with point b) “consider as “commitment” any contractual arrangement that has been offered by the institution and accepted by the obligor to extend credit, purchase assets or issue credit substitutes.” Therefore, uncommitted limits are not considered to be regulatory off-balance sheet items since it is the Bank’s discretion whether it provides financing, e.g. in the form of a loan, or not, and these uncommitted limits do not establish a legally protected basis for the client’s confidence in receiving financial support. Additionally, the Bank would reduce or cancel such uncommitted limits, if the credit standing of the client deteriorates. With regards to committed limits, according to this ECB Guide to internal models, the nominal amount of this off-balance sheet item is determined as the advised limit, unless the unadvised limit is higher. However, this “higher (unadvised) credit limit may be disregarded if its availability is subject to a further credit assessment by the institution, as long as this additional assessment includes a re-rating or a confirmation of the rating of the obligor.” Since uncommitted limits are not considered to be regulatory off-balance sheet items, only higher committed unadvised limits are in scope. In practice, an on-demand re-rating or an explicit confirmation of the rating of the obligor would be extremely onerous for many customer types and not feasible in a timely manner. This is because many rating methods have a certain amount of manual input (expert judgements) or allow manual overrides. Therefore, we propose to delete the half sentence “as long as this additional assessment includes a re-rating or a confirmation of the rating of the obligor”. For this credit assessment, it is sufficient if the Bank approves each additional drawing by the obligor on an individual basis by, for example, assessing whether there are indications of deterioration of the obligor’s creditworthiness. This would be in line with the EBA Q&A ID 2017_3246 since the EBA also uses the terms ‘bank’s approval’ and ‘creditworthiness’ and does not require a re-rating or an explicit confirmation of the rating of the obligor: “As an illustration, framework arrangements would not give rise to off-balance sheet items if the institution needs not only to approve the initial and each subsequent drawdown by the client but it has also the complete discretion on whether to give its approval regardless of the fulfilment by the client of the conditions set out in the arrangement, since no drawdown would be possible without a prior and specific approval of the institution.[…]” As outlined above, we believe that this credit assessment prior to each drawdown by the obligor is only required for committed unadvised limits. If such a process exist, these higher committed unadvised limits can be disregarded. The proposed amendments are marked in red font. "127. Conversion factor means the ratio of the currently undrawn amount of a commitment that could be drawn and that would therefore be outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment is determined by the advised limit, unless the unadvised limit is higher. The exposure value for the items listed in Article 166(8) of the CRR must be calculated as the committed but undrawn amount multiplied by a CCF. To calculate the exposure value as required by Article 166(8) of the CRR, institutions should adopt the following approach. a) Treat a committed facility as an exposure from the earliest date after acceptance of the client at which the facility is recorded in the institution’s systems in a way that would allow the obligor to make a drawing. An unadvised committed limit is any committed credit limit defined by the institution (i) that is above the committed advised limit the obligor has been informed of by the institution; and (ii) according to which additional drawings are possible, at least temporarily. This higher (unadvised) credit limit may be disregarded if its availability is subject to a further credit assessment by the institution.~~, as long as this additional assessment includes a re-rating or a confirmation of the rating of the obligor.~~ b) Consider as “commitment” any legally binding contractual arrangement that has been offered by the institution and accepted by the obligor to extend credit, purchase assets or issue credit substitutes. Only commitments qualify as regulatory off-balance sheet items. c) Consider as “conditionally cancellable commitment” any such arrangement that can be and will be cancelled by the institution if the obligor fails to meet conditions set out in the facility documentation, including conditions that must be met by the obligor prior to any initial or subsequent drawdown under the arrangement. d) Consider as “credit lines” all lines including products such as facilities granted for construction where the payments to the obligor are made according to the progress of the construction. Products such as guarantees	

						are not, however, included in the concept of credit lines. e) Facilities which are not committed are not in scope for the exposure value calculation, i.e. do not qualify as regulatory off-balance sheet items. "	
105	Credit risk	7.3 CCF structure	202	136	Amendment	In defining expectations in terms of control and mitigation of the risk of overfitting, it is required that for model development purposes both out-of-sample and out-of-time testing are provided unless there are no sufficient data available for the training sample. We deem, in this context, that: i) the opportunity to enhance the representativeness of data leveraging on most recent observation shall not be undervalued in a context where the effects of the most recent pandemic still need to be analysed in terms of their effects on the historical relations between risk drivers and observed drawings; ii) the subsequent opportunity to value potential emerging/new patterns in the risk differentiation in a forward looking perspective; iii) the availability of efficient alternative means to control and mitigate the risk of overfitting. As a consequence, we deem that exception to the requirements shall not be limited to cases where otherwise there wouldn't be enough information for modelling purposes. More specifically, we deem appropriate to amend the text of the paragraph by adding after "unless there are no sufficient data available for the training sample" the following ***"or the risk of mis-specification connected to the exclusion of this information outweights the risk of overfitting of including them. In such cases, however, institutions should ensure that the risk of overfitting is adequatly controlled~~ with alternative testing techniques and mitigated where appropriate~~".***	Extend aknowledged means to mitigate the risk of overfitting
106	Credit risk	7.3 CCF structure	202	136	Amendment	We propose to change this part : "Independent datasets should correspond not only to random sampling (out-of-sample), but also to different time periods (out-of-time), unless there are no sufficient data available for the training sample. ". **We have added a comma** to make clear that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.	Need to be precise that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.
107	Credit risk	7.4 CCF risk quantification	204	138	Amendment	The requirement to compute the average realised CCF 'as the arithmetic average of the yearly averages of realised CCFs in that period' goes beyond article 182 (1) (a) of the CRR, which requires that 'institutions shall estimate conversion factors by facility grade or pool on the basis of the average realised conversion factors by facility grade or pool using the default weighted average resulting from all observed defaults within the data sources'. Please note that this description in the CRR is exactly the same as for the LGD parameter, for which the Guide is not prescribing any 'yearly averages' calculation. Additionally, the choice of calendar year is arbitrary: there is absolutely no economic rationale for taking average from January to December compared to e.g. July to June. We suggest that the ECB reformulate the paragraph by not imposing the intermediate step of calculating yearly averages of realized CCFs.	

108	Credit risk	7.4 CCF risk quantification	207	139	Amendment	In the original iteration of the ECB Guide, par. 137(b) concluded that fixed yet conservatively specified CCF were considered by the ECB as compliant when these estimates are applied in specific circumstances, such as scarcity of data or low materiality of the scope of application. In the current version under consultation, the ECB Guide refers to the use of fixed yet conservatively specified CCF as CCF values which are "mostly based on judgemental considerations" and raises several additional challenges: - It explicitly states that both the condition on materiality and data scarcity must be fulfilled for such CCF values to be assigned, which makes portfolios that traditionally resorted to this approach as ineligible for the future (e.g., retail mortgage portfolios); - The determination of CCF estimates appropriate for an economic downturn that include a sufficient MoC contradicts the use of a (mostly) expert-based model; - A floor of 100% over CCF estimates is enforced without: (i) taking into consideration that CCF estimates appropriate for an economic downturn that include a sufficient MoC can be below 100%; (ii) referring to the relevant studies or sources that sustain the selection of this floor; and (iii) indicating the appropriate regulatory references where this floor is framed. Hence, we request the following amendments: - The fulfilment of either the materiality or data scarcity condition should be sufficient for the use of CCF values which are "mostly based on judgemental considerations". - Adjust the wording used for the categorization of this methodology from "CCF values which are mostly based on judgemental considerations" to the original one used, namely ***"use of fixed yet conservatively specified CCF".*** - Remove the floor of 100% for CCFs that are obtained through this methodology.	Unrealistic requirements for fixed CCF approach
109	Credit risk	8 Model-related MoC	208	140	Clarification	According to our understanding the MoC C (related to the estimation error) should be aligned to the calibration approach, i.e. in case the institution uses calibration at segment level, the MoC should be aligned to the data used for target PD level calibration also be calculated at segment level.	
110	Credit risk	8 Model-related MoC	208	140	Amendment	We ask the ECB to add a clarification for applying MoC in continuous models in the final version of the updated EGIM. Suggested wording: ***"It is the ECB's understanding that for direct estimates (e.g. when using continuous models), following the requirements of paragraph 141, every PD estimate is to be understood as a separate grade or pool. Therefore, a "continuous" MoC calculated e.g. as a confidence interval of the estimation function is also allowed."*** It is our understanding that, as long as continuous models are allowed under the prerequisites mentioned in §141, every PD estimate is to be understood as a separate grade or pool (CRR Art. 169(3)). Therefore, a "continuous" MoC calculated e.g. as a confidence interval is also allowed.	

111	Credit risk	8 Model-related MoC	208	140	Amendment	The ECB expects that risk drivers related to climate and environmental risk be already included into the models, despite the absence of historical data which traditionally allows for the detection and assessment of statistical-based relations. Consequently the lack of this information is expected to be covered by Margin of Conservatism, thereby putting further stress on the capital of the banking system through disproportionate application of MoCs that could well risk double counting. While we agree that it is important to start collecting the information - both forward and backward looking - banks' current ability to use this as a sound reference data set to analyse the significance of climate-related risk drivers is insufficiently developed, due to data availability which relies in part on other EU regulations to collect and harmonise data coming into force, as well as external vendors being able to provide it. As such we propose to delete part of the para art 208 "In accordance with paragraph 37(a) of the EBA Guidelines on PD and LGD, the MoC should consider any deficiencies stemming from missing or inaccurate information including, where relevant and material, any missing or inaccurate climate-related information considered in risk estimates". Also this specification is redundant given expectations already set out in ECB Guidelines on climate-related and environmental risk (section 6.2) require the collection of historical information in order to set out a time series for assessing the potential significance of climate risk drivers. We would therefore amend the final sentence of this para as follows: *"In accordance with paragraph 37(a) of the EBA Guidelines on PD and LGD, the MoC should consider any deficiencies stemming from missing or inaccurate information including, where relevant and material~~, any missing or inaccurate climaterelated information considered in risk estimates~~."* See also comments on integration of ESG risk drivers under general topics.	Delete MOC introduction given data availability for empirical data on climate and environmental.
112	Credit risk	8. Model related MOC	208	140	Clarification/Amendment	We would like to have more clarification on the ECB's expectations with regards to the MoC estimation in cases where the number of observations and defaults in each grade is very low. In such instances calculating the MoC individually at grade level can result in a disproportionate level of conservatism at aggregate portfolio level. This can usually be mitigated by using "direct estimates" of PDs for which the uncertainty/sampling error can be calculated and compared at appropriate PD sub ranges. However, banks typically map direct estimates from continuous models into discrete PD estimates via masterscales which based on article 100 in section 5.1.2 renders them grade/pool based estimates. Could the ECB further clarify how in the case of low default portfolios a disproportionate level of conservatism can be avoided.	For LDP and grades with low number of observations, the industry seeks clarification on how a disproportionate level of conservatism and impact on rank ordering could be avoided. The banks are in favour to amend this part and bring more flexibility to account for these specific cases.
113	Credit risk	8 Model-related MoC	208	140	Amendment	The paragraph requests the monotonicity of the final estimates. However, such requirement is not in the EBA Guidelines on PD-LGD estimation. Therefore, we recommend flexibility and propose the following rewording : ***"It is also the ECB's understanding that one best practice is that the MoC should not affect significantly the rank ordering based on the final estimate".***	Monotonicity of final estimates is not required by the legal basis.
114	Credit risk	8 Model-related MoC	208	140	Deletion	It is stated in this paragraph that "The ECB understands that the MoC must reflect the uncertainty at the level of the final PD estimates (namely, at the level of the grade or pool)". Given that both the final PD estimates and the MoC may be computed at a level different than grade or pool, as also reflected on paragraph 210.a) of the ECB Guide under consulation - "When calibration is performed at calibration segment level, the general estimation error may be computed at that level" -, we request a change in this paragraph in order to introduce some flexibility in the case final PD estimates are not at the level of the grade or pool. Hence, we suggest the deletion of the following: "(namely, at the level of the grade or pool)".	To ensure a clear and consistent approach between different IMIs
115	Credit risk	8 Model-related MoC	210	141	Amendment	The requirement to calculate the MoC at grade level represents an over-interpretation of the EBA/GL/2017/16, especially when the LRA DR is calculated at calibration segment level. It may even create perverse incentives, in that more discriminant rating systems will be penalised against those presenting poor discrimination. It may also result in disproportionate levels of conservatism in cases where the volume of defaults is not significant. The new text added to the paragraph does not contribute to the understanding of an already confusing requirement. In particular, it seems difficult to understand how MoCs at calibration segment level and at grade level can be similar if the underlying number of observations will be entirely different (as detailed in the expectation set in a) of this same paragraph).	Ammendment to avoid distortion on the interpretation of the regulatory concept

116	Credit risk	8 Model-related MoC	210 (a)	141	Deletion	On application of MoCs, the EBA mentionned in its GL on PD-LGD estimation (page 118) : "While many respondents expressed general support for the proposal, the majority expressed operational concerns, especially regarding the quantification and aggregation of MoC relating to different identified deficiencies and categories. The aspect of low default portfolios was also mentioned in the context of potentially higher MoC due to lower data availability. It was considered counterintuitive that greater conservatism would have to be applied to less risky portfolios. The EBA has carefully considered the feedback received and adjusted the concept of MoC by simplifying the aspects of categorisation, quantification and aggregation, and by providing additional clarifications where necessary". Therefore **we would delete the following sentence in para 210(a)** *"As a result, it is expected that the lower the number of observations per grade and the shorter the time series are, the higher the MoC of the grade should be."* to take into account that it is counterintuitive to apply a higher MoC on less risky portfolios. If not, the EGIM would be more conservative and prescriptive as EBA GL 2017/16 and would limit the application of these GLs.	Need to acommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
117	Credit risk	8 Model-related MoC	210(a)	141	Amendment	Regarding this part : "when calibration is performed at calibration segment level, the general estimation error may be computed at that level when the statistical uncertainty/sampling error is neither significantly different across grades or PD sub-ranges nor significantly different between the calibration segment level and the grades or PD sub-ranges level" : The level of calibration of MoC may influence MoC C, as it will depend on the size of the sample used and variability inside this sample. Therefore, the definition of MoC structurally will imply not meeting this expectation. Further, it is practically impossible to have the same statistical uncertainty at both calibration segment level and the grades or PD sub-ranges level, because it depends on the number of observations in the sample. We propose to delete/revert to previous version of the paragraph (Guide published in 2019) or to provide flexibility on this specific point. Alternatively, the ECB should add more clarifications on what "significantly different" means when comparing the statistical uncertainty/sampling error between a calibration sample and PD sub-range (option 2). It should not be the same "statistically different" as for comparing the sub-ranges/ grades between each other. Proposed rewording option 2: "When calibration is performed at calibration segment level, the general estimation error may be computed at that level when the statistical uncertainty/sampling error is neither significantly different across grades or PD sub-ranges nor significantly different between the calibration segment level and the grades or PD sub-ranges level, thereby accounting for the different number of observations on the grade/sub-range versus calibration segment level"	The introduced changes seem in contradiction with the structural definition of MoC.
118	Counterparty credit risk	3 Margin period of risk and cash flows	18(f)	221	Amendment	Paragraph 18(f) refers to: *the concepts of "illiquid collateral", derivatives and collateral that "cannot be easily replaced".* The industry would like to highlight that the concept of not able to easily replace applies only to OTC derivatives in CRR article 285(3)(b). **Recommendation**: Paragraph 18(f) should be amended as follow: *The concepts of "illiquid collateral", and over-the-counter (OTC) derivatives ~~and collateral~~ that "cannot be easily replaced" under "stressed market conditions" and "concentration" of transactions or securities in a particular counterparty.*	The "hard to replace" concept exists only for OTC derivatives.

119	Counterparty credit risk	3.2 Principles for ECB Banking Supervision	24	226	Clarification	Our understanding is that "exchange of collateral" in Article 272(9) of the CRR refers to the time of the margin call being issued. Also, the settlement/grace period of the margin call can be considered as part of the regulatory MPOR, e.g. part of the 10 business days for OTC or the 5 business days for SFT (assuming no MPOR extension is triggered by illiquidity, disputes etc.). The industry request the ECB to confirm if our understanding is correct. Paragraph 24: In the view of the ECB, the term "exchange of collateral" in Article 272(9) of the CRR means that the exchange process has been initiated and has a high probability of being completed, or is expected to be completed, even if the collateral called actually arrives only after the start of the MPOR. This understanding implies that the default time is not necessarily immediately at the start of the MPOR but could occur at a later point in time. For modelling purposes, it may still be assumed that collateral will be delivered for margin calls issued at the time the MPOR starts or earlier. Furthermore, this understanding implies that changes in value that arise after a margin call is issued and that affect both collateral and underlying transactions in the collateral agreement can happen within the full MPOR.	To avoid any misinterpretations regarding the supervisory expectation a clarification on paragraph 24 is requested
120	Counterparty credit risk	3.2 Principles for ECB Banking Supervision	25	226	Amendment	Article 285.3 states in particular that netting sets subject to a margin agreement for which the bank has received illiquid collateral should be assigned a higher MPOR of no less than 20 business days. Paragraph 25 should clarify that collateral received in this context means Variation Margin (VM) and excludes both Independent Amount (IA) and Initial Margin (IM). The increase of the MPOR reflects an increased time lag for the margin call process to align with the change in mark-to-market value of the margined trades. Because IA and IM are managed outside of this process (their size is usually fixed and not linked to the mark-to-market value), they shouldn't trigger an increase of the MPOR. Of course, when an IA/IM is partly or fully illiquid, their value should be reduced appropriately, but not by way of an increased MPOR of the whole netting set. Rather, this should be accomplished by a further decrease of the IA/IM value (for example through applying an increased haircut). In a worst case scenario, the IA/IM value should be set to zero and the MPOR would remain unchanged. In addition, Article 193.1 states that no CRM should result in a higher risk-weighted exposure. This means that adding an extra layer of collateral on a netting set should not increase its capital requirement. For example, imagine a scenario where a margined netting set with daily VM has an exposure of 100m assuming a 10days MPOR, it will increase to approximately 140m when the MPOR is increased to 20days. Adding an extra 1m of illiquid collateral as IA on top of the existing VM should not increase the exposure beyond 100m, which is the exposure if no IA received is taken into consideration as CRM. **Recommendation**: Given the above, paragraph 25 could be reworded as follows: "25. Where a netting set contains one or more trades involving either illiquid collateral or an OTC derivative that cannot be easily replaced, the ECB considers that the correct application of Article 285(3)(b) of the CRR should imply that the following items are defined and determined by each institution based on its portfolio and market data history: (a) illiquid collateral, which includes the collateral legs of securities financing transactions (SFTs); (b) OTC derivatives that cannot be easily replaced (hereinafter referred to as "hard-to-replace transactions"); (c) trades or securities that are held as collateral, concentrated in a particular counterparty; (d) stressed market conditions. This means that institutions should implement processes to reliably identify the securities or transactions concerned and the related netting sets, and to monitor them. Independent Amount and Initial Margin are not designed to track and extinguish the market value of a portfolio, and as such should be excluded from the scope of illiquid collateral assessment mentioned in a)."	The industry suggests clarifying that Independent Amount (IA) and Initial Margin (IM) received are not in scope of the illiquid collateral assessment to increase the MPOR.

121	Counterparty credit risk	3.2 Principles for ECB Banking Supervision	26	226	Amendment	The industry would like to highlight that the features and attributes of transactions and collateral outlined in paragraph 26 are exhaustive and that it is not appropriate to consider all criteria outlined for each counterparty across all asset classes. Additionally, the reliability of readily observable data (e.g. marking/market price observations) may not be an appropriate factor in determining illiquid and hard-to-replace transactions. Similarly, cross-referencing to the liquidity framework (art 416 referred to in paragraph 26.b.i) for assessing illiquid collateral is not always fit for purpose in the context of counterparty credit risk. Indeed the LCR framework considers a stress on the institution's own liquidity or solvency position (art 3.11 and art 5 of the LCR delegated act – EU/2015/61)) while the counterparty credit risk framework considers the potential default of the institution counterparty. As an example, an AAA-rated government bond received by the institution with no reuse rights (art 416.2.b) is obviously considered illiquid in an LCR context, yet should be considered fully liquid and retain its value in a CCR context. While the industry agrees that illiquid collateral and hard-to-replace transactions should be identified and monitored, the attributes for identification should be based on the institutions' business activity, IMM exposure composition and reflective of the true attributes of the transactions and illiquid collaterals which are relevant in the context of counterparty credit risk. **Recommendation**: Given the above, Paragraph 26 could be reworded as such: In establishing the definitions of the items mentioned in paragraph 25(a) to (c) above, along with the related processes, the ECB sees it as good practice if an institution considers~~, for each counterparty~~, where appropriate, the following features and attributes of transactions and collateral: ... (b) For illiquid collateral in addition to point (a) above: (i) security type and categorisation as a "liquid asset" under Article 416 of the CRR. This should be read in the context of counterparty credit risk specifically. For example, the absence of reuse rights on assets received as collateral (art 416.2.b) should not trigger their illiquidity for counterparty credit risk purposes. (ii) time period (number of business days) since the most recent market price23 was observed; (iii) issuer's financial health (based, for instance, on its external rating and recent public information).	The industry believes the criteria set-up for identified hard-to-replace transactions and illquid criteria is not appropriate for all counterparties and asset classes.
122	Counterparty credit risk	3.2 Principles for ECB Banking Supervision	29	228-229	Clarification	The ECB Guide to internal model includes clear guidance on how to identify illiquid collateral and hard-to-replace transactions. Whilst we understand ECB's motive to harmonise practices used by various banks in the EU, the Industry also believes that the rules in the Guide are too prescriptive in some cases, as outlined in the proposed amendment ID 121, and goes beyond the Basel text as well as treatment by other jurisdictions. Given the importance of the rules and to mitigate the potential for unlevel-playing field among global market participants, we would recommend that those best practices remain under the form of a guidance and are not transposed in the Level 1 text (i.e. the CRR).	The ECB should keep the best practices with respect to identification of illiquid collateral and hard-to replace transactions under the form of a guidance and are not transpose them in the Level 1 text (i.e. the CRR).
123	Counterparty credit risk	7.2 Principles for ECB banking supervision	57, 58	240	Amendment	Paragraphs 57 and 58 have a formatting issue resulting in the paragraphs being treated as tables rather than paragraphs. **Recommendation:** Reformat the paragraphs to be paragraphs for 57 and 58	Paragraphs 57 and 58 have a formatting issue.

124	Counterparty credit risk	9.2 Principles for ECB Banking Supervision	67	243	Amendment	The Industry believes that the scope of paragraph 67 should either be focused on model extensions or the paragraph itself should be significantly amended. The use test as described in CRR article 289 prescribes institutions to use the models used for capital requirements determination also for their internal risk monitoring: "Institutions shall ensure that the distribution of exposures generated by the model used to calculate Effective EPE is closely integrated into the day-to-day CCR management process of the institution." It is the industry's opinion that this requirement cannot be considered as fulfilled if there are material differences between the model used for risk management and the one used for calculating EEPE. This situation would arise if a material model change is implemented in one but not in the other. Thus, option (a) is not compliant for model changes with the current regulatory framework, but can only be considered for model extensions. While a parallel run before implementation is a good practice, the industry is concerned about the excessive cost of such an approach if the parallel run must start as early as the application letter. To be useful for risk monitoring purposes and limits recalibration, it would have to run until the actual implementation of the model change. Consequently, this would lead to a parallel run lasting several months, which is not necessary to fulfill the initial purpose given the likely changes in the counterparties' portfolios and / or market conditions, and would be excessively burdensome. The industry would like to highlight that model changes or enhancements to the IMM framework are already assessed via the RWA materiality impacts provided as part of model change notifications in line with EGMA (ECB Guide on materiality assessment) expectations. Considering implementation pipeline of multiple model changes and hence overlapping upfront implementation in parallel runs will complicate impact assessment for internal risk management and will increase the divergence between models used for capital and risk management. **Recommendation**: The industry suggests to keep the requirement of a parallel run, but within a reasonable timeframe. Hence paragraph 67 could be reworded as follows: In accordance with the aim of Article 289(2) of the CRR regarding the upfront use of a new model, the ECB considers it good practice for an institution to start by testing the envisaged model changes for internal risk management purposes to acquire sufficient experience with the change or extension before it is fully implemented. This would apply in cases where the change needs to be investigated as set out in the ECB Guide on materiality assessment (EGMA). Therefore, the contemplated planning for tests and parallel run phases before the actual implementation of a material model change should be provided to the ECB for their investigation. This testing and parallel run phases should include at least a period of risk monitoring metrics computation and assessment prior to the activation, whether the internal limits need to be recalibrated to account for this model change if it is deemed relevant." For model extensions, the ECB considers it good practice to start applying the model extension for risk management purposes ahead of the implementation of the extension for EEPE computation. This upfront use should start no later than the application date (i.e. the date of the application letter) in the live production environment for exposure calculations for the purpose of risk management.	The industry suggests amendments to the paragraph 67 so that they can be compliant with CRR as there is a requirement to be using the same model for capital requirement determination and for internal risk monitoring purposes.

125	Counterparty credit risk	9.2 Principles for ECB Banking Supervision	68	244	Amendment	Paragragh 68 proposes very long periods of parallel run for model changes and extensions (3 months for the ones that need to be investigated and 1 month for the ones that need an ex-ante notification). On this specific point, EGMA and CRR do not make any explicit request. The proposed requirement would make the process to enhance internal models much more demanding in terms of IT resources. This would result in a disincentive to adopt and improve internal models. **Recommendation:** **The industry suggests to replace the sub-paragraph of Paragraph 68 (p245) as follows:** ~~If an extension or a change affecting any of the above items (a) to (d) is classified as "to be investigated" by the EGMA, this upfront implementation should be completed within a sufficient time (recommended to be at least three months) before the date of the application letter.Where the institution notifies ex ante an extension or a change affecting any of the above items (a) to (d), the ECB sees it as best practice for the institution to first run a one-month use test (or non-live implementation) if there is a considerable impact on limit utilisation for certain transactions, netting sets or counterparties that are particularly affected by the change or extension owing to its nature.~~ Implementation of material model changes and extensions to be investigated by ECB should be completed before the date of the application letter within a time coherent with EGMA prescriptions to assess impacts on own fund requirements.	The requirement of parallel runs for internal risk management much longer than EGMA requests on regulatory side would disincentivise banks to improve their internal models.
126	Counterparty credit risk	13.1 Relevant regulatory references	93u	258	Amendment	The industry proposes for the ECB to amend the paragraph below with reference to the appropriate regulation related to Counterparty Credit Risk. **Recommendation** (u) In accordance with Art 287(2) ~~Article 368(1)(b)~~ of the CRR, institutions must have a risk control unit that is independent from business trading units and reports directly to senior management, being responsible for designing and implementing any internal model. The unit must conduct the initial and ongoing validation, being responsible for the overall risk management system.	Proposal is made to refer to the appropriate CRR Article related to CCR within paragraph 93u.
127	Counterparty credit risk	13.2 Principles for ECB banking supervision	96 (Footnote 63)	259	Clarification	Footnote 63 mentions that the RNIEPE add-on included in the RNIEPE framework is a temporary measure until the EU legislation refines the IMM provisions to include the treatment of exposure spikes in margined trading. The industry would like to note that in the current CRR3 proposals, the ECB proposal to include exposure spikes into IMM has not been retained and hence this would not be temporary add-on for the near future only (see also comments on paragraph 101 page 261).	Although RNIEPE add-on is specified as a temporary measure in the RNIEPE framework, given that CRR3 proposals does not include the inclusion of RNIEPE and spikes as part of any proposal, this does not seem to be a temporary requirement for the near future.
128	Counterparty credit risk	13.2 Principles for ECB banking supervision	96 (Footnote 63)	259	Clarification	Any risk which is not covered by the CRR should be addressed in the Pillar 2 framework as per CRD Article 104a (1a). As part of footnote 63, the ECB acknowledges that exposure spikes in margined trading are not yet part of IMM and thus should not be part of Pillar 1. Hence the risk associated with them should be dealt with exclusively in the Pillar 2 framework. The industry wants to ask reassurance that the two types of Pillar 1 penalties are not incremental, and that for any Pillar 1 flaw of risks covered by CRR either an alpha increment or an add-on applies (but not both). In other words, the way to address a Pillar 1 flaw of risks covered by CRR in the model may be either through the alpha increment or an add-on, whichever proves to be more suitable for the type of flaw, the scope to which it applies, and its impact variability through time. Similarly, there should not be overlap between a Pillar 1 flaw addressed via either (1) an alpha increment or an add-on and (2) a risk not (sufficiently) covered in Pillar 1, addressed in the Pillar 2 framework. As mentioned above, both alpha increment and add-on should be limited to Pillar 1 flaw of risks covered by CRR and should not include any element that should be addressed in the Pillar 2 framework. Based on the above, exposure spike risk in margined trading that is not part of Pillar 1 should not be considered as Pillar 1 add-on.	The industry believes that the exposure spikes in margined trading should be part of the Pillar 2 framework as this is currently not part of the CRR and hence not part of the Pillar 1 framework. This should be the case as long as the EU requirements stemming from the Basel standards are not amended to include spikes in Pillar 1.

129	Counterparty credit risk	13.2 Principles for ECB banking supervision	96 (Footnote 67)	259	Deletion	Footnote 67 mentions that the RNIEPE add-ons are not part of CRR and expects banks to report them as "additional risk exposure amount due to Article 3 CRR". Article 3 (title: Application of stricter requirements by institutions) states "This Regulation shall not prevent institutions from holding own funds and their components in excess of, or applying measures that are stricter than those required by this Regulation.". It clearly provides banks with an option to be conservative compared to what is required under the Pillar 1 framework under CRR. Should the ECB require banks to report these add-ons, then article 3 does not apply and a different cell in the COREP template should be used (see also comments on paragraph 101 page 261 & paragraph 105 footnote 70). **Recommendation:** Footnote 67 should either be amended to reference a different cell, or be deleted.	Article 3 does not apply if the bank follows the instructions from its supervisor. Banks cannot report such add-on under the proposed COREP template and cell. Should the ECB require banks to report these add-ons, if yes then a different cell should be used.
130	Counterparty credit risk	13.2 Principles for ECB banking supervision	100	260	Clarification	Following the adoption of the RNIEPE framework into the ECB Guide to Internal Models, a number of RNIEPE may be identified that need to be captured via an add-on (permanently or temporarily, pending inclusion into the EEPE model). It will not be possible to implement all the add-ons at once. We would like to seek clarification on the time granted to institutions to implement the RNIEPE framework in full and on the ECB expectations during the period until when the RNIEPE framework is implemented.	Timeline for including RNIEPE into institutions' IMM framework should be clarified.
131	Counterparty credit risk	13.2 Principles for ECB banking supervision	101	260	Amendment	The industry considers the descriptions set out in paragraph 101 to be too generic and broad. The deficiencies and limitations of the CCR model should be assessed based on the final metrics produced and on the overall model performance using backtesting over a historical window. It must be assessed whether these metrics provide an adequate measure of risk when all risk drivers (going beyond those captured in the CCR model) are considered. It is important to keep in mind that CCR models are by design far more complex and computationally intensive than market risk models: due to a large number of timesteps, counterparties and desired simulations, the total number of valuations produced by a CCR model may reach 500,000 to 1,000,000 times the number of valuations that would be required for calculating a market risk metric. This cannot be achieved without approximations and assumptions that are designed to be conservative. It is therefore irrelevant to quantify the materiality of missing risk factors on a stand-alone basis versus the overall EEPE, especially because the intrinsic risk linked to those risk factors is likely to be far lower than the exposure metrics of the IMM. **Recommendation:** **Given the reasoning above, Paragraph 101a should be amended as follows:** "a single risk factor, a set of risk factors or the dependency structure (correlations) of a subset of risk factors that cannot be modelled precisely enough to allow for the modelling of the joint distribution under Article 284(1)(a) of the CRR, when these assumptions have a material impact on the exposure value. This could arise because of:"	The industry believes that the revised EGIM does not acknowledge that IMM methodology is far more complex computationally as compared to the market risk models. Thus there are conservative approximations and assumptions inbuilt in the model itself. It should be noted that there are other monitoring processes such as benchmarking and backtesting to show that the metric produced by IMM model is conservative enough.

132	Counterparty credit risk	13.2 Principles for ECB banking supervision	101c	261	Deletion	The list of "contemplated RNIEPE" mixes modelling aspects (missing risk factors, inadequate collateral modelling, etc.) with the introduction of forward settlement risk on future cash flows. The latter is however a risk of a different nature. It was actually acknowledged by the ECB in its amendment proposal that this latter risk should not be part of the EEPE metric. Therefore it seems inappropriate to list it as a risk not in EEPE along with actual limitations of the model. The guide rightly acknowledges (see footnote 63, page 259) that IMM spikes are currently not part of CRR. We also understand that the ECB proposal (amendment 64 in the technical working document produced in connection with ECB Opinion CON/2022/11, see https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=IMMC:TWD/2022/11) to include it in the upcoming CRR3 was not retained by EU lawmakers, rendering its introduction in Pillar 1 unlikely in the short to medium term. The industry is of the opinion that there is no legal basis to capitalise it under the Pillar 1 framework and the ECB should tackle it through the Pillar 2 framework (CRD art 104a), specifically designed to cater for risks not (fully) managed in the Pillar 1 framework (see also comments on para 96 footnote 63). **Recommendation:** Paragraph 101 (c) should therefore be removed and this item be addressed within the Pillar 2 framework instead.	Forward settlement risk on future cashflows which was acknowledged by ECB as not being part of EEPE should not be included in the risk not in EEPE framework. In addition, there is no legal basis to cater for this risk in the Pillar 1 framework and it should therefore be tackled in the Pillar 2 framework.
133	Counterparty credit risk	13.2 Principles for ECB banking supervision	99 & 104b	260 & 262	Deletion	The industry sees it as beneficial but practically unfeasible to do backtesting of RNIEPE add-ons as part of the overall risk management framework. Thus we request the ECB to remove the requirement of back-testing of RNIEPE add-ons. **Recommendation Paragraph 99** In accordance with Article 287(2) of the CRR, the RNIEPE framework and methodologies should be subject to validation and independent review, as set out in further detail in Article 294(1)(d), (g), (k), (m), (n) and (o) of the CRR and Article 288 of the CRR respectively. ~~In this context and where applicable, back- testing of RNIEPE add-ons is seen as beneficial.~~ **Recommendation Paragraph 104b** ~~(b) back-testing as referred to in Article 294 of the CRR;~~	The industry requests the ECB not to require back-testing of RNIEPE
134	Counterparty credit risk	13.2 Principles for ECB banking supervision	104	262	Amendment	As a consequence of the argument made on paragraph 101 (ID131), which highlighted the complexity of IMM model, the industry considers that paragraph 104 on identification of missing risk factors should rely on existing monitoring of the IMM and on the stress testing framework to identify material limitations. **Recommendation:** **Item (d) of paragraph 104 should be reworded as** : With regard to the approval of new products, analysing whether the characteristics inherent in the new products ~~can be adequately captured by the IMM~~ do not lead to exposure metrics to be inadequate to measure the Counterparty credit risk, in order to ensure that these new products are fully compatible with the comprehensive risk control and validation by the risk control unit, as required by Article 368(1)(b) of the CRR;	The industry believes that the revised EGIM does not acknowledge that IMM methodology is far more complex computationally compared to market risk models. Thus there are conservative approximations and assumptions built into the model itself. It should be noted that there are other monitoring processes such as benchmarking and backtesting to show that the metric produced by IMM model is conservative enough.

135	Counterparty credit risk	13.2 Principles for ECB banking supervision	105	262	Amendment	In paragraph 105, we understand that in principle the ECB is expecting the ERE to be calculated under both the current calibration and the stress calibration but it may allow a single calculation when the outcomes are expected to be similar. In general, we do not see how we could claim that the ERE under the two calibrations will be similar without making both calculations, hence removing all operational benefits to the proposal. The relevant EEPEs for own funds requirements are those calculated under the calibration that maximise the overall CCR RWA across all netting sets in IMM. Generally, the EREs are not expected to change which calibration will maximise the total CCR RWA in IMM. Hence, we believe that a single calculation under the calibration used for CCR RWA as determined from the current internal model method EEPE (i.e. without RNIEPE add-ons) is needed. Upon supervisory approval, for the purpose of calculating an ERE, a bank may choose a single period other than the one maximising RWA using the current EEPE model (without RNIEPE add-ons) such as a period using three-years of current market data consistent with the requirements of CRR Article 292(2). This could typically be the case when it is expected that using an alternative calibration makes little difference in outcome or when the calculation in the calibration that maximise RWA is not possible or highly difficult. **Recommendation:** Paragraph 105 should require the calculation of RNIEPE add-ons (EREs) in a single calibration period. This period would usually be the one that maximise CCR RWA under IMM based on current EEPE calculations, but alternative period may be used with supervisory approval.	Since EREs are generally not expected to change the calibration period that maximise the overall CCR RWA in IMM, we suggest that EREs are calculated under a single calibration, the one that maximise CCR RWA based on the current model EEPEs. With supervisory approval, an alternative period may be used instead in some cases.
136	Counterparty credit risk	13.2 Principles for ECB banking supervision	105 (Footnote 70)	263	Deletion	The industry would like to highlight that in Footnote 70, the Guide mentions that "As set out in paragraph 96 of this chapter, a substantial RNIEPE add-on constitutes an additional exposure that should be capitalised in accordance with Article 3 of the CRR.". It should be noted that Article 3 of the CRR provides an option for banks to go above and beyond CRR. Hence if the ECB mandates all banks to apply the requirements of an RNIEPE add-on, then article 3 of CRR does not apply as banks are not provided with an option (see also comments on paragraph 96 footnote 67 & paragraph 101 page 261). **Recommendation:** Given the above, the industry recommends the ECB to remove this footnote as it contradicts the CRR.	The ECB guide to Internal model mandates the application of the requirements of RNIEPE add-on, however it should be noted that as per Article 3 of the CRR, CRR provides an option for banks to go beyond the requirements mentioned in CRR.
137	Counterparty credit risk	13.2 Principles for ECB banking supervision	107(b)	264	Deletion	Paragraph 107(b) requires that "the RNIEPE should be quantified based on the affected transactions only, not taking into account netting effects between these transactions and the rest of the netting set". The industry is questioning the meaning of an impact assessment calculated on a subset of transactions within a netting set. We believe that it would not be informative on the impact on the netting set itself. Besides, it would involve some additional element of modelling (ex. split of collateral, etc.) that may add a level of uncertainty in the assessment. Finally, the measure will not be consistent with the denominator of the ratios in paragraphs 114(a) and 114(b). In addition, in the presence of a legally enforceable Master Netting Agreement, disregarding the netting effect for assessment of the RNIEPE will not reflect the economic risk correctly (e.g. long-short positions offset when only one was considered for RNIEPE) and will be misaligned with the paragraph 105 of the revised EGIM which states "As identified RNIEPE are considered to be part of the IMM, the quantification of each RNIEPE should (to the extent possible) be methodologically similar to the respective exposure quantification in the IMM,…". **Recommendation:** Based on the above, the industry suggests to delete sub-paragraph (b) of paragraph 107 and always calculate RNIEPE impacts on whole netting sets (after accounting for potential carve out mandated at paragraph 13(a)).	RNIEPE materiality assessment shall be calculated based on full netting sets under IMM and not limited to only the affected transactions within the netting sets.

138	Counterparty credit risk	13.2 Principles for ECB banking supervision	108(c)	264	Amendment	The industry's view is that the flooring of RNIEPE impacts on netting set level is unnecessarily punitive and will create inconsistent measures on the RNIEPE level. While the industry understands the need for flooring individual RINEPE impacts at zero, the reality of diversified business conducted with different counterparties should not be neglected. Therefore, the industry proposes to allow offsetting of individual ERE (expected RNIEPE exposure) /RNIEPE effects across netting sets, while flooring each RINEPE category at zero. **Recommendation**: A proposed rewording of paragraph 108c could be: (c) The incremental exposure can be any positive or negative number. The calculation of the incremental exposure may result in a negative number if the incorporation of the RNIEPE has a risk-reducing effect. ~~In that case, and in line with paragraph 105, the incremental exposure is set to zero for the respective netting set.~~ For a given RNIEPE, the signed incremental exposures for the respective netting set is to be used in the RNIEPE add-on calculation, while flooring RNIEPE add-on at zero.	The industry believes that flooring of RNIEPE impacts on netting set level is considered punitive and does not take into account the diversified business with different counterparties.
139	Counterparty credit risk	13.2 Principles for ECB banking supervision	113	266	Amendment	A quarterly calculation may add some unnecessary heavy burdens. Hence, to reduce the burden, the calculations should be made simple and not too frequent: -For RNIEPE with limited impact, i.e. below the thresholds, an annual quantification should generally suffice when expected to remain below the threshold. -For other RNIEPE that are above the thresholds and hence with a capitalised ERE, a quarterly quantification should be mandated in principle. However, when the incremental exposure is expected to be stable through time, a bank may rely on an annual quantification instead. In all other cases, the quarterly quantification could rely on proxies and extrapolations based on an annual assessment. Hence, The industry believes that the paragraph 113 should be amended as per the below: **Recommendation** In accordance with Article 430 of the CRR in conjunction with Article 5(1) of the Commission Implementing Regulation on supervisory reporting, institutions must submit the information relating to own funds requirements with quarterly frequency. Therefore, the ECB considers that in order to assess the adequacy of own funds, institutions should quantify and monitor the RNIEPE and adjust their scope on a regular basis and should update the RNIEPE at least quarterly for any RNIEPE subject to capital addon (i.e. material RNIEPE) and annual monitoring for all other RNIEPEs. Upon supervisory approval, the quarterly update of RNIEPE subject to a capital add-on could be proxied based on an annual quantification meeting the standard of EGIM section 13.2.3.	Proposal is made to amend the frequency in paragraph 113 to have quarterly frequency for RNIEPE which are subject to capital addon and annually for all other RNIEPE.

140	Counterparty credit risk	13.2 Principles for ECB banking supervision	114 and 118	266 and 268	Amendment	The ECB Guide to internal models provides a threshold for RNIEPE which when exceeded, would move the risk factor into IMM. Firstly, the industry believes that when materiality of a RNIEPE is measured, institutions should be given the flexibility to either use RWA or EEPE in reflection that some RNIEPE may affect only low risk counterparties and hence have a lower RWA impact. Secondly, currently the draft EGIM states that the cumulative threshold of RNIEPE is 10%, which the industry thinks could be easily hit. It should be noted that the expectation for RNIEPE impacts is that they will be floored and that no netting benefit will be considered across RNIEPE impacts. Given the above, banks that are permitted to use IMM for more asset classes or have a comprehensive framework for identifying and assessing missing risks, could easily exceed the 10% cumulative threshold. To remediate this issue, we propose two different alternatives for calculating the total RNIEPE impact to be compared with the cumulative threshold. - The cumulative threshold should be calculated using all RNIEPE impacts. If it exceeds the 10% cumulative threshold due to the presence of multiple small RNIEPE (below [2.5%] EEPE impact each individually), they should not all be included in the IMM model. Instead, consideration of inclusion within the IMM model should be based on the standalone RNIEPE impacts exceeding the individual 5% proposed threshold. - Alternatively, we propose that the cumulative threshold should be calculated only from RNIEPE with above [2.5%] standalone impact on the total EEPE. As a result, if the cumulative ratio exceeds the 10% threshold, the RNIEPE that will be required to be integrated in the EEPE (and in the transitional period, will give rise to an add on) would not be totally insignificant. Thirdly, the RNIEPE impact methodologies outlined in paragraph 114 (a) and (b) are designed as a relative ratio for one netting set or a set of impacted netting sets. They may not reflect the real materiality if these netting sets are overall immaterial. Adding an additional absolute materiality condition could be considered. We therefore believe that ratios (a) and (b) denominator should be the sum of EEPEs over all netting sets under IMM (same denominator as in ratio 114(c)). Alternatively, we could complement the ECB proposed ratios (a) and (b) with another ratio where the denominator consists of the sum of EEPEs over all netting sets under IMM (same denominator as in ratio 114(c)). To be deemed material, a RNIEPE would have to exceed thresholds on both ratios. For instance, for an individual EEPE, it will be considered substantial and need being capitalised with an RNIEPE add-on if the ratio 104(b) exceeds the threshold of [5%] and if an additional ratio equal to $\sum_{1\le n\le N} ERE_{in}$ over $\sum_{1\le m\le M} EEPE_m$ exceeds the threshold of [2.5%]. Indeed, if the risk factors with limited impacts were to be included, it would lead to high implementation costs. The industry also believes that either RNIEPE add-ons or an incremented alpha multiplier should be used, whichever is the most relevant with respect to those RNIEPE. **Recommendation:** The revised EGIM should be amended taking into account the reasoning above. In particular, thresholds shall be set at a reasonable levels, which we believe could be: (1) for the proposed alternative ratios (a) and (b) (with the denominator equal to the sum of EEPE over all netting sets in IMM), an RNIEPE add-on should be mandated only when the ratio exceeds [5%], (2) ratio (c), calculated as proposed above, when in excess of [10%] requires add-ons for some RNIEPE increasing the full IMM-scope EEPE by more than [2.5%] while (3) mandatory inclusion in the EEPE model would only apply when ratio (c) exceeds [20%] for RNIEPE increasing the full IMM-scope EEPE by more than [5%].	The RNIEPE framework which provides a cumulatibve thrshold of 10% could easily be breached by large firms which have more permissions to use IMM for asset classes. This essentially penalises the bigger banks with such permissions. Amendments should be made to remediate this issue. Also, institutions should be given flexibility to measure the materiality of RNIEPE based on either RWA or EEPE as some RNIEPE may impact only low risk counterparties.

141	Counterparty credit risk	13.2 Principles for ECB banking supervision	119	268	Deletion	As expressed in our comment related to article 96 footnote 63, cash flow spikes are not part of the CRR and hence if the ECB considers that they do represent a significant risk which needs to be captured, it should only be via the Pillar 2. Consequently, the EGIM should make it clear in paragraph 114(d) that the proposed materiality assessment is for the purpose of the Pillar 2 and paragraph 119 shall be deleted since there should be no inclusion in the Level 1 CCR exposure (EEPE). Indeed, additional own funds requirements that the ECB may impose on a bank for a risk not covered in the CRR [CRD article 104a(1)(a)] is to be assessed with an approach that the ECB sees fit. We understand that, based on the ECB proposed amendment (no. 64) to CRR3 article 284, that the ECB considers that cash flow spikes shall be time-weighted without effectivisation, i.e. they should be captured as proposed in this consultation at paragraph 109(b). Hence, no matter the materiality of cash flow spikes, as measured by the ratio in paragraph 114(d), the industry believes that there should never be a level at which an inclusion in EEPE is foreseen, be it in a distant future. **Recommendation:** The industry recommends the ECB to delete paragraph 119.	This is to clarify that as cash flow spikes are not part of the CCR requirement, if the risk associated with them is deemed material, it shall be captured as part of the Pillar 2 additional own funds requirements using an appropriate method which need not be the inclusion in the EEPE, no matter the level of materiality of this risk.
142	Market Risk	2.6 Treatment of specific positions	31	156	Amendment	The industry does not believe that the treatment of own credit spread should be changed temporarily at this instance, while the broader revisions due to implementation of the FRTB are due in 18 months. Subject to the release of the final CRR3, the treatment of own credit in the A-IMA is unclear. The Swedish Presidency “4 columns” documents released in May could be interpreted as requiring the filtering of own credit from the SBM and the DRC in A SA, from the ES, the SSRM and the DRC in A-IMA [AM 2132, 2282b, 2282d]. At the same time, the RTS on back-testing and profit and loss attribution [EBA/RTS/2020/02] requires that own credit is filtered from the actual P&L (APL) and the hypothetical P&L (HPL) where CRR article 33(1) applies, i.e. for liabilities of the institution valued in fair value. At the same time, CRR article 325bg mandates a revision of this RTS, which means further changes, may be coming. Hence, it is not sensible to require the inclusion in the VaR and incremental risk charge (except for migration risk in IRC) of own credit spread. Given the uncertainty around the treatment of own credit in the coming new regulation (CRR3), we believe that the ECB should not be too prescriptive and a flexible approach allowing current practices taken. It will avoid unnecessary implementation burden of short-lived models at a time when banks are striving to get their A-IMA models approved. If the ECB deems that there is a need to take a step towards FRTB at this stage, clarification is required on the transactions referred to in own liabilities, in particular for positions held with trading intent and fair valued through Profit and Loss directly.	The level 1 and 2 regulatory standards are still in flux and including own credit spread at this juncture is unnecessary and undesirable.

143	Market Risk	6 Methodology for IRC models focusing on default risk	158	197-198	Deletion	The ECB requires that “where the estimates of PDs are not derived in combination with current market prices, institutions should analyse any observed differences between these estimates and estimates that are derived in combination with current market prices where the relevant corrections were performed to obtain real-world PDs”. The industry does not understand this requirement, nor does it see the requirement being supported by the regulation, and believe it to entail an excessive computational burden without incremental benefit to thequality of the model. The ECB has perhaps misunderstood the requirement of Article 376(2) of the CRR stating that the IRC model must be based on data that are objective and up-to-date, since this requirement does not imply the use of market implied data. A historical calibration of PDs is up-to-date if the underlying history is up to date, for instance. The requirement is burdensome since market quotes include liquidity and market risk components that contaminate the pure default risk contribution (real world PDs) and removing them relies heavily on additional assumptions. It should also be noted that real world PDs are not only what is needed. Since in IRC systemic factors are simulated, long run PDs should be used as input in order to not double-count the effect of the economic cycle, and obtaining this from volatile market quotes is very difficult. Furthermore, it is the exact opposite of the EBA Guidelines on the Incremental Default and Migration Risk Charge [EBA/GL/2012/3 Part III, Title II, Section B article 3] requirement. Indeed, the EBA Guidelines requires that “If PDs implied from market prices are used, the institution should do the relevant corrections to obtain the real measure probability from risk neutral probabilities, and it should compare the outcomes of its methodology against the historical record”. Finally, the EBA Guidelines (as well as the BCBS FRTB) allows for the use of IRB-A PDs if available (and for DRC they are in fact required, Article 325bp 5.(d)), and there is no requirement to justify IRB-A PDs using market data. We believe that this sentence from paragraph 158 should either be deleted or reversed to align with the EBA Guidelines.	This sentence from paragraph 158 should either be deleted or reversed to align with the EBA Guidelines.

144	Market Risk	6 Methodology for IRC models focusing on default risk	160	198	Amendment	The ECB requires that "…institutions must reflect the potential for significant basis risks in hedging strategies by internal or external rating and other differences in the instruments. Therefore, the ECB understands that all annual PDs should be risk sensitive and greater than zero for all obligors…" The industry requests that this statement is clarified. In particular, material basis risk may be modelled in different ways while the ECB seems to imply that it can only be via PDs. We believe that the requirements should be more generic, requiring the reflection of material basis risk, but letting banks choose how to model it. Secondly, the ECB requires risk sensitivity for PDs as a function of creditworthiness. We would like to highlight that risk sensitivity may only be fully achieved before the application of modelling constraints and most importantly of the PDs floor. Hence, we suggest that the ECB should slightly amend the paragraph, clarifying that risk sensitiveness and smooth increase of PDs as a function of creditworthiness can only be required for the PDs before being floored. Finally, the industry fears that the last sentence "The ECB also considers that institutions should calculate the PD ratios between adjacent rating grades and should justify the ratios that can be considered outliers when compared with other ratios or the median of the ratios" could lead to many ratios considered outliers as the relationship between PDs and rating grades becoming non-linear. This sentence should be deleted due to the potential severe consequences as detailed below. The ECB requirement of meaningful differentiation of risk is developed as a) all annual PDs greater than, or equal to, one basis point AND "increase strictly in line with the decreasing creditworthiness of the obligor"; b) PD ratios between adjacent rating grades should be consistent with the observed ratios distribution. The combination of requirements above may lead to undesired and unintended consequences, as detailed below. 1) For Corporate issuers, historical data complies with the requirements above only for macro-grades. However, at micro-grade level data observability is not supportive of the requirement. 2) For high yield Sovereign issuers (with ratings worse than BBB), just few historical data points are available, leading to unstable PDs, in particular for BB rating, which is currently based on two default events only. 3) Combining historical data from the two points above, PD ratios between adjacent macro-rating grades become unstable, ranging from 2 to 15 and above. As a consequence, even the smallest ratio (2), once combined with the required floor of 1 bps for AAA sovereign issuers would generate an exponential PD shape, leading to very conservative values for Sovereign BBB issuers. 4) For investment-grade Sovereign issuers (with ratings from AAA to BBB) no historical data are available, hence Institutions should resort to statistical methodologies (e.g. Bayesian approaches) that could lead to overconservative PDs, especially if combined with the exponential shape mentioned above.	Material basis risk may be modelled in different ways while the ECB seems to imply that it can only be via PDs. If no quantitative threshold is applied to filter out ratios which 'can be considered outliers', then prudence would lead to justify all ratios differing from 'other ratios or the median of the ratios', which we fear would be of an excessive workload.
145	Market Risk	5 Methodology for VaR and stressed VaR	109	97	Deletion	The additional text: "Furthermore, to allow the ECB to assess compliance with Article 368(1)(e) of the CRR, an institution should be able to provide an inventory of analyses that have been conducted with the purpose of developing the VaR and sVaR models." Introduces requirements retrospectively. Historical simulation VaR models go back decades and the analysis may not be available and/or has little value to supervisors.	Introduces requirements retrospectively. Propose deleting.
146	Market Risk	1 Scope of the market risk chapter	1	145	Clarification	Last year (July – October 2022) ECB launched the informal consultation on "Draft supervisory expectations for the alternative internal model approach (FRTB IMA)", which was expected to be the guide on internal model validation. We appreciate as usual to have the opportunity to comment on a new revised Guide to Internal Models previous to its definitive approval and subsequent implementation. However, we would like to express our surprise on the timing of proposing this review, considering that the current officially proposed implementation date of CRD6/CRR3 and FRTB is January 1st 2025, as the new framework to calculate binding capital requirements. In the case of market risk, the FRTB changes are radical, so we would have expected to receive for consultation a Guide to Internal Models already adapted to the new capital requirements framework (CRD6/CRR3/FRTB). We appreciate very much if you can provide clarifications on this.	Draft supervisory expectations for the alternative internal model approach (FRTB IMA)