# Template for comments

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

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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;**
- **you indicate the relevant chapter/section/paragraph, 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 |
|---|---|---|---|---|---|---|---|
| 1 | Credit Risk | 4.2 PD risk quantification | 78 | 29 | Clarification | In the case of our client's PD model for sovereigns, the model's output is used for pillar I and for pillar II applications. Hence, there are some sovereigns that are treated under the permanent partial use (PPU) standardised approach (SA) according to Article 150(1)(d)(ii) CRR, but are nevertheless in scope for the PD model, because the model's outpus is needed for pillar II risk management applications.<br>With regard to paragraph 76 of the EBA GL on PD and LGD it is unclear to us, whether obligors that are treated under the standardised approach for pillar I may nevertheless be included in the calculation of the one-year default rate and hence may be included in the PD calibration sample (as defined in paragraph 3 of the EBA GL on PD and LGD). Paragraph 76 indicates that obligors should enter the calculation of the default rate even if they migrate to a different "approach to calculation of capital requirements within the observation period". Does this imply that obligors that are treated under the PPU SA at the beginning of the observation period may not be included?<br>Obviously, as the PPU is applied to EU member countries, not including those countries would unduly increase the OADR.<br>Not including those sovereigns would also imply splitting up the application portfolio into two parts: SA and IRBA application portfolio. Then, we would also need to validate both portfolios seperately. As default data is already scarce, further splitting up the portfolio would render validation results less reliable. | It should be clarified whether obligors that are treated under the PPU SA may be included in the PD calibration sample. |
| 2 | Credit Risk | 7 Model-related MoC | 142(c) | 62 | Amendment | We welcome the clarification that the "general estimation error" (paragraph 42 of the EBA GL on PD and LGD) should be related to the sampling error of the LRADR. In case the calibration segment is defined as the whole application portfolio, the risk differentiation function does not affect the LRADR estimation at all. Therefore, in our opinion in this case, there is not necessity to consider the uncertainty arising from the risk differentation function. It should therefore be clarified, that paragraph 142(c) only applies to the case where the LRA DR is estimated at grade level and hence the risk differentiation function that attributes obligors to the grades impacts the LRA DR estimation. | It is unclear why the risk differentiation function should impact the estimation of LRA DR in case the calibration segment is defined as the whole application portfolio. |