



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

BBVA SA

Contact person

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First name

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Telephone number

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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	Market Risk	6.4 Distribution and correlation assumptions	entire section		Amendment	<p>We do not agree with section 6.4 regarding Distribution and correlation assumptions. In fact, we object to the main requirement that the "calibration" of the correlation structure should be justified since it is theoretically not possible to do so. There are insufficient data regarding joint defaults for low default portfolios to calibrate any such structure and it is incorrect to assume that proxies such as CDS spread correlation have any validity whatsoever. For example, two issuers in the same region and sector can be expected to have a high CDS correlation since the CDS market will not have sufficient information to distinguish them (and their CDS spreads will therefore have the same drivers), but this does not imply that their defaults will be highly correlated. Furthermore when simulating defaults using a copula together with stochastic hazard rates (directly related to CDS spreads) one obtains that the default correlation is determined by unobservable copula parameters and that the CDS spread correlation has only a weak effect.</p> <p>We strongly feel that a regulatory specified correlation structure should be applied instead. Lacking any alternative the current best option is the IRB correlations of the Basel II CRR model, which has the added advantage of being consistent with the banking book, and therefore reduces trading/banking book arbitrage. In contrast to paragraph 146 of the guidelines, however, such a choice cannot, as explained above, be justified empirically.</p>	
2	Market Risk	6.4 Distribution and correlation assumptions	153	115	Amendment	<p>Regarding paragraph 153 we feel that performing tests with other copulas, such as t-copulas, does not add any additional information of value. The reason is that a t-copula will have higher tail correlation than a gaussian copula with the same correlation parameters, but the same effect can be obtained by increasing the correlations in the gaussian copula. Since there are already tests suggested for varying correlation parameters a copula analysis is superfluous (given the impossibility of calibrating default correlations). Furthermore, tests with additional copulas are difficult to interpret and require additional costs to execute.</p>	
3	Market Risk	2.6 Treatment of specific positions	38	79	Amendment	<p>We consider that the daily liquid price of the CIUs includes the pricing of the FX positions that the CIU may hold. Therefore, including a potential FX exposure that the CIU may not have (it is just potential) would not reflect the actual position leading to an overestimated and unreal calculation of VaR.</p>	
4	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	<p>Removing the RNIME VaR add-ons from the total VaR figure for Backtesting purposes would be inadequate since the P&L coming from the RNIME is included in the Backtesting P&L. Thus, to be consistent, the VaR should include the RNIME VaR add-on as well. We think that both VaR and P&L calculations should contain the same components i.e. RNIME VaR add-on and RNIME P&L</p>	