EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

Public consultation on the ECB guide to internal models – risk-type-specific chapters

Institution/Company
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General comments

Template for comments

Public consultation on the ECB guide to internal models – risk-type-specific chapters

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

Deadline: 07 November 2018

ID	Chapter	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated	Name of commenter	Institution	Personal data
1	Credit Risk	3.2 Use of external data	34-35	15	Clarification	Generally speaking, the analyses requested in section 3.2 for the use of external data might be likely not sustainable, since they entail a level of disclosure close to the one available for internal data (for example representativeness analysis of paragraph 35). This disclosure level is usually not possible for data providers. In practice, these requirements, if read as for the current formulation reported in the draft Guide, might lead to the impossibility of adopting external data (unless with the systematic introduction of a material Margin of Conservativism not linked to a model deficiency, but only to the limited disclosure of external providers). In particular, for shadow rating models, the external data, which are the target of the estimation, are expected to be structurally not perfectly representative of the application portfolio (because rating agencies cover more US companies than EU ones). Moreover, inconsistency arises with the top down approach foreseen in EBA/CP/2018/10 (on the conditions to allow institutions to calculate KIRB in accordance with the purchased receivables approach under Article 255 of CRR), in which the methodological approach will rely predominantly on external data, given the impossibility to leverage on internal ones being not representative of the scope of this model. Therefore, the analyses required by ECB guidelines might likely limit the workability of the new securitization framework aiming at revamping, as for Basel Committee intendments, the securitization business.	Clarification is needed due to the difficulty of gathering information on external data providers data quality treatment.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
2	Credit Risk		37	16	Clarification	The previous comments regarding the level of disclosure required for external data apply in particular in the case of external credit bureau scores. In addition, information on the structure and nature of external scores and their key drivers are required by paragraph 37(b)-(e) but are usually not reported by credit bureaus. This would hinder the recourse to a typically powerful data source for risk differentiation purposes, limiting, at odds with regulatory requirements themselves, both the accuracy of the estimates and the information completeness of the rating system (the Credit Bureaus usually provide relevant information for rating assignment especially in the "through-the-door" evaluation for new clients/new applications on Retail segment). Therefore, ABI suggests better clarifying and describing in the detail a minimum set of information that shall necessarily be disclosed, eventually foreseeing on this dedicated Guidelines subject to a consultation process targeted to both banking system and Credit Bureaus.	Requirements on external scores might compromise their adoption in the future.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
3	Credit Risk	3.5 Use of purchased rating systems or models (pool models)	42(d)	18	Amendment	ABI would highlight that the extract "*[…] Validation of the pool model, including testing of discriminatory power and predictive power, should be applied by each institution on its own portfolio.*" if reads in connection with footnote 21 raises concerns. Indeed, in the case of pooled model across legal entities of the same banking group (i.e. group-wide models) the perimeter of application is related to the entire group/group of entities. As such it should be estimated (and consequently validated) on a group-wide perimeter. Thus the measurement of rank ordering and predictive power at single legal entity level would provide a partial (and potentially biased) view. ABI proposes the following amendment of footnote 21: "*The paragraphs below are also relevant in cases where institutions use pooled data that are generated from institutions belonging to the same banking group* ***, with exception of models developed and applied at overall group level, on perimeters for which the geographical location of the booking is not relevant***".	Validation requirement on group-wide models might be not consistent with group-wide nature of the models themselves.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
4	Credit Risk	4.1 Structure of PD models	58-59	23-24	Clarification	With regard to the homogeneity within rating grades and the differentiation across rating grades or pool tests, additional clarifications would be needed about the analysis to be performed in case of Low Default Portfolios (LDPs). Indeed, if the number of observed defaults is too low, the results could lead to counterintuitive outcomes. Moreover, in order to obtain more robust results, banks could be incentivised to aggregate adjacent rating grades with potential problems arising in terms of excessive concentration or in terms of stability across the years.	Additional clarifications would be needed about the analysis to be performed in case of Low Default Portfolios (LDPs).	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
5	Credit Risk	4.1 Structure of PD models	61	24	Clarification	It is not clear the meaning of "*including drivers that are predictive over a longer time horizon*" as requested by paragraph 61(a) and how the 2/3 year horizon indicated in 61(b) should be embedded in the modelling framework.	Requirements on grade assignment dynamics seem not clear.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
6	Credit Risk	4.2 PD risk quantification	85-86	32	Clarification	Some clarifications should be provided about the mapping between internal and external ratings. Indeed, the following aspects should be considered: - no full disclosure is available about the criteria used by the external organizations; - the set of "common obligors" could be very small: the rated counterparties by an external organization (e.g. rating agency) are usually a small share of the specific Institutions' portfolio (e.g. Large Corporate or Institutions); - the sample of common obligors could be non representative of the application portfolio (for example, for the reason described at the previous point); Moreover, it is not clear if the mapping should be based on a comparison between the observed default rates for the internal and the external rating grades or according to a general coherence between the two evaluations (e.g. determine which is the prevailing internal rating grade for each external rating grade). However, in such analysis, a certain degree of human judgment (expert-based approach) should be allowed, in particular if the sample under evaluation is small or includes few defaults. Finally, clarification is needed on whether this section (e.g. paragraph 85-86) should also be applied if the mapping between internal and external rating classes is used by the Institutions not for the PD quantification but for managerial purposes or process-related phase (e.g. override process).	Some clarifications should be provided about the mapping between internal and external ratings.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
7	Credit Risk	5.1 Realised LGD	96	37-38	Amendment	The LGD computation at facility level is a general principle that can be shared. Nevertheless, there can be some cases where a more aggregated computation is necessary not only due to a legally enforceable recovery process but also for the mix effects of the cash flows recorded. This is in particular the case of Short-Term products where often the effects recorded on the current account are also the result of the combination of other short-term facilities (i.e. self-liquidating invoices where the effects are reflected in the current account) and it is not an exceptional deviation but a "structural" practice. For this reason, a separate computation for those cases would result in an incorrect economic loss. An amendment to the Article proposed could include, among the cases where a more aggregated computation is allowed, also the cases where the bank can demonstrate that LGD by facility would not correctly reflect the real economic loss observed and therefore illustrate that it is not an exceptional deviation but a "structural" practice.	The LGD computation at facility level is a general principle that can be shared. Nevertheless, there can be some cases where a more aggregated computation is necessary.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish

8	Credit Risk	5.1 Realised LGD	97(a)	38	Amendment	It should be clearly underlined that a coherent approach has to be adopted between LGD and CCF on the additional drawings. Therefore, if it is requested to discount additional drawings in the LGD, the same approach has to be applied for CCF. ABI suggests substituting the following paragraph: *"Where institutions include additional drawings after the moment of default to estimate CCFs, these additional drawings discounted to the moment of default are added to the outstanding amount at default in the denominator (paragraphs 139-142 of the EBA GL on PD and LGD). In other words, institutions should ensure that the exposure used for CCF estimation is consistent with the denominator of the LGD."* with *"Where institutions include additional drawings after the moment of default to estimate CCFs, these additional drawings discounted to the moment of default are added to the outstanding amount at default in the denominator (paragraphs 139-142 of the EBA GL on PD and LGD).* ***The discounted additional drawings have to be included as well in the CCF calculation****. In other words, institutions should ensure that the exposure used for CCF estimation is consistent with the denominator of the LGD."*	A coherent approach should be adopted between LGD and CCF on the additional drawings.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
9	Credit Risk	5.1 Realised LGD	98	39	Amendment	It should be clarified that the restructuring involves only previously defaulted facilities or cases where the measures granted determine the default of the customer and not commercial practices where the bank modifies the contractual conditions without classifying the client as a default. For example, the renegotiation of the interest rate with a Performing customer does not determine automatically the default and therefore must be out of the scope of this Article. Given this premise, the following section "*where institutions open new facilities to replace previously defaulted facilities as part of restructuring or for technical reasons, the realised loss should reflect the decrease in the degree of financial obligation arising from changes in the contractual conditions (i.e. material forgiveness or postponement of payment of principal, interest, or fees). The amount by which the financial obligation has diminished should be calculated under paragraph 51 of the EBA GL on the definition of default.*" seems to contradict the principle of economic loss. In fact, the changes in contractual conditions are not reflected in a cash flow but are related to a financial concept which is in general out of the LGD scope. It is therefore requested to amend this Article to be consistent with the economic loss definition.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
10	Credit Risk	5.1 Realised LGD	100	39	Clarification	On PD and LGD GL (EBA/GL/2017/16), paragraph 14 says that for the purpose of quantification of various risk parameters within a rating system, institutions should apply the same definition of default for the same historical observations used in different models. Institutions should also apply the same treatment of multiple defaults of the same obligor or exposure across internal, external and pooled data sources. It is not clearly defined if multiple default treatment in PD model should consider Independence period as LGD model. This could lead to a bias in the calculation of the expected losses as far as the number of defaults is not fully consistent across all risk parameters.	It is not clearly defined if multiple default treatment in PD model should consider Independence period as LGD model.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
11	Credit Risk	5.1 Realised LGD	100(b)	40	Deletion	The analyses required on independence period appropriateness, based on analysis related to the curing process, are basically overlapped with the same analysis and monitoring foreseen for probation period, on top of which the independence period should be applied, within the EBA GL on Definition of Default (EBA/GL/2016/07 - paragraph 76). Therefore, in ABI's opinion requiring further analysis on this, considering also the critical and questionable asymmetric treatment introduced by independence period (i.e. relevant for LGD but not for PD), would result in a low value added effort required to the Banks.	Overlap of independence period appropriateness with probation period one.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
12	Credit Risk	5.1 Realised LGD	100(b)	39-40	Clarification	For historical data where institutions have not adopted the minimum 12-month probation period on distressed restructured facilities under paragraph 72 of the EBA GL on the definition of default, they should consider a 21-month period for the application of paragraph 101 of the EBA GL on PD and LGD. The 12-month probation period is a peculiar approach applied for Unlikely to pay Forborne positions; nevertheless the identification of Forborne positions is quite recent in the IT systems as a consequence of regulatory principles and does not coincide with the former distressed restructured facilities. Clarification would be needed about how the pro-forma correction has to be applied on the historical series: has the 21-month period for the default windows grouping to be applied for all the customers classified as "Restructured" even if they are a larger sample compared to currently Forborne rules?	Clarification would be needed about how the pro-forma correction has to be applied on the historical series.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
13	Credit Risk	5.2 LGD structure	105(b)	42-43	Deletion	The model component approach is designed to capture different aspects of the recovery process and allows to obtain a LGD estimate which is the result of both losses observed and dynamics of cure/migrations within default statuses and between default and non-default. The request to demonstrate independence among the components seems not clear and not coherent with other regulatory prescriptions. The goal of the model components is different and also the drivers tested are, in general, different; ABI would therefore suggest that the burden of proof for institutions to provide empirical evidence of their independence be deleted from the document.	The request to demonstrate independence among the components seems not clear and not coherent with other regulatory prescriptions.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
14	Credit Risk	5.3 Risk quantification	108	44	Amendment	Since for recent defaults only limited information is available regarding the full recovery process, the treatment of incomplete recovery processes envisaged in paragraph 158 of the EBA GL on PD and LGD is more complex and could add uncertainty to the LGD estimates; to mitigate this risk, institutions may establish a minimum period of time during which the default should be observed in order for it to be considered in the calculation of the observed average LGD (with a maximum period equal to 12 months). This principle is correct but should be specified as well for institutions applying a model component approach: in this case the analysis should be replicated not only from the entrance in default but as well from the entrance in the litigation process. In fact, in a standard approach where the LGD is equal to Pcure*LGDcured + (1-Pcure)*LGDnoncured, the LGD of non cured facilities (litigation process) includes as well open facilities and the open inferenced cases are estimated on the sample of non cured cases. Therefore, even in these cases it should be allowed to exclude positions with limited information from the beginning of the litigation phase. Finally, the 12-month period should be extended for the secured facilities where the realisation of the collateral at the end of the recovery process determines an even less significant contribution of young positions.	For recent defaults only limited information is available regarding the full recovery process.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
15	Credit Risk	5.3 Risk quantification	111	46	Deletion	In ABI's understanding this paragraph is to be read as a requirement to perform a sensitivity analysis in order to evaluate the impact of repossessed asset on the Long Run Average (LRA) LGD. If this is the case, the purpose of the analysis should be made explicit. Indeed, the adoption of 100% haircut for repossessed assets not yet sold (after the MRP) would be potentially over-conservative. As a matter of fact the repossession, as defined also within the EBA GL on PD and LGD, would entail a reduction of the credit exposure in force of the value of the assets. Although a haircut should be applied on repossessed asset value in order to factorize uncertainty of the collateral value and level of liquidity, it should be kept in mind that the repossessed assets will be booked on Bank's balance sheet and risk weighted accordingly. Thus, in case of repossession of assets falling under "other non credit- obligation assets" category pursuant to CRR Article 156 would be 100% risk-weighted in most of the cases. In case of repossession of equity assets (e.g. due to debt to equity swap, not infrequent in context of restructuring measures) the risk weight would be even higher (especially in view of the future Basel 4 context where only the Standardized Approach would be admitted). Therefore, envisaging a treatment like substantially realized incomplete workout for the repossessed assets that can take time for realization as similarly to ordinary cases of collateral execution would introduce a double counting conservative effect limiting therefore the rationale and the recourse of the repossession technique. Indeed, the more time a repossessed asset will remain in the balance sheet of the Bank, instead of having cash in-flows, the more time the Bank should pay RWA on it. Thus, the adoption of haircut equal to 100% for repossessed assets not yet sold would end up in an increase of LGD (and RWA) on the credit obligations reference portfolio as well, doubling the penalization.	Risk of double counting of conservative effect for Repossessions	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
16	Credit Risk	5.3 Risk quantification	113 (a)	46	Clarification	For the cases where two or more facilities (for example mortgages) of the same obligor are assigned to the same facility grade or pool, ABI deems appropriate to allow two options as compliant for calculating the average. The first is to compute the average weighted by the total number of facilities within that facility grade. The second is to first take the exposure-weighted average realised LGD at the obligor level and then take the arithmetic average LGD weighted by the number of defaulted obligors within the LGD grade. Institutions should demonstrate that the approach they use does not distort the actual observed loss.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish

17	Credit Risk	5.3 Risk quantification	113 (c)	47	Amendment	The proposed treatment of outliers is not symmetrical between the two tails. On one hand paragraph 113 (b) requires to floor the left tail to 0, on the other hand this paragraph requires the right tail to be treated with an appropriate treatment (data quality, risk drivers, assignment to grades or pools or assignment to calibration segments) without capping realised LGD values. The practice widespread among institutions to replace the observed value by a pre-defined value when the observed value is above the pre-defined one already partially safeguards the symmetrical approach between the two tails and definitely allows to avoid further biases in the estimated LGDs. It is not always possible to assign these outliers to one bucket or grade because they can pertain to different combinations of the risk drivers used to model the loss rates. The unintended consequence of the proposed practice could be an increase of the facilities excluded in the sample definition. ABI suggests replacing the proposal of the inclusion of raw data with a percentile treatment of the right tail. It should also be clarified if a cap is applicable at grid level or in the application phase of LGD estimates.	The proposed treatment of outliers is not symmetrical between the two tails.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
18	Credit Risk	5.3 Risk quantification	115 (b) and (c)	47	Amendment	Same amendment and comment as for paragraph 105(b). The model component approach is designed to capture different aspects of the recovery process and allows to obtain a LGD estimate which is the result of both losses observed and dynamics of cure/migrations within default statuses and between default and non-default. The request to demonstrate independence among the components seems to be not very clear nor coherent with other regulatory prescriptions. The goal of the model components is different and also the drivers tested are, in general, different; ABI would therefore suggest that the burden of proof for institutions to provide empirical evidence of their independence be deleted from the document.	The request to demonstrate independence among the components seems to be not very clear nor coherent with other regulatory prescriptions.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
19	Credit Risk	5.3 Risk quantification	118	48	Clarification	Paragraph 118 suggests taking into account "*any changes to the structure of the portfolio that are expected to happen in the foreseeable future*". A broader explanation for what "expected" stands for would be needed.	A broader explanation for what "expected" stands for would be needed.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
20	Credit Risk	5.3 Risk quantification	119 - 124	49-51	Deletion	As long as the EBA RTS and GL on downturn will not be closed and considering the strong debate on this on several critical points (e.g. adoption of the Reference Value), this section should be, for the time being, removed from the current version of the Guide.	Downturn GL are still in draft in EBA.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
21	Credit Risk	5.4 Estimation of ELBE and LGD in-default	126	52	Clarification	The possibility to reflect downturn conditions in the ELBE, if and only if current economic conditions are in a downturn or a downturn is expected over the period of the recovery process, is shared by the institution. Nevertheless, in the inspection practices banks got the impression that, until now, ECB preference has been towards an ELBE associated with long-run average or, at most, long run average corrected to take into account positive economic outlook and an entire downturn assigned to LGD in-default not to lower RWA on defaulted facilities. ABI would therefore ask for a clarification on how to interpret this issue and for more details on the approach to be applied. ABI highlights that an important issue is to avoid as much as possible the excessive volatility in the RWAs and therefore the correction to ELBE should not be based on an excessively PIT logic.	Clarification is needed.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
22	Credit Risk	6.2 Realised CCFs	132	55-56	Amendment	A strict link of the aggregation logics of CCF to the LGD ones is not fully meaningful. Indeed the aggregation logic on LGD might be driven by the level at which the recovery process is performed, whereas on CCF side the aggregation logic should be driven more by potential interconnections among elementary facilities affecting each other the behavior of the drawing of the unused credit line (e.g as in the cases of current account with connected advances facilities, multipurpose credit lines where a credit limit can be shared among more credit facilities, etc). As a consequence of this, not necessarily the same level of aggregation adopted on LGD might fully work on CCF and vice versa. Thus ABI, would suggest to amend the wording making reference to possible aggregation according to the characteristics of the facilities rather than adopting aggregations valid on LGD side.	Facility aggregation rule for CCF not necessarily similar to LGD one.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
23	Credit Risk	6.2 Realised CCFs	133(b)	56	Amendment	Please refer to amendment to paragraph 97(a) on LGD.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
24	Credit Risk	6.3 CCF structure	134(b)	57	Clarification	Clarification would be needed between fixed horizon approach and cohort approach: Basel Committee on Banking Supervision has indicated the 12 months fixed horizon approach as the preferred one, while, both in inspections and in this Guide, the cohort approach is requested as well. More details should be provided on this topic.	Clarification would be needed between fixed horizon approach and cohort approach.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
25	Credit Risk	6.4 CCF risk quantification	136(b)	58 - 59	Amendment	As for paragraph 113(c) about LGD, ABI deems not appropriate the proposal not to cap the right tail of the distribution. An appropriate treatment (i.e. interquartile range) has to be performed in order to avoid biases coming from raw CCF. It should be clarified if a cap is applicable at grid level or in the application phase of CCF estimates.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
26	Credit Risk	6.4 CCF risk quantification	136(c)	59	Amendment	The reasons behind the calculation of the LRA CCF as an arithmetic average of yearly average of observed CCF appear not immediately clear. Indeed, this approach results self-explaining on PD side where it is necessary to have performing obligor at the different reference dates and observing default rates on one-year horizon. But on CCF side, as for LGD, a calibration to a default weighted long run average of all observed defaults is required by the CRR (Article 182, par. 1, letter a) *"(a) 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;"*). Therefore, ABI suggests keeping a proper alignment with CRR requirement, by amending the wording accordingly, in order to avoid creating potential inconsistency in the interpretation of the requirement.	Calculation of realized LRA CCF seems not fully in line with CRR Article 182, par 1, letter a).	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
27	Credit Risk	6.4 CCF risk quantification	136(d)	59	Deletion	ABI deems that this paragraph is a replication of the criteria valid for LRA default rate quantification on PD side. However CCF, as for LGD, should be calibrated at downturn level (if higher than the long run) thus the availability of a long enough LRA CCF covering both good and bad years is more relevant for a sound downturn estimation leveraging on the availability of downturn period within the time series of internal data (i.e. adopting the approach based on observed impact as for the draft of EBA GL on downturn) rather than for a calibration at LRA representative of the likely range of variability of default which is relevant for PD. Therefore, this paragraph appears redundant and might create confusion in the operationalization of the CCF risk quantification.	Concerns on calibration concept of CCF linkage to PD ones.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
28	Credit Risk	6.4 CCF risk quantification	138	60	Clarification	Since this paragraph refers to the Downturn LGD, please refer to comments reported above for paragraphs 119-124		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
29	Credit Risk	7 Model-related MoC	142(a)	61	Amendment	The request to reflect the dispersion of the statistical estimator at grade level might produce the following effects (in particular for LDP): - inversion of PD ordering for adjacent classes - incentive to use totally PIT rating systems in order to minimize variability of default rates for each class. On the other hand, this would increase RWA volatility - incentive to use less granular Master Scale, penalizing the models risk differentiation It should be clarified that the MoC "to account for statistical uncertainty/sampling error affecting the LRA estimate" should be based on the number of observations available rather than the variability of one year DRs. Indeed considering the volatility of the DR as key driver in the computation of the MoC would lead to the following drawbacks: - model with longer historical time series (and hence an expected higher variability in the DR) will be penalised with an higher MoC although the statistical uncertainty/sampling error would be smaller due to the huge number of counterparties in the sample for the CT computation; - inconsistency with framework for the CT computation designed in the EBA/GL/2017/16, that requires a CT which is representative of the likely range of variability. Therefore the following amendment is suggested: "*to account for statistical uncertainty/sampling error potentially affecting the LRA DR estimate at least at the level of calibration segment. The MoC should be based on the level of the LRA DR and the number of observations available for its estimation*".	The request to reflect the dispersion of the statistical estimator at grade level might produce unintended effects.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish

30	Credit Risk	7 Model-related MoC	142(b)	61-62	Clarification	It is unclear if the "other estimates" refers to parts of the model that due to the estimation complexity might be considered self-standing models or to any parameter which represent an input to the model (i.e. Downturn component, indirect costs). In particular, it is unclear what should measure the materiality of the uncertainty (quality of parameter estimation, relevance of the parameter in the model, marginal changes that a MOC might produce). Due to the complexity of the correlated effects and the undesired possibility to disproportionately increase the MoC C, it is requested to specify that "one for all" MoC C should be computed and the latter should encompass all the model's estimation errors.	Clarification is needed.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
31	Credit Risk	8 Review of estimates	146	63	Clarification	The requirements of full model review seem to be independent from the deterioration evidence in terms of model performance, that are already covered within the regular annual review of estimates, since additional analyses are required in order to evaluate if the inclusion of the most recent data would lead to different material model outcomes. However poor details are provided regarding the additional analyses to be performed in order to evaluate if a model has to be re-estimated, not fully clarifying the requirements of articles of EBA Guidelines related to full review (i.e. article 220 that asks for review of existing and potential risk drivers and modelling overall framework). The lack of clear guidelines on this can determine difficulty in interpretation and consequent operationalization with potential increase of the operative effort in Model maintenance phase. The risk of an excessive operative effort is also linked to the request of three-yearly basis (or more often depending on the materiality) model review, considering that paragraph 218 of EBA/GL/2017/16 already requires an (at least) annually regular cycle of review of estimates.	Not clear explanation regarding the additional analyses to be performed in order to evaluate if a model has to be re-estimated.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
32	Market Risk	2.2 Delimitation of the regulatory trading book	6	68	Clarification	The list of instruments that are presumed to be held for trading purposes and that should be classified within the prudential trading book has been slightly amended compared to the 2017 version regarding the equity investment in funds. There is no mention of the equity investment in funds in the Trading book list (cf. paragraph 7 of the Market risk chapter). Conversely, the Banking Book list includes the "equity investments in a fund for which the institution cannot obtain liquid prices". The reference to a daily frequency has been removed. Does it mean that the ECB considers that funds with weekly or monthly NAV can be classified within the Trading Book?	The treatment of equity investment in funds could be subject to divergent interpretation and needs to be clarified.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
33	Market Risk		7	69	Clarification	Footnote 64 has been added (to the 2017 version) stating that "*Where an institution is aware of the underlying investments of the fund on a daily basis, the underlying investments might be assigned to the trading or banking book depending on their characteristics* ". In ABI's understanding this means the look-through negates the need to demonstrate liquid prices (i.e. that a fund with no liquid prices can be classified within the Trading book provided that the look-through is achievable).	The draft Guide could be subject to divergent interpretation and needs to be clarified.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
34	Market Risk	2.3 Treatment of banking book positions	15	72	Clarification	According to paragraph 15, an Institution should have policies in place describing "*the intermediate steps followed for calculating the FX positions, beginning with each individual subsidiary and proceeding to the group level* ". When discussing exclusions reference is made to "*consolidated and sub-consolidated levels to balance sheet items in foreign currencies that stem from consolidated subsidiaries and is without prejudice to the extent and manner of prudential consolidation prescribed in Article 18 of the CRR* ". Consolidation practices of FX exposure are however not homogeneous in the industry ranging at a minimum from a building block approach in which local-view exposures and related own fund requirements (OFR) are added up to form a "consolidated" amount to the full consolidation of Assets and Liabilities in local currencies of the subsidiary in the (e.g.) EUR-based balance sheet of the Holding Company. The latter then poses several choices on • whether to consider the resulting A/L imbalance (net equity of the e.g. CZK Legal Entity, corresponding to the equity participation) as source of FX risk, • how to reconcile such consolidated view of FX risk (in which CZK assets attract OFR) with the local FX risk management (in which CZK assets are not risky) • and how to bring together in the overall OFR measurement Legal Entities with FX covered under IMA and entities without approval. A harmonization of the standard on policies should only follow a clear set of indications on how such consolidation of FX Positions should be taking place, covering all of its implications: from PL-RWA consistency to IMA-SA inter-relations.	The paragraph expects to harmonize the standards of the internal policies describing the FX Position consolidation process, in the absence of a sufficiently detailed regulation on how the consolidation should be carried out for the purpose of the calculation of OFR pertaining to FX positions. Harmonization should begin from the consolidation principles in the first place.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
35	Market Risk	2.5 Exclusion of positions in the regulatory trading book from the scope of application of the IMA	23	74	Deletion	The requirement "*Additionally, institutions should be able to demonstrate that the level of own funds requirements under the standardised approach is commensurate with the risks of those positions.* " appears undue. It is difficult to see what such demonstration should consist of and what it should imply. Correct application of the regulatory requirement should be sufficient. Knowing that institutions have no choice but to calculate own fund requirements using the standardised approach in case where the internal model cannot be used, ABI proposes to remove the last sentence of the paragraph.	Correct and complete application of the regulatory requirement should be sufficient.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
36	Market Risk	2.5 Exclusion of positions in the regulatory trading book from the scope of application of the IMA	24	74	Amendment	Paragraph 24 states that "unusual underlyings (such as temperature, weather or mortality)" could be included in the scope of IMA. Nevertheless, ABI considers these underlyings are non-hedgeable on capital markets and would therefore ask for a removal of this requirement from the Guide.	These underlyings are non-hedgeable on capital markets.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
37	Market Risk	2.6 Treatment of specific positions	32	78	Amendment	Inclusion of defaulted debt in VaR and SVaR appears unnecessary in that market factor volatility should no longer be relevant for the security.	The treatment of defaulted assets under VaR and SVaR appears unnecessary.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
38	Market Risk	3.4 Calculation of actual P&L	67	87	Clarification	Paragraph 67 suggests that any adjustment "in scope" of market risk should be included in the Actual PL. If "in scope" of market risk refers to adjustments that help capturing the actual dynamics of market variables, then several Fair Value Adjustments referred to XVAs (FuVA, MVA, KVA..) should not be seen as part of Actual PL. FuVA is indeed designed to capture the Funding Costs throughout the life of a derivative, MVA the costs/benefits of pledging/collecting Initial Margin, KVA their RWA-related costs.	It would be important to clarify which adjustments can be considered out of the scope of market risk, especially with respect to XVAs.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
39	Market Risk	3.6 Counting of overshootings	81	90	Amendment	ABI suggests that the list of acceptable reasons be complemented with: "*(f) capital add-on related to the cause of the overshooting when it covers the excess to the VaR* ".	Addition of a reasonable cause for withdrawal of overshooting.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
40	Market Risk	4.4 Validation on hypothetical portfolios	94	96	Clarification	The draft Guide indicates that the requirement of Article 369(1)(c) to use hypothetical portfolios in the internal model validation refers in particular to VaR, SVaR and IRC models. While the validation based on hypothetical portfolios is detailed for VaR models in paragraph 4.5, there is no detail for SVaR and IRC models apart from the generic analysis described in item 95(b). Guidance from ECB on how to perform internal validation of SVaR and IRC models using hypothetical portfolios would be very helpful. Taking the example of the SVaR model: what differentiate the SVaR model from the VaR model is the stressed historical period. Using hypothetical portfolios to validate the stressed period calibration seems to be of little benefit since the stressed window is supposed to be relevant to the institution's whole portfolio (Article 365 (2) of CRR).	Use of hypothetical portfolios for SVaR and IRC internal validation is unclear.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
41	Market Risk	5.2 General Requirements	102	98	Amendment	The paragraph requires the "*risk factors included in the VaR and SVaR models on the basis of observable data".* The observability criteria are not defined in the CRR and seem to establish a connection with the forthcoming FRTB modellability standards.	The concept of "observable data" is not set in CRR. FRTB contents should not be front-loaded.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
42	Market Risk	5.5 Proxies, beta approximation and regressions	128	106	Deletion	The paragraph requires a test where two types of P&L not included in the CRR are to be computed: *b) the hypothetical P&L calculated on the same unchanged positions but replacing, for the positions for which proxies are used in the VaR, the market data with the market data of their proxies* *c) the hypothetical P&L calculated on the same unchanged positions but replacing, for the positions for which proxies are used in the sVaR, the market data with the market data of their proxies.* Both P&Ls are not foreseen by the existing regulation and will mandate development efforts that are not fully shared with the forthcoming FRTB standard.	The test is based on a hybrid P&L that lies between HYPL and RTPL. Since Its engineering would be certainly demanding, the question on the opportunity of such test a few years away from FRTB come-into-force is posed.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
43	Market Risk	5.7 Pricing functions and methods in the model	134	109	Clarification	ABI would ask for confirmation that, in case the institution has a validation unit, within the Risk Management Department, that is dedicated to the validation of pricing functions used for economic P&L and for their implementation in the VaR and sVaR engine, it is reasonable to let the this unit perform a portion of the activities cited in article 134 even if it is not part of the Internal Validation function (similarly to what reported in §68 in Counterparty Risk section).	In this context, in order to assure an adequate level of control, it seems reasonable to focus the activities of the Internal Validation function on the behavior of pricing functions within risk scenarios and on independent reviews of the activities performed by the Risk Management's unit that validated the pricing functions.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish

44	Market Risk	6.2 General requirements	138	110-111	Amendment	The paragraph requires an institution that uses "*the assumption of a one-year constant position*" to "*be able to demonstrate that the chosen assumption appropriately captures the risk of its portfolio.*" In ABI's view, institutions choosing the one-year constant position assumption should not be required to prove adequacy of such choice to reflect the risk of their portfolio. Such assumption indeed can be considered as conservative, assigning to all positions in the portfolio the poorest possible liquidity and removing the decorrelation effects potentially arising from replacement of defaulted issuers within the capital horizon. This also seems to be reflected in the formulation of CRR Article 374(4), where one-year constant position is presented as a fall-back case, alternative to the liquidity horizon assessment required for the constant level of risk assumption. ABI suggests amending the paragraph to clarify that one-year constant position assumption does not require, by itself, to be justified in terms of adequacy.	Requirement to prove the adequacy seems not required by CRR that elects this approach as the fallback one in case Liquidity Horizon assessment was not possible.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
45	Market Risk	6.2 General requirements	139	111	Deletion	The paragraph requires a quantitative assessment of how maturity mismatches – that may lead to imbalanced positions within the modelling horizon – impact the IRC and the default risk in the IRC amounts. Such effects should be naturally captured in migration risk via the difference in CS01 of instruments of different maturities: there should be no need for additional quantifications. As for the default risk, beyond the computation itself, maturity mismatch could be due to rolling strategies, and hence embedded into the business model. As a consequence, the results of test should be assessed on a case-by-case basis, also factoring in considerations on business models beyond pure quantitative impacts, and not be a trigger for capital increase / model review.	The relevance of maturity mismatches should be considered in the light of the fact that the portfolio is static by definition and there is no requirement in the CRR to introduce the concept of default time within the capital horizon.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
46	Market Risk	6.4 Distribution and correlation assumptions	151	114	Amendment	The granularity of the cases for which correlation effects are explored is deemed too high. In ABI's opinion half of the cases would suffice.	Too many correlation scenarios do not provide meaningful additional information.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
47	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	161	118	Amendment	ABI suggests replacing the unweighted approach with a weighted one.	The paragraph requires an equally weighted average PD of those issuers not subject to an unweighted approach. An unweighted average could not be representative of the portfolio, and in addition, given the typical exponential scale, high PD will dominate. Therefore, ABI suggests applying a weighting mechanism (JtD or Incremental / Standalone IRC based) that is more risk sensitive.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
48	Market Risk	7.2 The framework for risks not in the model engines	170	123	Amendment	The paragraph suggests that Article 367 rules generically risk engines and that RNIME can be included in such category becoming an integrating part of the IMA. On the other hand, CRR explicitly mentions VaR, SVAR, IRC and CRM as IMA engines not mentioning anything about Risks Not in the Model Engine other than by expressing in 367 (1)(a) that a model shall "*capture accurately all material price risks*". The stance of the Guide seems hence over-reaching in requiring RNIME to have the same standing of a component of an Internal Model (initial approval, model change RTS). ABI therefore suggests reverting to the 2017 concept of RNIM avoiding any extension of the current IMA perimeter. RNIM should be simply complementing the existing IMA metrics with ad-hoc add-ons to address material deficiencies in the quantification of the price risks.	There is no clear indication in the CCR that an extension of IMA to a RNIME is required. RNIM can be handled in the scope of existing IMA (on VaR, sVaR, IRC, CRM) through dedicated add-on where all price risks might not be fully represented in the model.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
49	Market Risk	7.2 The framework for risks not in the model engines	173	124	Amendment	While the risk unit certainly has the duty of monitoring the RNIM component, even according to prescriptions detailed in paragraph 172, the handling of the framework should not follow under the same standards of the IMA component, especially when referring to initial approval and subsequent model changes standards.	RNIM should be managed by the risk control unit however outside the rigid standards of the IMA.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
50	Market Risk	7.3 Identification of RNIME	174	125	Amendment	The list of risks listed as giving rise to RNIM is very broad and includes items (e.g IRC factor model assumptions) that are by definition out of the scope of day to day risk monitoring activities designed to ensure that any material price risks not captured are identified. As a matter of fact, most of the risks mentioned under 174 (b) are better captured under the Model Risk Framework, which can be subject to Pillar 2 capital with dedicated static cushions. In addition, proxies are specifically mentioned in (a) as a potential source of RNIM, when sections 5 and 6 of the Market Risk chapter specifically deals with their handling within model engines, and banks with Specific Risk approval are already required to model basis risk due to proxying.	While (a) - omitting reference to proxies - and (c) captures phenomena that are correctly monitored under the RNIM framework, (b) overlaps with the Model Risk Framework, that is already regulated, and potentially capitalized under Pillar2 via cushions.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
51	Market Risk	7.3 Identification of RNIME	175	126	Amendment	The last paragraph prescribes that "*unless the institution can provide justification that the effect of an RNIME is negligible in the current portfolio and will remain negligible taking into account the trading strategy, it should take that RNIME into account in its RNIME framework*." Also in this case the scope of the RNIME seems to be going beyond the identification of material price risk required by CRR and to overlap with consolidated process in a Bank such as the New Product Process (NPP), the Risk Appetite Framework (RAF) and the limits setting.	The paragraph expresses requirements that are in overlap with well-established processes in the Bank e.g. RAF, NPP, risk limits setting. The quantification of the adequacy of a risk model should be based on objective measures like Back Testing.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
52	Market Risk	7.4 Quantification of RNIME	177	127	Amendment	The paragraph prescribes the same level of conservativism in the quantification of the RNIM of the metric they refer to. In the light of the fact that no diversification is allowed among them and that the only practical assessment could be standalone rather than incremental (if the latter was readily available the risk would be already included in the model), the overall result of the prescribed calculation is bound to be over-conservative.	The paragraph sets impractical and too conservative standards in the quantification of the RNIM.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
53	Market Risk	7.4 Quantification of RNIME	178	128	Amendment	Unless approximations to the calculations are allowed, the Incremental assessment can be only obtained by including the RNIM in the Model. The requirement appears hence impractical since the standard assessment will be conducted on a standalone basis, which is bound to be too conservative. In addition, any capital add-ons that might be quantified for a RNIM should not be compounded with any aggravation of the regulatory multiplier caused by backtesting exceptions driven by the RNIM.	The paragraph sets impractical and too conservative standards in the quantification of the RNIM. CRR clearly prescribes a multiplier increase mechanism to compensate for model inaccuracies and this should not be compounded with add-on.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
54	Market Risk	7.4 Quantification of RNIME	178	127	Clarification	ABI considers the introduced incremental risk number method as a more accurate method than the stand-alone risk number method in the February 2017 TRIM Guide. ABI seeks some implementation related clarifications to the incremental risk number method. In some cases, data availability may be limited and therefore stress-based RNIME calibrations as part of the incremental risk number method should be allowed. ABI also seeks clarification that appropriate approximations and assumptions are allowed to estimate the incremental risk number in cases where full time series data is not available. The institution needs to be able to justify the approximations and assumptions applied.	Based on the discussion in the public hearing on the 17th October 2018, ABI's understanding is that appropriate assumptions and approximations when quantifying the incremental risk number for an $RNIME_i$, is allowed subject to adequate documented justification. Clarification would be beneficial.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
55	Market Risk	7.4 Quantification of RNIME	178	127	Amendment	Quantification of RNIM as the incremental increase of the relevant risk number is welcome. It recognises the diversification between the RNIM and other risk factors incorporated in the model. Unfortunately, there may be cases where diversification effect will be hard to assess and the RNIM impact may only be calculated conservatively on a standalone basis. This being said, whenever possible, institutions should be given the flexibility to recognise diversification between RNIM as well. A simple arithmetic sum of RNIM impacts (which sometimes will already be calibrated conservatively as standalone stress tests) will result in a grossly overstated CIQ (cumulative impact quantification, see §183(c) on page 131). Actually, as a rule of thumb, RNIM will often be unrelated and a quadratic formula (square root of the sum of squared RNIM impacts) may be a more suitable way of aggregation.	In ABI's view, diversification between RNIM should be recognised.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
56	Market Risk	7.4 Quantification of RNIME	179	128	Clarification	With respect to paragraph 179, ABI highlights that if the factor is not in the model the incremental risk number might not be directly observable. Clarification is therefore necessary about how institutions should calculate incremental risk numbers in these cases.	It could be useful to understand how institutions should calculate incremental risk numbers in case of illiquid/not observable risk factors. Due to the nature of RNIME, it might not always be feasible to compute a VaR (SVaR) measure for those risks within the current engine, nor their impact on the Bank VaR (SVaR). For instance, if the factor is not directly observable or it is an illiquid position the incremental risk number might not be easily measured. Furthermore, in some cases, data availability can be limited. Incremental assessment might be only obtained by including the RNIM in the Model and this seems contrary to the definition of RNIM itself.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish

57	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129	Amendment	Lack of diversification benefit and standalone calculation of RNIM impacts would lead to over-estimation of the relevance of such risks which, once embedded in the model, might as well prove immaterial on the risk metric. In addition, if such a quantification system gets linked to capital add-ons (as opposed to simply triggering model enhancements) for those cases where backtesting exceptions are also induced by the model deficiency there will be a double counting on capital. The previous version of the Guide allowed two options in case of a RNIME cumulative impact higher than the 10% threshold (item 176(b)): "*the setup of an action plan by the Bank to include one or more RNIME or the demonstration that the effect of the RNIME is not material while taking into account the diversification benefit*". The latter of the two options is no longer available while it was a reasonable approach. Due to the nature of risks not in the model engine, it is not always feasible to compute a VaR, SVaR or IRC for those risks with the current engine, nor their impact on the bank's VaR, SVaR or IRC. In addition, the risks not in the model engine do not always have daily (or regular) observable data that can be used to adequately compute a risk measure impact at the same confidence level than the reference risk number. As a consequence, one may rely on a stress test approach based on expert judgment (as mentioned in item 180) that will be sounder and more conservative than a loss at 99% confidence level and a holding period of ten days for VaR/SVaR or a 99.9% confidence level over a time horizon of 1Y for IRC. Not allowing for any diversification effect between the different risks not in the model engine leads to consider a scenario that is much more adverse than a 99% quantile on a 10 days holding period (resp. 99.9% quantile over a time horizon of 1Y for IRC): the individual stress tests are built to be more adverse than that, then assuming they all happen at the same time corresponds to an even more remote scenario. Finally, the absence of diversification creates a great divergence between the risk measure taken as a reference (where risk factors included in the model benefits from diversification effects) and the cumulative effect of all RNIME.	The quantification approach appears over-conservative and bound to generate capital add-ons in excess of what the actual impact on the risk measures would be upon model extensions. The 5% and 10% thresholds mimic those of the EBA RTS on model change materiality however they refer to a quantity that does not share the same characteristics of an IMA.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
58	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	130-131	Clarification	Clarification would be useful about that the cumulative $RNIME_i$ impact quantification only includes non-capitalised $RNIME_i$ in the numerator in the formula for $CIQ_{risk\ number}$.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
59	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	130	Clarification	With respect to paragraph 183(b), ABI would highlight that if the factor is not in the model thresholds might not be identifiable. Contribution to actual P&L would be more relevant. It is not clear if the threshold (5%) has to be applied to the sum of risk figures or to a single one. Further, it should be considered that risk figures contributions might offset.	It may be useful having further clarifications on how to effectively manage thresholds, especially when not directly observable risk factors are to be measured.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
60	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	186	132	Deletion	Considering RNIME as part of IMA seems out-reaching the CRR prescriptions around the completeness of the price risk capture. In addition, having it subject to the EBA RTS on model change would congest even further a model change mechanism that is already proving a bottleneck to normal model maintenance operations. A regular reporting (e.g. quarterly) of the status of the RNIME framework (new RNIMEs, ceased RNIMEs, modification of the methodology for the calculation of existing RNIMEs), performed by risk control unit and validated by the Internal Validation function, is suggested as an alternative. Model change process should be triggered only to initially validate the overall framework (policy, roles and responsibilities, triggers, internal thresholds, reporting) or in case of major organizational changes to the validated framework. Finally, it is unclear how this part of the model will be dealt with in the context of FRTB coming into force, i.e. if it will be replaced or if it will stay. Since the former appears more likely, this would mean a wave of model approvals for the RNIME set up that might not even reach the approval phase if FRTB timeline to 01.01.2022 is confirmed.	Inclusion of RNIME in IMA framework appears unnecessary. A simplified approach, that would not encompass the model change procedure, should be in place. Interaction mechanism with FRTB come into force is also unclear and exposes to the risk of a wave of model approvals that will be short-lived or not-lived at all.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
61	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183-188	129-132	Amendment	As highlighted in the previous comment, in ABI's view model change policies should not apply to such a framework given the timeliness of a model change approval. A simplified approach should rather be in place.	A simplified approach, that would not encompass the model change procedure, should be in place.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
62	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183-188	129-132	Amendment	The set-up of an efficient procedure to validate and quantify the impacts of RNIME is crucial to keep the overall process sustainable. Model change processes should not be triggered every time a RNIME is created or modified: instead, a regular reporting (e.g. quarterly) of the status of the RNIME framework (new RNIMEs, ceased RNIMEs, modification of the methodology for the calculation of existing RNIMEs), performed by risk control unit and validated by the Internal Validation function, is suggested as an alternative. Model change process should be triggered only to initially validate the overall framework (policy, roles and responsibilities, triggers, internal thresholds, reporting) or in case of major organizational changes to the validated framework.	Model change process should be triggered only to initially validate the overall framework (policy, roles and responsibilities, triggers, internal thresholds, reporting) or in case of major organizational changes to the validated framework.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
63	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	Paragraph 189 states that "*RNIME add-ons are not included in the VaR number [and] they should not be taken into account when performing regulatory back-testing*". When RNIME add-ons are calculated with a minimal frequency and aggregated with the VaR based on robust correlation assumptions such that the completed VaR metric is risk sensitive, such add-ons should be taken into account in the regulatory back-testing as "satellites" are.	.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
64	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	ABI agrees that since the RNIME add-ons are not included in the VaR number, they should not be taken into account when performing regulatory back-testing. Back-testing outliers explained by RNIME should be monitored. Nevertheless if the back-testing outliers shows to relate to RNIME capitalized through add-ons, possible consequences should depend on the amount of the add-ons : - If the value of the impact of RNIME(i) on the recorded loss is below the RNIME(i) capital add-on, then breach should be discarded (i.e. considered as technical) and should not impact the addend accordingly as those RNIME(i) variation are sufficiently capitalized. - Else, the breach should impact the addend as the capital for the RNIME(i) is not sufficient. By definition the capital add-ons compensate the issue of non-modelling a given risk factor then institutions should not be penalized if a loss attributed to a RNIME is fully covered by a capital add-on.	Institutions should not be penalized (additional capital requirement) if a loss attributed to a risk factor not in the model engine is fully covered by a capital add-on.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
65	Counterparty Credit Risk	2.1 Relevant regulatory references	6(f)	135	Clarification	ABI would ask the ECB to further clarify and detail the core aspects on which performances should be calculated and to clarify whether a performance can be described "unacceptable" following internal rules and thresholds or specific ones defined by the ECB.	Clarification is needed.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
66	Counterparty Credit Risk		15	137	Clarification	ABI would seek confirmation on that the identification process described in paragraph 15 has to be interpreted as follows: 1) at the date of the regulatory reporting, transactions that meet all the conditions expressed in paragraph 15 are selected; 2) the pricing discrepancies (IMM vs benchmarking value) of such transactions are further analyzed in each business day of the quarter; 3) the effective carve-out of the transaction is put in place only if thresholds are exceeded for more than 10 days.	Clarification is needed.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
67	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Amendment	Paragraph 18 authorizes the adjustment of the netting set value only if this difference increases the netting set exposure. ABI would ask for a more flexible approach permitting an adjustment to increase or decrease the netting set exposure so as to match reference prices.	A more flexible approach to adjust the netting set exposure would be preferable.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
68	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Amendment	Paragraph 18 states that the difference could be estimated using more sophisticated methods taking amortising transactions into account. It should be clarified that most sophisticated methods can be used not only for amortizing transactions but for all transactions once the value difference amortize even for non-amortizing transactions.	Non-amortising transactions should be considered.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
69	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	19	138	Clarification	The conditions detailed for alternative exposure calculations, in paragraph (b) of Option 2 are not clear enough. ABI would ask for further details.	Conditions for alternative exposure calculations should be clarified.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish

70	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	143	Amendment	The CRR defines the exposure in terms of market value of the derivatives and availability of eligible financial collateral. The request to take into account the unpaid cashflow during the margin period of risk (MPOR) would imply an additive impact on the exposure equal to the total value of the cash flows that would have been paid by the counterparty. The CRR seems not to contain any reference to the need that the exposure should encompass also such cashflows. The requirements of the TRIM Guide regarding the consideration of unpaid trade-related cashflows (CFs) as part of the exposure seem to be an extensive interpretation of the current regulation which, in addition to the effectivization of the regulatory risk figure would create a punitive capital charge not justified by the real riskiness of collateralized netting set. In addition, for transaction types with no enforceable settlement netting rules, the modelling of CFs within the MPOR as proposed may arise modelled spikes of exposure (proportional to the notional of the transactions) that would lead to an overestimation of the effective risk due to the non-decreasing feature of the regulatory measure.	The CCR does not explicitly mention trade-related CFs.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
71	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	34	149	Clarification	ABI would seek for further explanation of what the ECB admits in terms of management of future collateral composition when the non-cash collateral expiries before the maturity of the netting set. Is it reasonable to assume a pure replacement of non-cash collateral having the same characteristics of the expired one?		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
72	Counterparty Credit Risk	5.3 Principles for ECB banking supervision	41	152	Amendment	ABI suggests rewording the paragraph as follows: "*In relation to the requirements set out in Article 292(1)(b) of the CRR, and for exposures subject to IM that are within the IMM scope, the ECB considers as good practice that institutions have an IM modelling reflecting contractual arrangements for the respective netting set. In particular, if contractual arrangements provide that the IM should reflect forward variability of netting set values, the IMM modelling of the IM should take this feature into account* ***unless the institutions demonstrate that keeping the IM constant over time does not systematically underestimate exposure*** *.*"	Modelling initial margin (IM) as part of EEPE is very complex, therefore the option to treat initial margin as a constant over time should be retained (as in the initial version of the TRIM guide) if it can be shown that this approach does not systematically underestimate exposure.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
73	Counterparty Credit Risk	8.3 Principles for ECB banking supervision	62	159	Amendment	ABI proposes the following amendment: *"The frequency of the recalibration of the parameters of the underlying stochastic processes (such as drift, volatility and correlation) for internal risk management* ~~***should be at least monthly unless***~~ ***should be at least quarterly and*** *the institution* ~~*is*~~ ***should be*** *able to demonstrate that the* ~~***minimum quarterly***~~ ***calibration*** *frequency* ***selected as*** *required by Article 292(2) of the CRR for the calculation of capital requirements is sufficient to reflect changes in market conditions in an appropriate manner."*	The adequacy of the recalibration frequency depends on the type of the calibration method (historical or market implied) and on procedures in place to identify if market conditions require a more frequent recalibration pursuant to Article 292(2) of the CRR. It can be argued for instance that a monthly recalibration based on market implied data without additional controls on changing market conditions may be less satisfactory than a quarterly historical calibration with controls for changing market conditions. Besides, performing a historical calibration on a 3-year (or longer) time period at higher frequency (e.g. monthly instead of quarterly) will not on its own make the calibration much more sensitive to sudden changes in market conditions, as the part of the sample affected by such changed market conditions would anyway be small. Additional adjustments to calibration would be needed to achieve this goal. In summary, it seems to be not warranted that a monthly frequency is always sufficient; nor it seems necessary to overwrite the minimum requirement for the calibration frequency provided by Article 292(2) of the CRR as institutions are required to always justify the adequacy of the selected calibration frequency.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
74	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	68	163	Clarification	Paragraph 68 affirms that "*Hence, the ECB considers that for cases where operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, are conducted by staff also responsible for model design and development, the above-mentioned requirement provided for by Article 293(1)(c) of the CRR would be fulfilled if all of the following practices were implemented: (a) the respective validation task is conducted on behalf of the validation function;*" ABI would seek clarification about what does the statement "*the respective validation task is conducted on behalf of the validation function*" mean in operational terms and how it could be verified.	It is not clear how to interpret the requirement that certain tasks are executed by model developers "on behalf of" the validation function.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
75	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	68	163	Amendment	ABI proposes modifying paragraph 68 as follows: *"68. In accordance with Article 293(1)(c) of the CRR, validation/review and model development must be independent, that is, the validation function must be effectively separated from model development.* ***Certain parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, may also be used as parts of ongoing model performance monitoring.*** *Hence, the ECB considers that* ***some methodological and/or*** ~~***for cases where***~~ *operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, are conducted by staff also responsible for model design and development, the above-mentioned requirement provided for by Article 293(1)(c) of the CRR would be fulfilled if all of the following practices were implemented:* *(a)* ***a regular, independent and effective challenging of the underlying methodological aspects of*** *the respective validation task* ***comprising scope, data samples, tools, etc****., is* ~~***conducted***~~ ***performed by*** *the validation function* ***(b) in addition to the model performance monitoring tasks performed by the staff also responsible for model design and development, model validation function must perform its own independent assessment of the outcomes of the analysis required by Article 294 of the CRR. The assessment required by §68 (b) may be based on the operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, conducted by staff also responsible for model design and development, and not on an independent implementation thereof, only if the requirements in §68 (a) are met.*** ~~***(b) a regular, independent and effective challenging of the underlying methodological aspects of the respective validation task comprising scope, data samples, tools, etc., is performed by the validation function;***~~ ***(c) The judgement regarding the adequacy of the*** ~~***the assessment of the outcomes of the analysis (e.g. the evaluation of back-testing traffic lights or pricing deficiencies detected in the benchmarking) and the judgement regarding respective***~~ *remediation measures* ***proposed should be*** ~~*are*~~ *the responsibility of the validation function only* ***."***	Paragraph 68 seems not very clear and consistent in some aspects. The paragraph refers to the cases "where operational parts of the validation framework e.g. backtesting" are conducted by model developers and aims to define, under which constraints such setup is deemed compliant with the requirements in Article 293(1)(c) on independent model review. The reference to "operational parts" only implies that the methodological part underlying the operational part should be designed by model validation function. On the other hand, §68 (b) describes "*a regular, independent and effective challenging of the underlying methodological aspects of the respective validation task*" as necessary, which implies that such methodological aspects could be designed by the model development function, which seems not consistent. Besides, the requirement in §68(a) that "the validation task is conducted on behalf of the validation function" can be interpreted in different ways and it is not clear how this could be implemented organizationally. Finally, the requirement in §68 (c) implies that the model validation function *alone* should have the judgement of the outcomes of the analysis and "respective remediation measures". This requirement takes outset in the view that ongoing model performance monitoring (such as back-testing or pricing comparisons) are exclusively part of model validation and fails to recognize the fact that, while being inalienable parts of validation, they are often parts of model maintenance and model risk management process. Depending on the nature, size and complexity of the institution, model monitoring and performance may be implemented differently on organizational terms, as part of model development, as a separate unit or as part of model validation. Methodology for performance assessment, especially back-testing methodology, is often complex, as it uses non-trivial statistical methods. Requiring it to be developed by model validation function *only may* in fact increase the model risk, making an independent review of such methodology unnecessary. A setup where model performance assessment methodology is developed by either a specialized unit or model development unit and then independently assessed by the model validation function, as any component of the model, seems therefore to be preferable and more aligned with the intentions of the requirement in Article 293(1)(c) of the CRR. Pursuant the latter article, it might be required that model validation performs its own assessment of the outcomes of the analysis as part of the validation review, without depriving the model development function or model monitoring function to have their traffic lights and initiative of remediation actions. The initiative of the remediation actions, naturally belonging to the model development team, and the judgement on the adequacy thereof, belonging to the model validation, is not clearly separated in the proposed text. It should be noted that by their very nature model validation activities are often performed at lesser frequency than model performance monitoring tasks. In ABI's opinion such activities are most efficient when they are performed continuously, are integrated in the model development cycle and the underlying methodology and implementation benefit from independent review.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
76	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	71	164	Clarification	According to Article 294(1)(h) of the CRR, "*the model validation process shall include static, historical back- testing on representative counterparty portfolios. An institution shall conduct such back-testing on a number of representative counterparty portfolios that are actual or hypothetical at regular intervals. Those representative portfolios shall be chosen on the basis of their sensitivity to the material risk factors and combinations of risk factors to which the institution is exposed;*". The "or" implies that the use of hypothetical portfolios is sufficient to fulfill the Article. Is it correct to intend that paragraph 71 gives extensive interpretation of such article of the CRR?	Article 294(1) is satisfied using hypothetical portfolios. The mandatory use of actual portfolios seems not to be cited in such article.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
77	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	73	164	Clarification	Paragraph 73 states that institutions should ensure a comprehensive coverage of their back-testing framework by calculating back-testing coverage ratios, at least at risk factor level. In this respect, a definition of "risk factor" would be needed.	The definition of risk factors is not unambiguous.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish
78	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	73	165	Amendment	With respect to the back-testing coverage ratio, ABI proposes the following amendment: (c) ~~***whenever ratios are less than [50%],***~~ institutions should be able to provide an explanation justifying the level of the ***coverage*** ratio."	There is no precise definition of how the coverage ratio shall be computed and of the granularity, at which it should be computed (except the requirement to do it by asset class and on both risk factors and portfolio levels). Institutions using stratification or clustering techniques may well achieve better representativeness of their backtesting sample than those bluntly aiming at achieving a certain threshold. An institution may be incentivised to define the sample construction methodologies and/or the metrics and granularity of the coverage ratios in a way that maximizes the chances to meet a certain coverage target rather than improve the representativeness of the sample. For instance, to achieve a 50% coverage ratio an institution may be incentivised to only include bigger counterparties in the sample. Those might have structurally different portfolios than smaller counterparties and the representativeness of the backtesting sample would be compromised. According to the current proposal, in such cases the institution will not have to justify the construction of the backtesting sample. In ABI's opinion institutions should always be able to provide an explanation justifying the level of the ratio and fixing any particular value to secure an exemption from this requirement is counter-productive.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish

79	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	75	165	Clarification	ABI would seek confirmation that it is deemed reasonable to assume a validation cycle of the pricing functions that relies not only on the analyses directly performed by the Internal Validation but also on activities performed by members of the Risk Management unit and supervised by Internal Validation, as reported in paragraph 68.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish	
80	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	76	165	Clarification	As cited in previous comments, the inclusion of back-testing of actual portfolios seems not to be mandatory pursuant to CRR art 294(1). That said, it would be useful to better explain what is intended for "consistency": it may refer to portfolio consistency (easier for new transactions but harder for closed-out transactions) but also to model consistency, pricing function consistency, instrument mapping consistency and/or market data consistency. With regard to portfolio consistency, a lot of technical issues may arise in case of close-out transactions: all the predictions for the horizons after the close-out transaction date must be reperformed based on the new netting set without those close-out transactions. This may lead to storage limitations: it is not feasible to store all the Monte Carlo scenarios at transaction level, for each actual netting set, for each prediction date. In addition, it is not possible to quantify the amount of collateral to be exchanged in case of portfolios made of rolling instruments.	The effort requested in order to keep consistency (any of the previous) between predictions and realizations within the actual back-testing seems disproportionate.	ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish	
81	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	77	165	Clarification	Explanation about how the exposure measure is defined would be needed. In case of the exposure defined as in Article 272(4), it would be helpful better explaining how to treat possible forecast distributions all equal to zero, i.e. when the expected values (collateralized or not) are all negative. This also applies to the PFE or EPE risk measures. In ABI's view, the best way to test the prediction model is to use the whole distribution of (positive and negative) exposure, defined as the difference between the MtM and Collateral. In the case of unmargined netting sets, the collateral is zero. A more precise definition of what is intended for "separate validation" of the margining process would also be useful.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish	
82	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	79	166	Clarification	ABI would seek confirmation that it is considered an acceptable interpretation that the exercises requested in paragraph 79 should be performed at hypothetical level only, e.g. isolating sample trades and back testing their behavior.		ABI,	ABI - Associazione Bancaria Italiana (Italian Banking Association)	Publish	