EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

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

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General comments

While we praise the publication of this Guide in consultation as an effort of transparency from the ECB towards institutions, we would like to raise issues regarding the uncertainties in relation to the legislative structure of this Guide
1/ Some RTS from the EBA are still not voted and therefore not in force. The timing left for institutions for the implementation the future of IRB-A approach, by end 2020 is unrealistic given some requirements are not binding;
2/ Application of this Guide for on-site missions or any TRIM-related missions should be proportionate in this regard.

It is welcome that the ECB only refers to binding requirements which are in the Single Rulebook which the only legal reference for supervising banks (in our case : CRR and RTS / Guidelines). In this regard, particular attention should be paid to following topics :
1/ EBA Guidelines on PD-LGD estimation and the treatment of defaulted assets do explicitly exclude any technical specification on CCF estimation. Therefore, chapter 6 of the ECB Guide should only refer to CRR requirements. We therefore suggest to exclude any requirements related to the inclusion of customer product mix, cap levels in relation to realized CCFs, monitoring of realized CCFs close to zero (which are an economic reality) as they do not appear in CRR
2/ Also, some requirements mentioned in the ECB could go further than the existing EBA requirements, especially on the use of a maximum for the 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.
3/ Regarding downturn estimation requirements, they are not finalized yet, therefore the ECB must wait until the entry of force of the RTS and GL to interpret requirements on downturn estimation

Other recurrent points to be mentioned
1/ References across the ECB Guide mentions calculation of risk parameter LRA on sub-range perimeter or to check that the model performs on economically significant and material sub-ranges of application. We consider that such analysis is limited. For instance at paragraph 52, a list of drivers is provided which implies a granularity which can lead to lead to low volumetry of data on the subrange, especially when it comes to financial institutions, and very large corporate.
2/ The very large occurrence of a required MoC in the ECB Guide. Though we believe that MoCs are useful to cover deficiencies, we are not convinced that compulsory layers of conservatism will provide right incentives
* We promote first the best estimation of risk estimation, MoC should only apply if deficiencies are noted but are not the first priority in an estimation
* Layers of conservatism to an extreme point could lead to overstate risk parameters with the risk of disincentivizing the use of internal models, which is not the core objective of the future of IRB-A approach
* MoC should apply only in cases of identifies deficiencies as laid out in the EBA Guidelines on PD-LGD estimation and the treatment of defaulted exposures. In particular, human judgement is not considered as an identified deficiency, therefore we do not understand why MoC should apply in this case (and would welcome on defining a MoC on human judgement could be in practice).

We advocate that the TRIM Guide should not front-run the finalisation of the market risk framework by the Basel Committee by introducing some concepts that are not defined in the applicable requirements defined in Regulation (EU) 575/2013. The ECB should wait for the transposition in the European legislative framework of the latest international agreements before applying any new concept of this regulation.

The introduction of capital add-ons to address material deficiencies in the quantification of the price risks should however not lead to any double-counting of the same phenomenon.

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	Name of commenter	Institution	Personal data
1	Foreword		3	3	Amendment	The ECB should specify that the draft guidelines and non voted RTS will not apply until they are finalised.	The ECB Guide refers to several EBA mandates to develop level 2 texts, which are not yet in final version. Therefore banks are not expected to be compliant with articles which are not legally binding.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
2	Foreword	-	1-4	3	Clarification	We are wondering how the ECB guide to internal models articulate relative to the regulatory texts. When the ECB guide to internal models goes beyond regulatory texts, it can brought both clarifications and additional requirements. Institutions have difficulties to know which text is the reference one.	When the ECB guide to internal models goes beyond regulatory texts, institutions have difficulties to know which text is the reference one.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
3	Credit Risk	2.4 Data quality management framework	14-29	5	Amendment	Data Quality : the general framework is considered as very burdensome. Besides we suggest more alignment with BCBS 239. More specifically, a new paragraph should be inserted (before §14) spécifying that all requirements only apply to Critical Data Element (CDE).	The general framework is considered as very burdensome. Besides we suggest more alignment wih BCBS 239 requirements to ensure consistent implementation of data quality standards.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
4	Credit Risk	3.2 Use of external data	36	15	Amendment	Vetting data inputs to the model implies to get access to the data which could be extremely difficult and expensive. Rating agencies disclose a description of their approach (inc main hypothesis). However they do not provide pubilc with the detailed formula. Therefore the ECB should take into account this limitation and limit the reference to controls on external data.	The details of external scores and implied models are not publicly disclosed.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
5	Credit Risk	3.3 Use of external bureau scores or external ratings as input variables in the rating process	37	16	Clarification	To apply the requirements in art 37, banks would need a detailed description of external méthodologies. However, if rating agencies disclose a description of their approach (inc main hypothesis) they do not provide the detailed formula. Therefore the ECB should take into account this limitation.	The details of external score are not publicly disclosed.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
6	Credit Risk	3.3 Use of external bureau scores or external ratings as input variables in the rating process	37(b)	16	Amendment	Institutions are asked to verify regularly the performance and robustness of external rating methodologies. As stated by its regulator ESMA2, Credit Rating Agencies (CRA) are submitted among others to the following requirements regarding validation of methodologies especially when quantitive analysis is limited : - A CRA should establish itself the minimum number of ratings and / or defaults that a methodology should have in order to be validated ; - A CRA could create (if possible) hypothetical transactions that can be used to expand the available data ; - CRA should consider relevant techniques such as the use of a 'relaxed' default definition for the purposes of validation. We suggest to ensure a level-playing field regarding requirements applied to internal models designed by banks with rating methodologies designed by Credit Rating Agencies. This could be generalized for all types of external methodologies.	We suggest to ensure a level-playing field regarding requirements applied to internal models designed by banks with rating methodologies designed by Credit Rating Agencies	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
7	Credit Risk	3.5 Use of purchased rating systems or models (pool models)	41-43	17	Amendment	Control of pooled data and of data integrity implies to get access to the data which could be extremely difficult and expensive. Rating agencies disclose a description of their approach (inc main hypothesis). However they do not provide pubilc with the detailed formula. Therefore the ECB should take into account this limitation.	The details of external scores and implied models are not publicly disclosed.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
8	Credit Risk	3.6 Consistency in the definition of default	44	18	Deletion	A complete understanding of the definition of default applied to external data can be done only if data are released and disclosed. Rating agencies disclose a description of their approach (inc main hypothesis). However they do not provide pubilc with the detailed formula. Therefore the ECB should take into account this limitation.	The details of external scores and implied models are not publicly disclosed.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
9	Credit Risk	3.7 Use of human judgement	48	19	Amendment	We suggest to delete the end of the paragraph "To this end, where human judgement is used to greater extent because of the low number of available internal observations, institutions should apply a higher MoC to their estimates to account for additional uncertainty". The application of MoC is fully detailed in the EBA Guidelines on PD-LGD estimation and the treatment of defaulted exposures. The chapter 4.4.1 of these Guidelines especially paragraph 37 does not mention "human judgement used to a greater extent" in the identified deficiencies. Also, institutions do not consider the use of human judgement as a deficiency but an additional input to complement modelling effort. Therefore, we consider the ECB's proposition as unduly justified, not in respect of the Single Rulebook.	The application of MoC is fully detailed in the EBA Guidelines on PD-LGD estimation and the treatment of defaulted exposures. These Guidelines do not mention "human judgement used to a greater extent" in the identified deficiencies	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
10	Credit Risk	4.1 Structure of PD models	52	21	Deletion	We suggest to delete this paragraph. The performance of models should be assessed on the full range of application of rating systems. Assessing the performance on sub-ranges of application could lead to hasty conclusions as the portfolio used in the calibration will not be replicated on the backtesting exercises. Also, for modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from low volumetry of defaults. What is more, the very detailed list provided in paragraph 52 will also imply such undesirable situations.	The performance of models should be assessed on the full range of application of rating systems.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish

11	Credit Risk	4.1 Structure of PD models	55	22	Clarification	Clarification of the requirement “evidenced by records of the time series of realized default rates or loss rates for grades or pools under different economic conditions” should be done. We also do not understand why reference to loss rates for grades is introduced for requirements which tackle PD estimation	Clarification of the requirement “evidenced by records of the time series of realized default rates or loss rates for grades or pools under different economic conditions” should be done.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
12	Credit Risk	4.1 Structure of PD models	61	24	Amendment	We suggest to delete bullet point (b). We think the choice of a two to three years horizon is not duly justified. It might depend on the type of portfolio which is modelled	The choice of a two to three years horizon is not duly justified. It might depend on the type of portfolio which is modelled	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
13	Credit Risk	4.1 Structure of PD models	62	24	Clarification	More clarity is needed in this paragraph. Could you provide examples ?	More clarity is needed in this paragraph. Could you provide examples ?	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
14	Credit Risk	4.2 PD risk quantification	78b	29	Clarification	As even facilities with no exposures where there is no commitment at reference date may default during the year, an exclusion of those exposures may seem in some cases inapropriate	As even facilities with no exposures where there is no commitment at reference date may default during the year, an exclusion of those exposures may seem in some cases inapropriate	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
15	Credit Risk	4.2 PD risk quantification	87	34	Amendment	Overally, the requirements are deemed overly conservative. In particular, bullet point (f) should be deleted. The calculation of default rates on sub-ranges of application is not justified for several reasons. For modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from low volumetry of defaults.	The calculation of default rates on sub-ranges of application is not justified in particular for modelling reasons	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
16	Credit Risk	5.1 Realised LGD	96	37	Clarification	Could you please indicate what is considered "exceptional cases"?	Could you please indicate what is considered "exceptional cases"?	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
17	Credit Risk	5.1 Realised LGD	97	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. Somme points need to be clarified.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
18	Credit Risk	5.1 Realised LGD	100	39	Amendment	First, regarding the treatment of multiple defaults, we consider a case by case study would be burdensome (as thousands of lines must be analyzed). Secondly, paragraph 100a indicates that "*when the proportion of subsequent defaults occuring on individual facilities over a period of more than nine months is significant…* " We consider that setting the period lenth 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. Moreover, objective clarifications are missing in the ECB guide to internal models regarding the way to determine and justify 2 consecutive defaults are independent (what kind of result is objectively expected by ECB to reach this conclusion). On top of that, we are not favorable in determining a proportion like a “hard” threshold and we would delete the sentence which refers to the “significant proportion” (in order to avoid a situation similar to the 5% threshold of NPLs). Finally, we consider both paragraphs 100(a) and 100 (b) would not be necessary as paragraph 101 of EBA/GL/2017/16 has already been released and we believe ECB guide to internal models should refer to EBA/GL/2017/16 in order to avoid any bias or deviation from what EBA is recommending at this stage.	Multiple defaults: a case by case study is necessary to determine if 2 consecutive default are connected or independant. This paragraph should stick to paragraph 101 of EBA/GL/2017/16 and should not deviate from what EBA is recommending art this stage.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
19	Credit Risk	5.2 LGD structure	103	41	Deletion	We suggest to delete this paragraph. The performance of models should be assessed on the full range of application of rating systems. Assessing the performance on sub-ranges of application could lead to hasty conclusions as the portfolio used in the calibration will not be replicated on the backtesting exercises. Also, for modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from low volumetry of defaults.	The calculation of default rates on sub-ranges of application is not justified	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
20	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 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. We suggest to delete the last sentence of the paragraph "In any case this period should not be longer than 12 months". The EBA Guidelines PD-LGD estimation and the treatment of defaulted assets do not specify a maximum for the 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.	§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 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.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
21	Credit Risk	5.3 Risk quantification	109	44	Clarification	We understand the 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?		BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish

22	Credit Risk	5.3 Risk quantification	113	46	Clarification	We are in favour of maitening 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.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
23	Credit Risk	5.3 Risk quantification	120	50	Amendment	Downturn LGD (EBA consultation paper): The downturn period should be identified on a recent period: macroeconomic factors are not always available for 20 years and furthermore observed LGD is not available for such a long period. Therefore, it is not realistic to quantify a statistical link between LGD and macroeconomic variables.	We suggest to amend this paragraph in order to refer to EBA GL and RTS related to Downturn LGD and available soon.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
24	Credit Risk	5.3 Risk quantification	124	52	Amendment	We suggest to delete the last sentence of the paragraph "In doing this, the institution should take into consideration the economic environment observed for the data available. In other words, the better the observed economic environment, the higher the add-on or MoC should be". The ECB should modify this paragraph with regards to the final version of the "EBA Guidelines for the estimation of LGD appropriate for an economic downturn".	The ECB should modify this paragraph with regards to the final version of the "EBA Guidelines for the estimation of LGD appropriate for an economic downturn".	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
25	Credit Risk	5.4 Estimation of ELBE and LGD in-default	126	52	Amendment	We suggest to replace "the ELBE must" by "the ELBE / LGD-in-default must". The RTS on IRB assessment methodology leaves the possibility to model LGD-in-default or UL. We consider that any downturn conditions should be taken into account in the LGD-in-default or as a UL component and not in the direct estimation of ELBE. The wording is ambivalent and would need slight rewording. Some institutions may define provisions as their EL best estimate which is different of incorporating economic conditions in LGD-in-default or UL estimates.	The wording is ambivalent and would need slight rewording	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
26	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 ECB guide to internal models should not go beyond regulatory text requirements.	The ECB guide to internal models should not go beyond regulatory text requirements	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
27	Credit Risk	6.2 Realised CCFs	134	57	Deletion	We suggest to delete items (a) and (b). For item (a) : the consideration of customer product mix is not mentioned in the level 1 text which is CRR. pplication of the requirements is considered as burdensome and inefficient. Current existing IT systems do not allow such detailed tracking of product customer mix. Bias related to data are already taken into account through margins of conservatism For item (b) : the analysis of drivers not at a determined horizon but within the year before default could bias the correlation analysis.	The requirement is unduly burdensome. Also these bias are already taken into account through margins of conservatism	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
28	Credit Risk	6.2 Realised CCFs	134b	57	Clarification	When applying the cohort approach, do institutions have to consider one or more reference date?	When applying the cohort approach, do institutions have to consider one or more reference date?	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
29	Credit Risk	6.2 Realised CCFs	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 this changes? Do they have to be considered as new credit lines?	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 this changes? Do they have to be considered as new credit lines?	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
30	Credit Risk	6.4 CCF risk quantification	139	60	Amendment	We suggest to replace the item by "Institutions should insure that they have principles for the application of CCFs by default" or to modify the wording to make it clearer. The wording is not clear and suggests in the specific cases such as scarcity of data and low materiality of the scope of application, they should received a fixed yet conservatively specified CCF which is suggested be 100%	The wording is not clear and suggests in the specific cases such as scarcity of data and low materiality of the scope of application, they should received a fixed yet conservatively specified CCF which is suggested be 100%	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
31	Credit Risk	6.3 CCF structure	136	59	Amendment	The rules mentioned in article 136 are additional ones to the CRR and add 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	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
32	Credit Risk	6.3 CCF structure	136c	59	Amendment	We think that the rules regarding the CCF estimation as set in the ECB guide to internal models are those defined for the PD parameter calibration. The rationale for an arithmetic average is not clear	We think that the rules regarding the CCF estimation as set in the ECB guide to internal models are those defined for the PD parameter calibration. The rationale for an arithmetic average is not clear	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
33	Credit Risk	7.1 Relevant regulatory references	142	61	Clarification	Margin 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.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
34	Credit Risk	8 Review of estimates	146	63	Clarification	Paragraph 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?	"Material models" are not mentioned in regulatory texts. Could you please explain what are material models and for what purpose they have to be defined?	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
35	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 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 ECB position on the treatment of equity investment in funds could be subject to divergent interpretation and need to be clarified.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish

36	Market Risk	2.2 Delimitation of the regulatory trading book	7	68	Clarification	Footnote 64 has been added 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. We understand that 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 ECB position could be subject to divergent interpretation and need to be clarified.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
37	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, we consider these underlyings are non-hedgeable on capital markets. As a consequence, we urge the removal of this requirement from the Guide.	We ask from the removal of unusual underwritings from the framework.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
38	Market Risk	3.4 Calculation of actual P&L	66	87	Clarification	Paragraph 66 states that « all valuation adjustments or reserves made in the economic P&L are also relevant for the calculation of the actual P&L ». It is not clear which reserves are covered by this requirement. Indeed, reserves aims at measuring uncertainties, they are not comparable to adjustments. We ask for examples and clarifications.	It is not clear which reserves are covered by this requirement. We ask for examples and clarifications.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
39	Market Risk	3.6 Counting of overshootings	80	90	Amendment	Paragraph 80 authorizes to « withdraw overshooting notifications ». In some occasions, VaR back-testing breaches may results from RNIM which are capitalised through add-ons. If the amount of related capital add-on was large enough to absorb the VaR excess, banks should be allowed to discard the overshooting. We therefore propose that §80 allows that not only "malfunctions in the calculation of a P&L or the VaR" may be considered as an "acceptable reason" of overshooting but as well capital add-ons.	We ask for examples and clarifications.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
40	Market Risk	3.6 Counting of overshootings	81	90	Amendment	In agreement with our proposed amendment of §80, we are suggesting 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	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
41	Market Risk	4.4 Validation on hypothetical portfolios	94	96	Clarification	The ECB 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). The industry would be very keen to receive guidance from ECB on how to perform internal validation of SVaR and IRC models using hypothetical. If we take the example of the SVaR model: what differentiate the SVaR model from the VaR model is the stressed historical period. We see limited benefits from using hypothetical portfolios to validate the stressed period calibration 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	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
42	Market Risk	5.2 General requirements	103	98	Deletion	The ECB requires that the precision and stability (note that it should be made reference to "precision" rather than "accuracy" in this instance) is sufficient when using Monte Carlo simulations. We do not understand this specific requirement on Monte Carlo models as, if 250 or more simulations are used, the precision and stability of Monte Carlo models will be as good as the one of historical simulations based models.	Monte Carlo models are no less precise or stable than Historical models and hence do not deserve a specific treatment.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
43	Market Risk	5.5 Proxies, beta approximation and regressions	128	106	Deletion	The proposed assessment of proxies requires calculating the hypothetical P&L with the same proxied data used by the risk model (VaR or SVaR). This is an extremely challenging requirement that few banks will be able to meet. To some extent, it looks like an attempt to introduce, through the back-door, a FRTB P&L attribution test within the current CRR framework. At a time when banks will have to devote lots of energy to implement the FRTB, we would advise that this requirement be dropped.	The proposed assessment is front running the FRTB and would be very difficult to meet as of now.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
44	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	158	117	Amendment	The ECB interpretation of the term "greater than zero" meaning greater than, or equal to, one basis point is very punitive in particular for sovereign issuer: conservative calibrations of sovereigns with AAA ratings have PDs which are much below this new floor. Null default probability results from the calibration on observations in case of the absence of defaulting occurrence in the data history. As an alternative to meet the requirement of Article 65 (3) of the RTS on assessment methodology for IMA and significant share, the industry proposes to introduce a floor on default probability at the nearest non-zero probability.	Huge impact of the PD floor at 1bp on IRC due to the sovereign and covered bonds positions which could impact liquidity negatively.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
45	Market Risk	7.2 The framework for risks not in the model engines	171	123	Clarification	The paragraph 171 introduces the concept of "satellite" components, which encompass risks not modelled in the "main component". The capitalization of the risks that are not modelled in the main component is as well the aim of the add-ons. It can be understood that satellites have got a higher quality regarding both implementation, model accuracy and calculation process than add-ons. Can the differences between expectations on add-ons and satellites be detailed?	We ask for a definition of "satellite"	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
46	Market Risk	7.4 Quantification of RNIME	178	127	Amendment	We welcome the quantification of RNIM as the incremental increase of the relevant risk number. It recognises the diversification between the RNIM and other risk factors incorporated in the model. Unfortunately, they 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 (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.	Recognise diversification between RNIM.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
47	Market Risk	7.4 Quantification of RNIME	179	128	Amendment	The materiality assessment test proposed by the ECB is very prescriptive and as such it overlaps the EBA RTS for model assessment, by going beyond it in terms of setting of technical standards.	Alignment with the EBA RTS for model assessment.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish

48	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129	Amendment	The new version of the Guide does not allow for diversification benefit between RNIME while it was the case in the previous version of the Guide (feb-17). 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 more available while we believe it was a reasonable approach. Due to the nature of risks not in the model engine, it is not always (not to say never) 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 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.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
49	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	We fully agree 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 (cf. paragraph 189). 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.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
50	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	12	137	Amendment	The exposure methods described in part three, title II, chapter 6, section 3, 4 and 5 are only applicable to OTC derivatives. For netting sets including SFTs, article 271 of CRR specifies that institutions may use either Chapter 4 (which covers SFT and derivatives) or Chapter 6 of CRR for capital requirements. Therefore, there is no reason for the SSM to forbid the use of chapter 4 made possible by the CRR, and the paragraph should be reworded as follows : OTC derivatives transactions for which there is no permission to apply the IMM in accordance with Article 283(1) of the CRR must be covered by one of the exposure methods described in Part Three, Title II, Chapter 6, Section 3, 4 or 5 of the CRR. In the view of the ECB, this includes OTC derivatives transactions without IMM permission, to which the alternative exposure calculations as described in paragraph 8(c) are applied. Security Financing Transactions for which there is no permission to apply the IMM may be treated in accordance with Title II Chapter 4 of the CRR, as per article 271 of the CRR.	Rewording of the paragraph to include the possible use of chapter 4 of the CRR for SFTs, as per article 271.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
51	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	13	137	Amendment	A change similar to the one proposed for paragraph 12 should be made, in order to cover SFT transactions as well : For cases where, for a given legally enforceable netting agreement as defined in Part Three, Title II, Chapter 6, Section 7 of the CRR, one part of the transactions is treated under the method described in Section 6 (IMM) and another part is covered by one of the methods described in Chapter 4 or Section 3, 4 or 5 of Chapter 6, the ECB considers, as a best practice, the creation of different synthetic netting sets, one per method. Hence, one synthetic netting set covers all the transactions under the IMM and the other synthetic netting sets cover all the transactions under each non-IMM method (one per non-IMM method). The aggregation of the resulting exposures shall ensure that a proper recognition of the collateral is achieved.	Rewording of the paragraph to include the possible use of chapter 4 of the CRR for SFTs, as per article 271.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
52	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	15	137	Amendment	Paragraph 15 defines three conditions to ensure that identified pricing model deficiencies are addressed. The thresholds for these conditions have been subsequently reduced between the previous version of the Guide and this draft version. These conditions are very sensitive especially for long term transactions. We urge the ECB to adopt a commensurate approach and to increase the thresholds for condition (b) – difference vs. notional amount - from 0,5% to 5% or 1% of nominal times maturities for swaps, and (c) – difference vs. the absolute value of the respective benchmarking value - from 100kEUR to 500 kEUR, so that the assessment of pricing differences remain focused on the most material cases. It is our view that as valuation differences at t0 are expected to be taken into account in the CCR modeling, raising the thresholds does not create major issues but allows to focus the assessment of pricing differences to the most material cases.	Thresholds should be higher in order to focus investigations on important price difference: low thresholds would imply a major operational burden without significant enhancement on exposure calculation. Indeed, as per Article 18, price difference for transactions covered by the IMM will be captured in the exposure calculation, and additionally, exposure estimations including price differences exhibit limited impacts.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
53	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	16	138	Deletion	Point 1 of paragraph 16 (i.e. « The ECB considers […] with Article 294(1)(d) of CRR ») on the appropriate measures to address identified model weaknesses should be removed.	Remove the first point of paragraph 16	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
54	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	16	138	Amendment	Point 3 of paragraph 16 (i.e. « In particular for margined netting sets […] expected exposure (EE) time profile ») is not consistent with the requirements of paragraph 15.	Align the objectives of paragraphs 15 and 16	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish

55	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Amendment	By nature, the CCR models require pricing approximations compared to the official valuation systems, as such model require significant simulation capacities over long time horizons, which are then used on a daily and intraday basis for CCR monitoring. While it is necessary to monitor the proxies set up for the CCR model, a systematic asymmetric inclusion of differences is not adequate. A more flexible approach permitting an adjustment to increase or decrease the netting set exposure is necessary in order to remain compliant with CRR art. 292 which prescribes institutions to ensure that the model adequately reflect transaction terms and conditions. Moreover, for daily collateralized netting sets, the valuation differences potentially observed between the benchmark valuation system and the risk valuation functions will affect both the transactions valuation but also the collateral value. Therefore, the impact should only be taken into account for a period of time equal to the MPOR for those netting sets. . We therefore propose the below rewording : "For all future grid points, institutions should develop methodologies to account for the t_0 transaction value differences in the netting set exposure. For future grid points, the difference could be estimated using more sophisticated methods taking amortizing transactions and margining schemes into account."	Adopt a more flexible approach to adjust the netting set exposure	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
56	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Clarification	Paragraph 18 states that the difference could be estimated using more sophisticated methods taking amortizing 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.	Consider non-amortizing transactions	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
57	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. Could you detail these conditions.	Clarify conditions for alternative exposure calculations	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
58	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	143	Amendment	All the regulatory references of this section refer to either broad definitions (Article 272 (9) defines the MPOR), or very generic principles (Article 289 (5), 292 (1)) with regard to the definition of the Margin Period of Risk and the principle of correctly representing terms and conditions applicable to the different netting sets. It is therefore a significant change to the current articles of CRR which goes beyond simple interpretation of the existing text, and by either asking to integrate this risk of paid cash flows to the EEPE or to the add on described in paragraph 24, the SSM effectively sets new technical standards which are not within its mandate. Moreover, a simple inclusion of cash flows paid to defaulting parties in the EEPE may not be adequate and compliant with article 292 (1) as it does not properly reflect the margining agreements in place. Therefore more careful consideration of the resulting exposure measurement is needed when setting up the new expected market practice. We ask therefore for this article to be reworded as follows, so that it remains at a principle level without setting new standards and computation methods : "In the view of the ECB, collateral margin calls and cash flows payments features have to be integrated to the modelling of exposures in an appropriate manner. No cash flows should be assumed to be received from the counterparty after its default. Formally, for a given margined set, the total exposure can be obtained as the sum of the EEPE assuming that CFs are neither paid nor received during the MPOR and an additional term, capturing the increase in exposure measure when taking into account the settlement gap risks due to paid cash flows to defaulting counterparties. An institution may use the methodology described in §24 (a) to compute this additional exposure term or other methodology resulting in materially equivalent or more conservative exposure measure.	We ask for a rewording of the paragraph to acknowledge that the CRR is silent on cash flow treatment and as a consequence, not to go beyond the principles of adequately reflecting the risks, terms and conditions of the netting set. Therefore, we believe institutions shall define themselves how to account for the effect of spikes, especially as an integration of this risk into the EEPE metric is neither mandated by CRR nor adequate. Taking into account this risk shall be done by following the guidelines of the paragraph 23 (provided current inconsistencies are corrected), but with no effectiveness on cash flows, as it is the case for the add-on formula proposed actually. Indeed, effectivization relies on the underlying assumption that transactions are rolled, extending effectivization to spikes implicitly lead to assume that spikes patterns are also reproduced in an uniform way which is empirically far to be the case. Such effectivization would then lead to - significant overestimation of economic risk - unwarranted capital requirement volatility on a given counterpart, independently from the grid granularity, due to the sporadic nature of spikes This could be illustrated with a counterpart for which a spike occurs on the day of a given cut-off: - The effectivization would lead to account for the spike risk over the full upcoming year - On next cut-off, most probably, rollover did not induced analog spike leading to significant drop in the exposure Besides, the industry welcomes the recognition of enforceable settlement netting rules in the determination of the part of the exposure associated to trade related cash-flows.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
59	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	143	Amendment	Paragraph 23 states different assumptions that are not consistent with each other. As such, it cannot be considered that it is a fair representation of legal terms and conditions of a given netting sets as we may assume that the counterparty stops paying cash flows before its default, while that would consist in a default event. One may also notice that, if the counterparty does not default at the beginning of the MPOR, then it is supposed to answer potential margin calls while no such payments are supposed to happen during the MPOR by definition. Therefore, we suggest to either remove those assumptions from the paragraph 23 completely and leaving institutions to define appropriate and consistent assumptions, or to set the default of the counterparty at the beginning of the MPOR in order to get rid of the current inconsistencies.	Remove inconsistencies of the current text by either setting default at the beginning of the MPOR by convention, or leaving to institutions to define appropriate assumptions.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
60	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	143	Amendment	Rescaling to 1 year the add on linked to cash flow payments is implicitly assuming that transactions with a defaulting party would be rolled and therefore the risk on paid / not received cash flows is borne several times, which is not relevant with what would be the institutions practice and therefore not consistent with the actual counterparty credit risk. The rescaling leads to significantly distort the CCR and exposure metrics vs. the actual risks. We therefore ask the corresponding sub paragraph to be deleted.	Deleting of the paragraph asking to rescale to 1 year the add on formula.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
61	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	143	Amendment	The current paragraph should be reworded as such (addition in italics font) : If the institution has no defined DMP or the DMP is not taken into account in the modelling, all trade-related CFs due by the institution should be assumed to be paid to the counterparty during the whole MPOR, unless specific operational setups are implemented to mitigate this risk of asymmetric payments of cash-flows. Indeed, many operational setups exist to mitigate the risk of asymmetric payment of cash flows: Delivery vs Payment, triparty custodians or CLS settlement, settlement netting schemes, and so on. So the existence and efficiency of the DMP is not the only criteria to be taken into account to mitigate settlement gap risk	Complete current wording to mention all the different operational mitigants to settlement gap risk related to cash flows.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
62	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	24	144	Amendment	While industry acknowledges as best practice the integration in the exposure of the settlement gap risk on trade related cash-flows, the change of approach in current framework could act as a disincentive to implement refined modelling as intended by Article 23. Indeed, both ends of current alternative are imbalanced due to the “effective” vs “non-effective” way the trade related cash flows are accounted for. Additionally, should it be preferred, the alpha add-on approach would also come with some drawbacks such as spillover on capital requirements for unmargined corporates counterparts of deemed insufficient modelling features on margined financial counterparts, or a loss in precision regarding individual counterparty risk exposures.	Point (a) of Paragraph 24 is now encapsulated as an intermediary step for a newly introduces add-on, which make the framework less consistent than in former version of the TRIM guide..	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish

63	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	37	150	Amendment	Allocation of collateral (IM in particular) to different synthetic netting sets which are not related to real netting sets is not specified in the CRR as mentioned in 28 (c) so the setting of a specific standard is not justified. Although double counting of collateral should be prohibited, institutions should be allowed to allocate collateral to the various netting sets in whichever way they see fit, as long as it remains conservative. We suggest therefore to remove paragraphs a and c and rephrase the paragraph as follows : "When a contractual… the ECB considers that the institutions shall demonstrate that the collateral allocation mechanism ensures no double-counting of actual collateral"	Amendment to the current paragraph to leave flexibility in collateral allocation as long as conservativeness is ensured.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
64	Counterparty Credit Risk	5.3 Principles for ECB banking supervision	41	152	Amendment	Initial Margins are determined based on a wide range of margining models. Modelling them all in the CCR model is therefore a complex topic, even more so as it has to be modeled in a way consistent with the way exposures are being computed. Therefore, institutions shall retain one modelling approach, and build appropriate controls to ensure that the internal modelling retained is conservative enough. The paragraph should then be reworded 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 control on a regular basis that their IM modelling adequately accounts for contractual arrangements for the respective netting set. In particular, if contractual arrangements provide that the IM should reflect forward variability of netting set values, institutions shall demonstrate and monitor that the IMM modelling of the IM reflect this feature in an adequate manner. If the IMM modelling of the IM does not reflect forward variability of the IM in different market scenarios, institutions shall demonstrate that it leads to an adequate assessment of the exposures. Similarly, footnote 173 should be removed.	Adjust the requirements of paragraph 41 to make it achievable.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
65	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	48	154	Amendment	M for open repos should be set at the higher of contractual termination delay and 5 days rather than at a mobile average. An averaging rather captures maturity in a normal regime, while it is rather the drops in counterparty credit quality that would lead to shorten such transactions by exercising termination right, thus advocating for the use of short term fixed maturity, which also have the advantage of avoiding the important operational burden that would be induced by regular computational updates of maturity parameter. This is all the more emphasized by the enforcement of Article 84, in conjunction of which variability of an average M is expected to have moderate impact on own funds requirements.	The ability to terminate open-repos at any time should be recognised.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
66	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	49	155	Amendment	While the industry welcomes the recognition of ETCs with a mandatory exercise, it also advocates for a more risk sensitive framework that would then account the risk reduction nature of ETC with an optional exercise. Indeed, in contrast with transactions without any optional provisions on ETC, ETCs with an optional exercise, are a risk-reduction device. Existence of such ETCs exhibits sound risk management practices, and as long as their set up and monitoring are indeed closely integrated within the risk management framework of institutions, this risk reducing feature should be accounted for in institution internal modelling.	The paragraph a) related to ETCs with optional exercise should account for risk reductions nature of such clauses in conjunction with institutions procedures in place	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
67	Counterparty Credit Risk	7.3 Principles for ECB banking supervision	55	157	Clarification	Clarify that the test of the granularity of the time step grid has to be performed either on a full scope or on a subset of representative portfolios as defined in the Glossary of the EGIM. Indeed, as per art. 284 the alpha parameter is to be assessed at group level, and can be adjusted in case of significant model risk impacting the metric used for capital requirements computation. An important divergence for a given portfolio maybe problematic for risk monitoring purposes but is not necessarily significant for global CCR RWAs. Therefore, we would like to clarify that this assessment is not to be performed at netting set level but overall (either at the institution's portfolio level or for the global subset of representative portfolios). Which could be achieved with the following rewording : The ECB considers that, if the EEPE calculated with a very dense time grid is more than [5%] above the EEPE as calculated by the institution using its standard set of grid points for the whole portfolio, then the ECB can increase the alpha parameter following the process described in section 11. Institutions can conduct this impact assessment on representative sub portfolios as defined in the counterparty credit risk Glossary instead of using the full portfolio.	Clarify the link between granularity assessment on sub portfolios and alpha parameters.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
68	Counterparty Credit Risk	7.3 Principles for ECB banking supervision	55	157	Amendment	For this article, it should be also specified that the assessment of the granularity of the time grid should be made using the same methods and assumptions as the ones used in the production model. Moreover, when performing this test, it will embed the uncertainty linked to the MC convergence. If a tolerance of 5% is allowed for the MC convergence test, then the threshold for the time steps grid granularity should be raised to 10%, as suggested in the initial version of the ECB guide for internal models.	Change threshold back to 10% and clarify how the test should be performed.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
69	Counterparty Credit Risk	7.3 Principles for ECB banking supervision	56	157	Amendment	For the same reason as for paragraph 55, clarify the link between the convergence test assessment and the alpha parameter. The current wording creates a link between convergence at netting set level and the alpha parameter, which is not aligned with the guidelines set out in art. 284 of the CRR. We therefore suggest the following rewording : If the numerical error is more than 5% of the EEPE for the whole portfolio the ECB can increase the alpha parameter following the process described in section 11 . Institutions can conduct this impact assessment on representative sub portfolios as defined in the counterparty credit risk Glossary instead of using the full portfolio.	Clarify the link between convergence assessment on sub portfolios and alpha parameters.	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
70	Counterparty Credit Risk	8.3 Principles for ECB banking supervision	62	159	Amendment	Paragraph 62 states that « the frequency of the recalibration of the parameters of the underlying stochastic […] should be at least monthly unless the institution is able to demonstrate that the minimum quarterly frequency 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 ». We oppose the monthly requirement unilaterally defined by the SSM. Indeed, the applicable level 1 text (i.e. Article 292(2) of Regulation 575/2013) clearly defines a quarterly frequency for the recalibration of the parameters. Due to the historical approach used to recalibrate parameters, we do not see the added value of a monthly requirement.	We ask for a quarterly recalibration of parameters	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish
71	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. Nevertheless, we ask for a definition of « risk factor » due to the lack of clarity of this concept.	We ask for a definition of risk factors	BENOIT, Pierre Loic	French Banking Federation (FBF)	Publish