



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

DZ BANK AG

Contact person

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First name

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General comments

Feedback of DZ BANK AG on market risk chapter.

Template for comments

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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	7.2 The framework for risks not in the model engines	170	122	Clarification	<p>We appreciate the ECB guidance on the treatment of RNIMES. The different aspects should be coherent and proportionate.</p> <p>The consulted version of the Guide implies an increase in scope, frequency and formal processes in the RNIME risk management, requesting a broad development of infrastructure, systems and processes and reducing the agility to anticipate and react to a changing market environment.</p> <p>The overall further increase in formal requirements can ultimately require switching to a standardized approach for Pillar I capital purposes to maintain the resources and operational flexibility required for adequate internal risk management processes.</p>	Explanation why the cumulated effect of the guidance needs to be considered and the following comments cannot be seen in isolation.
2	Market Risk	7.2 The framework for risks not in the model engines	171a	123	Clarification	<p>The article 171 a. provides the possibility to calculate some particular risks in "satellite" components outside of the main component. Institutions may use empirical correlations or a simple sum aggregation for these components. As "satellite" components are part of the VaR engine, all regulations with respect to the risk numbers apply.</p> <p>The bank seeks guidance if there are further requirements that are specific to the "satellite" components. Is it within the discretion of the bank to model particular risks outside the main component?</p>	Additional requirements for satellite components for risks outside the main component unclear.
3	Market Risk	7.2 The framework for risks not in the model engines	171	122	Amendment	<p>There is an inconsistency in RNIME being a component of the IMA that is eventually capitalized (including a capital multiplier based on back-testing outliers) but at the same time not included in the back-testing framework (171, 170, 189). Banks should be allowed to disregard a back-testing outlier if they can demonstrate that the outlier is due to a capitalized RNIME. In other words, an already capitalized RNIME should not lead to a further capital multiplier increase in the back-testing framework.</p>	There is an inconsistency between the back-testing outliers, increase in capital multipliers and RNIME capital.
4	Market Risk	7.3 Identification of RNIME	174	125	Deletion	<p>Article 369 CRR, which defines the requirements for any internal market risk model, stipulates that the model shall capture all material price risk. It further eludes that the model should capture a sufficient number of risk factors. The RNIME identification process prescribed in Art. 174 of the CP goes far beyond the scope of price risk and includes amongst all other factors potential model risks and, in particular weaknesses, which lead to an overall increase in risk figures.</p> <p>To our interpretation of the CRR and in line with our current practice, the capitalization framework of RNIMES should concern missing risks that are due to missing risk factors as outlined in 174 (a) of the CP. All other risks in 174 (a), (b) and (c) of the CP are monitored, quantified and capitalized by the process of back-testing and capital multipliers increases [or subject to stress testing as outlined in Art. 368 (g) CRR].</p> <p>The extension of the RNIME concept to other than price risks would require the development of new infrastructure, systems and processes for risks that are already captured under the current regime.</p>	The paragraph includes risks in the RNIME scope that are already captured under the regime of back-testing and an increase in capital multipliers.

5	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	182	129	Amendment	The frequency of quarterly quantification of RNIMEs according to the wide definition of RNIMEs in the CP is practically not feasible. This holds specifically for RNIMEs that are not related to material price risks, i.e. non-material risks and risks not related to price risks. The frequency of the RNIME quantification should respect the principle of proportionality.	The paragraph sets disproportionate and too conservative standards in the quantification of the RNIME.
6	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183 c	130	Deletion	The application of 183 (c) can result in non-material RNIMEs being classified as material by the means of an inadequate aggregation formula and the application of the 10% threshold to the aggregate value. Moreover, the aggregation principle in 183 (c) is not justified by Article 7a (1)(c)(ii) of the CDR on materiality of extensions and changes of the IMA and Article 367(1)(a) of the CRR.	The 10% thresholds refers to an aggregated quantity 'by analogy', that is conceptually different (conservative aggregation, portfolio view) to the level 1 and 2 text.