



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

## Template for comments

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

**Institution/Company**

BNP Paribas

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Please tick here if you do not wish your personal data to be published.

**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	Foreword				Clarification	We think that the ECB should take into account that draft and not yet adopted regulatory texts are not binding until they are voted	
2	Foreword				Clarification	We are wondering how the TRIM guide articulate relative to the regulatory texts. When the TRIM guide goes beyond regulatory texts, it brings both clarifications and additional requirements. This blurs the applicable requirements.	When the ECB guide to internal models goes beyond regulatory texts, institutions have difficulties to know which text is the reference one.
3	Credit Risk	2.2 IT systems: infrastructure and implementation testing	6	6	Amendment	We understand that institutions have to "keep an updated register of all current and past versions of the following elements of a rating system". In our view the length of time data should be stored should be limited. For example, limitation could be set at max 3 years (according to the rating system register)	
4	Credit Risk	2.3 Policies, roles and responsibilities in data processing and data quality management	13	8	Clarification	Paragraph indicates to set responsibilities for both business and IT owners. The wording "IT owners" is not mentioned in regulatory texts.	
5	Credit Risk	2.4 Data quality management framework	14-29	9	Amendment	This paragraph indicates that institutions should implement a data quality framework. This wording is not mentioned in regulatory texts. Requirements are very burdensome.	
6	Credit Risk	3.7 Use of human judgement	48	19	Amendment	We suggest to delete this paragraph last sentence as the use of MoC is detailed in the EBA guidelines on PD and LGD estimates and the link between MoC and human judgments is not straightforward	
7	Credit Risk	4.1 Structure of PD models	52	21	Amendment	Institutions should decide the best way to assess their model performance and have flexibility when defining sub-ranges.	
8	Credit Risk	4.1 Structure of PD models	55b	22	Clarification	Could you please clarify the last part of the paragraph "ensure that they are also evidenced by records of the time series of realised default rates or loss rates for grades or pools under different economic conditions"	
9	Credit Risk	4.1 Structure of PD models	58-59	23	Clarification	Could you please clarify the analysis to be performed in case of Low Default Portfolios regarding the homogeneity within rating grades?	
10	Credit Risk	4.1 Structure of PD models	61b	24	Amendment	We suggest to delete the sentence "a horizon of two to three years is considered to be appropriate for most portfolios" as this time horizon is not justified and depends on portfolio	
11	Credit Risk	4.2 PD risk quantification	78b	29	Clarification	As even facilities with no exposure where there is no commitment at reference date may default during the year, an exclusion of those exposures may seem in some cases inappropriate.	
12	Credit Risk	5.1 Realised LGD	96	37	Clarification	Could you please indicate what is considered "exceptional cases"?	
13	Credit Risk	5.1 Realised LGD	97b	38	Clarification	The guide refers to the "artificial cash flow" method of the EBA GL, which were indeed included in the final EBA GL, but not present in the consultative paper. The 'artificial cash flow' method should be applied as described only when economically justified. It should be allowed in justified cases to use a realised loss (before costs) of 0 for cured cases. For example in the case of mortgage loans that are in default due to contagion from another loan and that are repaid normally there is no economic loss. The 'artificial cash flow' method, however, would mechanically imply such an economic loss	The guide refers to the "artificial cash flow" method of the EBA GL, which were indeed included in the final EBA GL, but not present in the consultative paper. Some points need to be clarified.
14	Credit Risk	5.1 Realised LGD	100a	39	Amendment	Paragraph 100a indicates that "when the proportion of subsequent defaults occurring on individual facilities over a period of more than nine months is significant..." We consider that setting the period length at 9 months is arbitrary but is a long enough period to collect connected defaults. We think that considering a longer period of time without any given time horizon is not relevant. These requirements go beyond what is required by CRR and EBA GL.	
15	Credit Risk	5.2 LGD structure	103	41	Amendment	Same as for PD §52	
16	Credit Risk	5.3 Risk quantification	108	44	Amendment	§108 indicates that the 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 should not be longer than 12 months. We are wondering why 12 months. No maximum period is specified in regulatory texts. Moreover this requirement leads to taking into account defaults with immature recovery profiles, increasing the uncertainty of the final outcome and potentially leads to higher LGDs.	
17	Credit Risk	5.3 Risk quantification	109	44	Clarification	We understand that the maximum period of the recovery "time to workout" has to be duly justified and supported by studies. Can this "time to workout" be modified over a model life cycle considering the regulatory text n°529/2014?	

18	Credit Risk	5.3 Risk quantification	113a	46	Clarification	We are in favour of maintaining the optionality" as it allows to take into account differences in approach to typical retail portfolios (rather facility based) and SME/corporate portfolios (rather based on aggregation of facilities)"	The 2 options mentioned in paragraph 113(a) are relevant and should be kept.
19	Credit Risk	5.3 Risk quantification	113c	47	Clarification	Could you please clarify what is expected about the treatment of extrem values?	
20	Credit Risk	5.3 Risk quantification	114	47	Clarification	The ECB guide explanations are not clear regarding LGD estimates mentioned in that paragraph	
21	Credit Risk	5.3 Risk quantification	124	51	Amendment	Paragraph 124 mentions that in case institutions couldn't demonstrate the data include adverse conditions, a MoC should be added. We think this is not the objective of a MoC.	
22	Credit Risk	5.4 Estimation of ELBE and LGD in-default	127	53	Clarification	Could you please clarify what should be understood by "constant charge"?	
23	Credit Risk	6.2 Realised CCFs	133	56	Clarification	We understand that regulatory texts set rules regarding PD and LGD calculation whereas there is none as far as the CCF parameter is concerned. We think that details in the TRIM guide should not go beyond regulatory text requirements	The ECB guide to internal models should not go beyond regulatory text requirements
24	Credit Risk	6.3 CCF structure	134a	57	Clarification	We understand that changes in customer product mix due to any structural improvements have to be considered when modeling parameters To avoid any misunderstanding, could you clarify what you mean by product mix, confirm our understanding and how to take it into account?	
25	Credit Risk	6.3 CCF structure	134a	57	Clarification	We understand that changes (i.e. increase) in the value of the limit for example may have an impact on the CCF. How do institutions have to consider these changes? Do they have to be considered as new credit lines?	
26	Credit Risk	6.3 CCF structure	134b	57	Clarification	When applying the cohort approach, do institutions have to consider one or more reference date? Could you please clarify this paragraph?	
27	Credit Risk	6.3 CCF structure	134c	57	Clarification	We understand that changes (i.e. increase) in the value of the limit for example may have an impact on the CCF. How do institutions have to consider these changes? Do they have to be considered as new credit lines?	
28	Credit Risk	6.4 CCF risk quantification	136	58	Amendment	The rules mentioned in article 136 are additional ones to the CRR and add additional requirements. However, we consider that they are not sufficiently precise and they are open to interpretation	The rules mentioned in article 136 are not sufficiently precise and they are open to interpretation
29	Credit Risk	6.4 CCF risk quantification	136c	59	Amendment	We think that the rules regarding the CCF estimation as set in the TRIM guide are those defined for the PD parameter calibration. The rationale for an arithmetic average is not clear	
30	Credit Risk	7 Model-related MoC	142	61	Clarification	Margins of conservatism have to be integrated into models in case of statistical weaknesses. Do institutions have to consider the uncertainty surrounding volatility in a Margin of conservatism whereas the involved models predict it in a satisfactory manner? "Wording is not clear regarding the proposed calculation framework for statistical weaknesses as the MoC seems to depend only on observed values. It seems that a model that perfectly follows observed volatility would be penalised only because of volatility in the observations. It could be expected that rather the difference between observation and prediction is targeted by the MoC."	Wording is not clear regarding the proposed calculation framework for statistical weaknesses as the MoC seems to depend only on observed values.
31	Credit Risk	8 Review of estimates	146	63	Clarification	Paragraphe 146 mentions "material models". This wording is not mentioned in regulatory texts. Could you please explain what are material models and for what purpose they have to be defined	
32	Market Risk	2.2 Delimitation of the regulatory trading book	8	69	Clarification	Article 8 requires that categories listed in ECB Guide Articles 7 and 8 shall be identified as being or not capitalised in the Internal Model Approach. We would like to attract the ECB attention that the permission granted by the competent authority is not only dependent on the risk type, one of CRR Article 363(1), or categories listed in ECB Guide Articles 6 and 7 but as well as on the location or jurisdiction in where those positions are booked. Hence for any category listed in ECB Guide Articles 6 and 7, there may be positions under the Internal Model Approach and others under the Standardised Approach.	Categories of Articles 7 and 8 may be capitalised under a mix of IMA and SA.
33	Market Risk	2.6 Treatment of specific positions	40	80	Amendment	When neither the conditions of articles 350(1) and 350(2) are fulfilled, the ECB consider that two capital charges shall apply, those of the ECB Guide Articles 40(a) and 40(b). In our view, if the mandate of the fund does not allow for positions bearing specific risk of debt instruments (for instance a fund with the sole mandate is to invest in equity stocks), then the capital add-on charge for specific risk of debt instruments should not apply.	The add-on capital charge calculated in the standardised approach for CIU at CRR Articles 348 to 350 should apply only to CIU which do or may have positions which bear specific risk of debt instruments.
34	Market Risk	5.2 General requirements	103	98	Amendment	We question why the ECB Guide Article 103 should apply to banks using Monte-Carlo simulations only. When it comes to precision and stability of the VaR, a Monte-Carlo VaR will actually be more precise and stable than an historical VaR is since the latter is calculated on a limited number of simulations (typically 250 simulations). Said differently, there is no difference between a Monte Carlo based VAR (with 250 simulations) and historical VAR (with 250 historic scenarios), in terms of precision as in both cases, the scenarios are (250) random draws from the full distribution postulated by the IMA model. In other words, the statistical uncertainty in both cases is the same. As for accuracy, this is a different issue altogether which is the object of CRR Article 367(1) (risk factor coverage, ...). Monte-Carlo VaR is at par with a historical VaR when it comes to accuracy.	This article is applicable to both Monte-Carlo and Historical VaR. The object of the article is precision and stability rather than accuracy as reported.
35	Market Risk	5.2 General requirements	104	99	Amendment	CRR Article 368(3) requires that banks shall apply new techniques and best practices. We believe that no confusion should be made between best practices and most common practices. A technique or practice may be very common though showing some deficiencies. Reverseely, a better technique or practice may be fairly uncommon. As long as the model merits may be demonstrated in the usual process of models validation, we see no reason for additional requirements when the chosen model is not listed in the ECB Guide Article 104.	A model should be assessed on its merits rather than on a prescriptive list of common approaches.

36	Market Risk	5.3 Data inputs, length of the time series used to calibrate VaR and sVaR, and quantile estimation	114	103	Clarification	<p>Risk factors with insufficiently long time series are designated as proxies. Proxies in turn are considered as RNIM [ECB Guide Art 174(a)] and are bound to be capitalised on the basis of their standalone incremental risk to the VaR and sVaR given the additive definition of the CIQ and the CIQ threshold low level [ECB Guide Art 183(c)] (see our response to Art 183). It is likely going to significantly increase the RNIME add-on, in particular for the sVaR risk number (given that the stressed period is old). The ECB considers that the remediation for RNIME is to incorporate the incumbent risk factors in the model. However in this particular case this will not be possible as the time series will only be long enough after years. Banks will therefore be forced to leave with a large RNIME add-on for years. Proxies should be left outside RNIME when they lead to sufficient capitalisation, for example when a beta model is used for idiosyncratic risk as in ECB Guide Article 123 or result in a limited loss of modelled P&amp;L variability, for example when using a reduced curves and surfaces granularity as in ECB Guide Article 122.</p>	Use of proxies should not result to punitive capital requirements.
37	Market Risk	5.4 Data quality	117	103	Clarification	<p>Article 117 makes reference to "true volatility". It is not entirely clear what is meant by "true volatility" but we understand that no undue bias should be introduced in timeseries.</p>	Proxies should capture sufficient volatilities rather than true volatilities
38	Market Risk	5.5 Proxies, beta approximation and regressions	128	106	Deletion	<p>Technically, the proposed assessment of paragraphs (b) and (c) are unclear. Injecting proxy values into the pricing model to compute economic P&amp;L may not always be possible as the proxy data level may be unrelated with the actual market data level. This is likely to raise additional modelling questions and lead to further assumptions.</p> <p>In principle, the calculations requested by the ECB are close to the P&amp;L attribution test of the FRTB, though it is looked at it the other way round. We see these calculations as front-running the FRTB, something the banks are not able as of now to perform.</p> <p>Operationally, considering that banks are not in the position to meet this ECB requirement, it will involve a lot of lengthy and arduous developments at a time when banks should soon focus on implementing the FRTB.</p> <p>We therefore consider that this Article should be deleted.</p>	The proposed calculations are not well defined and above all are front-running the FRTB and would be extremely costly and time consuming to implement.
39	Market Risk	7 Risks not in the model engines	170-189	122-132	Clarification	<p>The risks not in the model engines proposed framework relies mostly on the ECB interpretation of CRR Article 367(1) and the ECB expectations that ensue. We have strong reservations with the proposed framework, both in term of RNIME scope of application, level of capital add-on, and proposed remediation plan.</p> <p>The scope of the RNIME is extremely wide and comprises (a) missing risk factors, (b) any pricing simplifications, (c) joint stochastic simulation of risk factors and (d) more or less anything else that may result in some risks not being accurately captured. Our reading of CRR Article 367(1) is that it focuses mostly on the material risk factors exhaustiveness within the risk model. The widening of the scope of RNIME seems to be strongly inspired by the FRTB, in particular Annex D of BCBS d436, a text that is not legally binding as of now. Though we do share the ECB push toward better, more accurate models, we do not see fit to include points (b) to (d) above in the RNIME framework. Doing so would front-run the FRTB.</p> <p>If we agree that a single missing risk factor with a material impact on the VaR (or other risk number) should be capitalised and generally be destined to be ultimately included in the VaR [ECB Guide Article 183(b)] we are extremely concerned with the required inclusion of all RNIME that will lead to a cumulative impact (CIQ) in excess of 10% [ECB Guide Article 183(c)]. Since there will be a large number of RNIME and no diversification will be recognised, the cumulative impact will easily exceed the 10% threshold resulting in the obligation to incorporate a large number of RNIME into the VaR with no significant impact on it and, until when this inclusion take place, a huge RNIME capital add-on will apply.</p> <p>The ECB is suggesting that the remediation of RNIME is to incorporate them into the risk models. If indeed this would be the preferred solution whenever possible we would like to stress that in many circumstances adding RNIME to the risk models may be difficult, for instance due to the lacking of data on which to model, and doing so may actually degrade the risk models. In contrast the FRTB recognises that some risk factors may never be part of the internal model and hence remain capitalised as non-modellable risk factors. We believe that the ECB should recognise that the same is true in the current framework and that capitalisation of some risk factors is better dealt with outside the VaR.</p>	Global issues with the RNIME framework in term of scope, level of capital add-on and remediation plan.
40	Market Risk	7.2 The framework for risks not in the model engines	171	123	Amendment	<p>We understand that for back-testing purposes hypothetical or actual P&amp;L are compared to the VaR alone. However, if a back-testing breach occurs, RNIME add-ons should be considered. If it can be shown that the breach results from a RNIM which has been sufficiently capitalised through a RNIME add-on, then the breach could be discarded. Otherwise we may be facing a double penalty whereby a RNIM may be both capitalised by a RNIME add-on and a VaR and stressed VaR increase via an addend for excessive overshootings number [CRR Art 366(2)].</p>	Allow breaches to be discarded when they result from a RNIM which has been sufficiently capitalised by a RNIME add-on.
41	Market Risk	7.3 Identification of RNIME	174	125	Amendment	<p>Whilst the CRR requires that all "material price risks" shall be captured accurately [CRR Art 367(1)(a)] and that a "sufficient number of risk factors" are captured any omissions being justified [CRR Art 367(1)(b)] the ECB Guide Article 174 widens the scope extensively by referring to "risks not accurately captured or omitted" and by referencing issues beyond what would, strictly speaking, constitute "material price risks".</p> <p>For example with respect to ECB Guide Article 174(b): "Weaknesses and limitations in the stochastic modelling of risk factors" are not strictly "price risks". They are the object of a periodic internal review and validation process leading to model adjustments or improvements if deemed material.</p> <p>Finally, under ECB Guide Article 183, RNIM are intended to make their way in the model engines if their impact is deemed material. It may pose significant challenges to do so when the root cause of the RNIM is "insufficient or unreliable data for risk factors" [ECB Guide 183(b)] potentially degrading the quality of the VaR (e.g. by creating instability or variability in the outputs). We consider that those risks may be managed and monitored appropriately outside of the VaR calculations.</p>	<p>The scope of RNIM should be that of the CRR Article 367.</p> <p>Some flexibility should be granted for remediation actions when inclusion in the Risk model engines is not the best option.</p>

42	Market Risk	7.4 Quantification of RNIME	178	127	Amendment	<p>We welcome that a RNIME impact is calculated as the incremental impact of incorporating a RNIM to the VaR. We are however concerned that no diversification, or offsetting as the case may be, is recognised between RNIM.</p> <p>We recommend that RNIME impacts account for inter RNIM diversification (or offsetting as the case may be).</p>	Diversification between RNIM should be recognised.
43	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183 (b)	130	Amendment	<p>How is envisaged the potential interactions between the values of the addend mc and ms and the incremental capitalisation of the RNIM via the quantified add-ons?</p> <p>(1) Since back-testing overshooting may result from a RNIM capitalised through the incremental RNIME add-on, the effect of the RNIM may be double counted. When an overshooting results from RNIM and where the relevant RNIME add-on covers for the overshooting, the overshooting may be discarded for the purpose of setting the mc and ms multipliers addend (see our comment to Art 171).</p> <p>(2) The multipliers applicable to the RNIM impact quantification MI [ECB Guide Art 178] should be set to 3 instead of mc or ms as RNIME add-on are not the object of the back testing addend [CRR Art 366(2)] and should not be subject to supervisory multiplier increments for model deficiencies.</p>	RNIM added own fund requirements should not be double counted (1) via the RNIME add-on and (2) via the back-testing addend.
44	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183 (c)	130	Amendment	<p>We question the proposed threshold which, in view of the extended scope defined in article 174 as well as the lack diversification between the RNIM impacts, is believed to be incommensurately low.</p> <p>Not allowing for any diversification across RNIM is unnecessarily conservative, especially in the case of RNIM where the quantification could be performed in an incremental manner. In view of the fact that a significant portion of these risks are likely to be small risks (and often are hard to quantify), the bank believes that it would be acceptable to assume they are fully idiosyncratic.</p> <p>Moreover in view of the scope defined in article 174, the bank believes that the calculation of CIQ could lead to perverse incentive and would strongly advocate defining guidelines in terms of granularity when defining RNIM (e.g. trade level versus risk level versus product level versus pricer level, etc.).</p>	<p>The CIQ threshold should be reviewed upward given the scope of RNIM and the no-diversification envisaged.</p> <p>Diversification between RNIM should be recognised.</p>
45	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	<p>We refer you to our comment to ECB Guide Article 171. If a back-testing breach results from a RNIM which has been sufficiently capitalised by a RNIME add-on the breach may be discarded.</p>	Breaches resulting from sufficiently capitalised RNIME add-on may be discarded.
46	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	15	137	Amendment	<p>We welcome the clarification that the test is positive only if all three comparisons are met (AND) - the previous Guide version was unclear in this respect.</p> <p>However, we are concerned that the tighter thresholds when compared to the 2017 consultative paper (maximum price difference as a proportion of notional of 0.5% vs 10% and, in relative terms, 5% vs 10%) will result in too many trades not meeting the pricing model requirements while being sufficiently well modelled in the context of the CCR internal model method. This will be particularly true of long dated interest rate or credit instruments for which a price difference in excess of 0.5% of the notional may be reached easily.</p> <p>We would therefore recommend to either raise the threshold (b) to 10% as it was in the 2017 consultation paper, or make it proportional to the maturity, i.e. be set at a level of 1% per year of residual maturity.</p>	The proposed pricing model requirements may be failed for products which are actually sufficiently well modelled.
47	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	16	138	Amendment	<p>The ECB considers that the appropriate measure to address model deficiencies evidenced by Article 15 is to carve-out the affected transactions into hypothetical netting sets and calculate their exposure amount with one of the methods of Chapter 6 Section 3, 4 or 5.</p> <p>Methods of CRR Chapter 6 Section 3, 4 or 5 are not applicable to security financing transactions. The only method of CRR Chapter 6 applicable to SFT is the IMM described at Section 6. Hence, carve-out SFT exposure amount should be calculated with one method of CRR Chapter 4 Section 4 as granted by CRR Article 271(2).</p>	Carved out SFT should be capitalised under Part Three Title II Chapter 4 Section 4.
48	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Amendment	<p>It is proposed to reflect a pricing difference at t0 in the netting set future value only if it increases the netting set exposure. The pricing difference is a known figure, i.e. there is no uncertainty as to its value at t0. Hence it is our view that the pricing difference should be systematically reflected in the future value regardless of sign in order to retain consistency between the current exposure known with certainty and the future exposure values.</p>	Adjustment to the future netting set value should always reflect the pricing difference at t0 regardless of sign.
49	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Clarification	<p>The netting set future value adjustment may reflect amortisation. We would like to clarify that amortisation of the netting set adjustment may take place whenever the source of the pricing difference is bound to decrease, not only when the actual trade size amortises.</p> <p>For instance if a price difference results from a difference in the effect of the level of implied volatility, since the time value of the option decreases as the instrument remaining maturity decreases, the adjustment may reflect this expected reducing price difference.</p>	Clarify that amortisation adjustment may reflect the effect of ageing.
50	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	19	138	Amendment	<p>We are supporting option 2 as in effect, option 1 will not allow fall-back solutions ('pre-calibrated expected present value').</p> <p>This being said, the set conditions for the application of option 2 are too stringent. It should be possible not to meet some of the conditions as long as it can be demonstrated that the resulting exposure is conservatively calibrated.</p> <p>Ex. Correlations with other risk factors (b)(ii) may not be taken into account if the proposed fall-back solution is conservative, adding a pre-calibrated profile equivalent to taking a worst case correlation of 1.</p>	Fall-back solution should be made possible within option 2 with relaxed conditions whenever conservatism can be demonstrated.

51	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	24	143	Amendment	It seems that the add-on approach is a surcharge imposed by the supervisors when a bank is unable to model cash flows directly in the EE profile. We consider the add-on approach as being actually a genuine appropriate method to account for cash flows which some banks have been using to date. We therefore would like the ECB guide to revert to the 2017 consultation where the two approaches were on an equal footing, with the bank having the choice of implementation.	The add-on approach should be one of the two approaches given to bank to account for cash flows.
52	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	48	154	Amendment	Open-term repos are ongoing for as long as both counterparties want the transaction to persist. The fact that they may be left opened for a period of time does not contradict the reality that, at any time the transaction may be terminated. Most of the time open-term repo counterparties are financial counterparties for which there is no business considerations that would de-incentivise from closing the transaction as may be the case with corporates. It is therefore our view that open-term repos should be attributed a low maturity, no longer than 5 business days, that reflect their features.	Open-term repos may be terminated at anytime which provides some risk mitigation that should be recognised. We recommend a maturity of no longer than 5 business days.
53	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	49	154	Amendment	Early termination clauses may, and actually are often, triggered. This would be even more true for distant timepoints as, conditional to the non-default of the counterparty before the timepoint, the likelihood that events such as a deterioration of the credit quality of the counterparty leading to increased transaction costs through an inflated CVA increases, hence increasing the probability of triggering an ETC prior to that timepoint. We therefore consider that the ECB should recognise the risk mitigation benefit provided by ETC. If the ECB considers that it would be unreasonable to recognise in full the ETC by setting the maturity to the earliest ETC date, we recommend that the ECB allows, with supervisory approval, that the internal model may recognise the ETC benefits by mean of modelling the probability of a triggering event.	ETC provides a real reduction of risks. Banks should at least be allowed to reflect it by attributing a probability to triggering ETC in their models.
54	Counterparty Credit Risk	8.3 Principles for ECB banking supervision	62	159	Amendment	The requirement to re-calibrate at least on a monthly basis goes beyond the requirements of the level 1 text in Article 292 Paragraph 2 which requires only quarterly recalibration unless market conditions have significantly changed.  If a bank has to constantly justify that a quarterly basis recalibration does not result in the risk of understating the CCR exposure amounts, this will be as burdensome as actually calibrating on a monthly basis.  Besides, our analysis has shown that, unless there are severe changes in market conditions, which would actually call for a more frequent calibration in agreement with CRR Article 292, recalibrations impact the overall CCR exposure amounts by less than 5%, i.e. by less than the threshold under which error in EEPE does not warrant an alpha increase [ECB Guide Articles 55 and 56]. Hence we are of the view that quarterly recalibration should be deemed sufficient under normal market conditions.	Recalibration frequency should be as per the Level 1 text, i.e. on a quarterly basis unless market conditions changes warrant a more frequent recalibration.
55	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	68 (c)	163	Amendment	If the final judgement over the outcomes of an analysis is the responsibility of the validation team only, this should not be understood to preclude the model development unit making an initial assessment.	The model development unit should be allowed to participate to the assessment even if the last say will rest with the validation team.
56	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	79 (b) and (c)	166	Clarification	Article 79 paragraphs (b) and (c) are asking for an assessment of the materiality of the effect of approximated pricing functions on the exposure values and value changes.  We would like to highlight that what matters is only difference of valuations or of valuation changes that would lead to an underestimation of the exposure. Differences that would actually lead to conservative exposure amounts (increased values or value changes) should not be a cause of concerns.	We would like clarification that approximated pricing functions are acceptable if they do not lead to an exposure underestimation bias.
57	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	79 (d)	166	Amendment	If option 2 of paragraph 19 is retained (something we are supporting), the ECB requires that alternative exposures are compared with standardised method exposures and that they do not generally lead to lower exposure amounts.  We do not understand the rationale of this requirement as in effect it will force exposure amounts to be floored at what they would be under the standardised method irrespective of the merits of the institution's alternative methods. We believe that alternative methods should be assessed and validated with no reference to standardised methods which by nature are calibrated to be conservative, with a low level of granularity.	Alternative methods for exposure amounts shall be assessed for their own merits with no reference to standardised methods.
58	Counterparty Credit Risk	10.3 Principles for ECB banking supervision	84	167	Amendment	The ECB considers that the expected exposure profile shall be stretched to 1 year when all transactions within a netting have a lower than 1 year maturity. This goal is achieved by a rescaling of the $\Delta t_k$ grid time-intervals. The CRR does not mandate such rescaling, the ECB view hence appears as a departure from the Level 1 regulatory text.  We therefore urge the ECB to stay aligned with the CRR and in so doing recognise that short maturity transactions are less risky than longer maturity transactions.  As a side remark, please note that setting the maturity of open-term repos to their average lifetime [Article 48(a)(i) on page 154] will be of hardly any effect to the EEPE if the EE profile is to be stretched.	We recommend that short term transactions lower risk is recognised in the EEPE calculation in agreement with CRR Article 384(6).
59	Counterparty Credit Risk	11.3 Supervisory actions	90	170	Amendment	We recommend that the withdrawal of model approval takes due consideration to potential cliff effect in RWA by switching from IMM to a standard method. Hence we would see it fit that IMM model approvals be removed only when the level of alpha will render the counterparty credit exposures under IMM higher than with standard methods.	Withdrawal of model approval should avoid cliff effect in RWA.
60	Counterparty Credit Risk	11 Alpha parameter	85	168	Amendment	As a small point of precision, the use of an alpha factor to convert EEPE to EAD is not only to capture correlation between exposures and credit drivers. The alpha factor is used to approximate the economic capital that would be derived with stochastic exposures using a fixed "loan-equivalent" exposure within the Large Homogeneous Portfolio approximation of the capital formula. Aside from correlation, non-homogeneity also leads to an alpha greater than one, i.e. the loan-equivalent exposure only tends to the expected exposure in the limit of an infinitely granular portfolio.	Amend paragraph 85 to be more precise on the origin of the alpha factor.