EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

Public consultation on the revised ECB guide to internal models

Institution/Company

Unicredit

Contact person

Mr/Mrs

[redacted]

First name

[redacted]

Surname

[redacted]

Email address

[redacted]

Telephone number

[redacted]

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General comments

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	2.6 Reversion to a less sophisticated approach	42	17	Deletion	Within the Article 42 it is stated that "*Depending on the features of the exposure class and/or type of exposure affected, institutions should in particular define and formalize objective and intuitive criteria for deciding which of the different approaches should be used for the calculation of own funds requirements across the whole portfolio*". It is deemed important to highlight that, following also the Basel IV reform that will allow (see transitional arrangement as for Article 494d) institutions to revert to the SA-CR during a three year period under a simplified procedure, the revert to less sophisticated approach should leave more room to 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.). Therefore it is recommended to avoid any reference to objective and unintuitive criteria, leveraging on the criteria set on the Art. 149 of the CRR and leaving proper flexibility to the banking system. Based on these considerations it is proposed to amend the article 42 by deleting in full the sentence "*Depending on the features of the exposure class and/or type of exposure affected, institutions should in particular define and formalize objective and intuitive criteria for deciding which of the different approaches should be used for the calculation of own funds requirements across the whole portfolio.*"	Introduce more flexibility in identifying an overall strategy for reverting to a less sophisticated approach

2	General topics	2.6 Reversion to a less sophisticated approach	42 d (i)	18	Amendment	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)". For this purpose it is deemed not clear the reason why the EGIM refers to potential supervisory measures. Indeed, following the regulation on model changes, the RWA impact should be calculated always considering the model change with respect to the RWA as it is in production. Therefore, it is not clear the reason why reference is made to "potential" limitation 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. For this reason, it is proposed to substitute the sentence "including the effects of potential supervisory measures (such as limitations)" with the one "*including the effects of supervisory measures already in place (such as limitations)*".	Better specify the type of supervisory measures to be included in the RWA impact
3	General topics	2.6 Reversion to a less sophisticated approach	42	18	Amendment	At the end of the article 42 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*". It is deemed not clear the reason why it is reported the word "convincing" and highly recommends to deleting it. Indeed, as already reported above with reference to Basel IV, the RWA impact is one of the relevant aspects to be taken under consideration in the assessment of a revert to less sophisticated approach, therefore it is important also to highlight that the standardize approach is the one deemed suitable from the Regulator for the capital requirements calculation for the banking system, even more considering the introduction of the output floor in Basel IV. Based on the above considerations it is proposed to replace the word "convincing" with the word "supporting".	Better specify the type of evidence to be included in case of relevant reduction of RWA impact
4	General topics	2.6 Reversion to a less sophisticated approach	43	18	Deletion	It is reported that "*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). Therefore, it is proposed to remove completely the aforementioned sentence.	Exclusion of any reference to specific modelling activities
5	General topics	2.6 Reversion to a less sophisticated approach	43	18	Amendment	In line with the above comment on art 42, it is proposed 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 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

6	Credit risk	2.2 IT systems: infrastructure and implementation testing	7a	61	Clarification	it is rerported 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 to have 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
7	Credit risk	2.2 IT systems: infrastructure and implementation testing	7b	61	Clarification	It is not clear the benefit of having IT user acceptance tests completed by the time of the application. In fact, 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 by the time of the inspection phase.	Introduction of UAT only by the time of the inspection phase
8	Credit risk	2.2 IT systems: infrastructure and implementation testing	7c	62	Clarification	It should be clarified that, under a technical perspective, the ability to calculate own funds requirements shall not prevent the use of proxy data in such calculation. 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 up-to-date inputs from the time of application to the go-live date cannot be ensured. As an example, a new model may require external inputs from credit bureau. The retrieval of such inputs is typically automatized (and paid to the info provider) only upon the go-live of a new model and is available for ad hoc request before go-live. The feeding of the Core Engine with fully fledged inputs during the time between application and go-live would represent a huge cost, with no valued added from risk management perspective.	Potential use of proxy data
9	Credit risk	2.2 IT systems: infrastructure and implementation testing	7d	62	Clarification	While it is clear that COREP reporting represents the last mile 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	Corep reporting specifications
10	Credit risk	2.2 IT systems: infrastructure and implementation testing	7 e-f	62	Amendment	It should further be stressed that be the assessment is focused on the IT architecture, not on the actual use of the model, as specified only in footnote 12.	Specification on IT assesment

11	Credit risk	3.7 Use of data in the case of consolidations	55	76	Amendment	In a situation of acquisition with extension of the acquired Banks processes, the historical defaults closed prior to the consolidation are not considered to be value-added in terms of representativeness of the LGD risk quantification applicable to the reference portfolio of the target entity after consolidation. Therefore it would deem appropriate to reword the article 55 as per the following wording "*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***"	burdersome approach for LGD computation in case of data consolidation
12	Credit risk	3.7 Use of data in the case of consolidations	56	76	Amendment	It is proposed to clearly state that the absence of legal right represents the 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 allowed not to acquire these data**".	specific treatment in case of absence of legal right of the acquirer
13	Credit risk	4.2 Consistency of the application	62	79	Clarification	Past due calculation according to the new EBA definition of default (par. XX) is based on the quantification of the credit obligation past due and the overall credit obligation at obligor level thus, if our understanding is correct, the sentence "*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*" means that the overall past due calculation should be performed according to all different materiality threshold identified across the Group. If this is the case, this approach should be burdensome because it would result in an additional parallel calculation for each different threshold applicable in other jurisdictions involving all legal entities. On the other side, the second part of the paragraph states that: "*default will be triggered in the jurisdiction where the materiality threshold is first exceeded for 90 consecutive days and institutions are then expected to apply additional unlikely to pay triggers*" implying that the 90 days past due calculation is triggered for local exposures. In our opinion, for consolidated purposes, the calculation for obligors with exposures under both SSM and non-SSM jurisdictions should be performed considering the thresholds applied in the parent company jurisdiction while local thesholds - if first exceeded for 90 consecutive days - should trigger the default only in the jurisdiction out of SSM for local exposures. Then, an UTP assessment is required to evaluate the propagation of the default status across Legal Entities.	burdersome approach for PD computation

14	Credit risk	4.2 Consistency of the application	63	79	Clarification	Considering EBA Q&A ID 2018_4431: "*Do the requirements established in the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 regarding joint credit obligations, and in particular the requirements 95, 96, 97, 98, 99, 103, 104 and 105, relate or affect exclusively to retail exposures? In that case, could the treatment of joint credit obligations in which the obligors are classified as Non – Retail differ from the treatment of joint credit obligations in which the obligors are classified as Retail? In addition, and, as per this purpose, what should be the treatment of joint credit obligations shared by retail and non-retail obligors? Paragraphs 95 and following of the EBA guidelines on the definition of default only prescribe the treatment institutions should apply to a joint credit obligation classified as retail exposure. Therefore it should be up to institutions to specify the treatment of joint credit obligations other than retail and for default contagion between exposures in their internal policies and procedures, as part of the 'other indications of unlikeliness to pay', as mentioned in section 5 of the EBA guidelines on the definition of default. In particular, where one or all entities involved in the joint obligation is/are not classified as retail exposures, the treatment provided for in chapter 9 of the aforementioned GLs should be applied for the retail entities and may also be applied for the non-retail entities*" It is our understanding that it is up to the Legal Entity to define the treatement according to internal policies and procedures	treatment according to Legal Entities policies and procedures in line with EBA Q&A
15	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
16	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

17	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 days PD, 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 form 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 form 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
18	Credit risk	4.5 Return to non-defaulted status	85 a)	85-86	Clarification	Par. 71 of the EBA GL - that describes the minimum conditions for the reclassification to a non-defaultes 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 therefore, the reclassification to non-default of an obligor with days past due up to 90 days can be deemeed inconsistent with prescription b) and c) of par. 71. where it is foreseen to take into account the behaviour of the client during the 3 months probation period	approach consistency with par.71 of the EBA GL
19	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

20	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
21	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 purpose it is proposed 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
22	Credit risk	5.2 PD risk quantification	126	103	Amendment	It is suggested to smooth a little bit the point relying simply 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 li*kely range of variability.	Additional specification for risk drivers
23	Credit risk	5.2 PD risk quantification	133	107	Clarification	the point a) of the article is referring principally to situations of discrepancies that potentially could raise 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 punctually 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 it is proposed 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

24	Credit risk	5.2 PD risk quantification	135	107	Deletion	The second part of the article reports that: "…*In any case, even if 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.*" Considering the potential constraints originated from different RWEAs calculations, it is deemed important that this article be removed completely. 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 it is not at all clear 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. It is believed that this requirement goes extremely well 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.	RWEAs alternative calculations
25	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
26	Credit risk	6.1 Realised LGD	156	117-118	Clarification	For sake of clarifications 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	Specification on the date for requesting additional adjustments under article 500
27	Credit risk	6.1 Realised LGD	157	118	Clarification	it is proposed 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

28	Credit risk	6.1 Realised LGD	158	118	Clarification	it is proposed 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
29	Credit risk	6.1 Realised LGD	160	118-119	Clarification	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.	Information and criteria to be used for increasing the accuracy of Art 500
30	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

31	Credit risk	6.1 Realised LGD	166	120	Clarification	The article mentioned 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 impact*". Generally speaking, the presence of massive disposals produces always 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 to delete it in case of redundancy.	Maximum Recovery Period computation
32	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
33	Credit risk	6.2 LGD structure	172	121	Clarification	It is suggested clarifying better the goal of this article especially in describing, with illustrative examples, 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. 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
34	Credit risk	7.4 CCF risk quantification	207	139	Clarification	Within the article 207 b) subpoints iii)-iv) it is stated that for portfolios with low materiality or in case of scarce data a floor equal to 100% has to be applied to CCF estimates to ensure conservativeness also over time as part of the review of estimates framework. It is proposed to have more clarifications about the reasons underlining the changes with respect to the previous approach where the 100% was recognized as fixed value to be applied that implicitly already embeds a considerable degree of conservativeness.	Application of 100% floor to CCF estimates

35	Credit risk	8 Model-related MoC	208	140	Deletion	ECB has expectations that risk drivers related to climate and environmental risk be already included into the models, despite the factual absence of historical data such to allow the detection and assessment of statistical-based relations. Lack of this informative areas is expected to be covered by Margin of Conservatism, basically putting further stress on the capital of the banking system.In agreeing that it is important to start collecting the information, up to the moment when the banking system will not be in the position to have a sound reference data set to analyse the significance of climate-related risk drivers, punishing the model with MoCs is not deemed appropriate. As such it is deemed that the extract of 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*" shall be removed, without being detrimental in conveying the sense of priority to the banking system in starting to cope with climate-related information. Also this specification is redundant with expectations already set out in ECB Guidelines on climate-related and environmental risk (section 6.2) pushing to the collection of historical information in order to set out a time series for assessing the potential significance of climate risk driver.	MOC introduction for lack of information on climate and environmental risk
36	Credit risk	8 Model-related MoC	208	140	Clarification	It is proposed to further clarify with illustrative examples about the proper meaning of the following wording "*where relevant and material*" with respect to risk drivers that are limited to climate-related and environmental information that is reported in art 208 but also previously highlighted in art 25, art 47, art 94 footnote 50, art 143 footnote 74, art 172 footnote 79 and art 191 footnote 86.	Criteria to identified risk drivers related to climate and environmental risk