



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

## Template for comments

Public consultation on the draft ECB Regulation on the definition of the materiality threshold for credit obligations past due pursuant to Commission Delegated Regulation (EU) 2018/171

### Institution/Company

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### General comments

UniCredit welcomes the harmonization in the definition of default initiative, fundamental to ensure consistency of application, transparency and comparability across banks

Moreover, it is recognized that the current wide disparity in the application of the materiality threshold underlying the credit obligation past due materially affects the comparability of risk-weighted assets and a consistent application of the materiality threshold would also help to reduce the burden of compliance for cross-border groups

UniCredit would like to confirm that the new definition of default and all related implications have been deeply analysed and the institution is fully committed to comply with the new regulation. Furthermore, the implementation throughout the Group covers all the relevant aspects with a coordinated and homogeneous approach. Indeed, UniCredit has already launched a dedicated project, currently on going adhering to the proposed new guidelines, including the materiality thresholds according to the RTS and object of this consultation

## Template for comments

### Public consultation on the draft ECB Regulation on the definition of the materiality threshold for credit obligations past due pursuant to Commission Delegated Regulation (EU) 2018/171

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 whether your comment is a proposed amendment, clarification or deletion.

**Deadline:** 17 August 2018

ID	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	Clarification	<p>The two steps approach would produce a "temporary" impact, not necessarily immaterial, on P&amp;L (provisions) and capital (shortfall), due to the increase of the number of defaulted exposures (based on new default) not compensated by the IRB parameters calibration, which is envisaged only in the second step, thus creating the ground for a clear disparity between IRB and Standardized Institutions.</p> <p>In the cost and benefit analysis for the definition of the materiality threshold for credit obligation past due the ECB presents a framework for assessing the impact on a list of elements to be taken into account in the analysis.</p> <p>In case the introduction of the new definition of default triggers an higher PD, the effect on LGD most likely will be the opposite, as lower thresholds might result in a higher number of defaults cured in a short period of time. This effect would decrease LGD estimates and risk weights for non-defaulted exposures, disregarding the effect stemming from the EBA GL on PD and LGD estimation.</p> <p>In case of 2 step approach, in 2019 we would observed an higher number of defaults and a consequent increase of provisions and capital requirements. This effect would be compensated by the reverse impact that institutions will have on the LGD once applied at the end of the IRB Repair Program - i.e. by 2020.</p> <p>Given the relationship between risk-weighted-exposure-amounts and risk estimates through the risk-weighting functions, the final combined effect of these movements would most likely result in an instability in the risk-weighted exposure amounts (as mentioned, reduction on the RWA and increase of shortfall in 2019 to be than 'normalized' in 2020).</p>	<p>The two steps approach – which foresees to focus on the implementation of the changes to the definition of default in the first place, and to concentrate on the adjustments to rating systems afterward – will imply a "temporary" impact on P&amp;L (provisions) and capital (shortfall) as well as a disparity of impact between IRB and Standardized Institutions</p>	Capelli, Chiara Francesca	Publish

2	Clarification	<p>In the foreseen 2 step approach too limited time span would be available for adjusting the risk parameters (in case of implementation of the new default detection by June 2019), in order to adjust risk parameters by December 2020, only one year data would be available to manage all models revisions and relevant ECB approval in the last 6 months of 2020, that is very limited for developing and validating PD and would not fit for purpose to update LGD (especially cure rates) and CCF (particularly the drawings after default component).</p> <p>According to the paragraph 10 of the final EBA Guidelines on the application of the definition of default (EBA/GL/2016/07), the EBA encourages institutions to implement the change before 31 December 2020 (when the new Regulation will apply). This request is fostered in particular for institutions that use the IRB approach, as the change in the definition of default may require further adjustments in their rating systems as well as in the process of reconstruction of reliable time series that have to start as early as possible.</p> <p>In our view, an early implementation would not be effective, while</p> <ul style="list-style-type: none"> <li>• a retrospective simulation of the time series could be used in order to adjust rating systems, given that a longer historical time series would be available for development/calibration purposes</li> <li>• parallel run anticipating process implementation and not impacting capital and provisions could be used.</li> </ul> <p>In our case both mitigation actions have been put in place: retrospective past due simulation per 2010-2018 data and past due parallel run starting for 2019 data (to be used for final calibration).</p>	<p>The 2 step approach does not reach the goal of having more robust models as too limited time span would be available for adjusting the risk parameters from June 2019 to December 2020</p>	<p>Capelli, Chiara Francesca</p>	<p>Publish</p>
3	Clarification	<p>With respect to Central governments, local authorities and public sector entities we would like to share the view that, even if the ECB regulation on materiality threshold under consultation does not mention the possibility of replacing the 90 days with 180 neither for exposures secured by residential or SME commercial real estate in the retail exposure class, nor for exposures to public sector entities, this is not in contrast with the possibility of dedicated treatment of public sector for certain type of exposures as foreseen by the final EBA Guidelines on the definition of default (EBA/GL/2016/07).</p> <p>Article 3 (point 3) of the proposed regulation states that a default has occurred when the thresholds exceeds 90 consecutive days for both retail and other than retail exposures, without mentioning the possibility to consider 180 days.</p> <p>In UniCredit interpretation, this aspect does not conflict with the Final guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07) that envisages, at articles 25-26, the possibility for Institutions to apply the specific treatment for exposures to central governments, local authorities and public sector entities. In case of contract with the public sector related to the supply of goods or services, where the administrative procedures require certain controls related to the execution of the contract before the payment can be made, the Guidelines allow to use a specific treatment, that in our interpretation keeps being valid also under the considered regulation.</p>	<p>Public Sector Entities: interaction with paragraph 25-26 (180 days past due trigger for specific transactions related to supply of goods and services) expected to be confirmed</p>	<p>Capelli, Chiara Francesca</p>	<p>Publish</p>
4	Amendment	<p>In line with what reported in the proposed regulation – object of the current consultation – in exercising option and discretions, the ECB should take the general principles of Union Law, in particular equal treatment, proportionality and the legitimate expectations of supervised credit institutions. With regard to the legitimate expectations of supervised credit institutions, the ECB acknowledges the need to allow for transitional periods where its exercise of discretions significantly departs from the approach taken by the national competent authorities prior to the entry in force of this regulation.</p> <p>We believe this is applicable to Public Sector Entities in Italy, where the time of repayment is today determined by specific administrative rules (ref Circ. Banca d'Italia 272 update 10 Chapter B ("Dati Statistici - Regole Riguardanti Specifiche Tipologie Di Operazioni"), Paragraph 2 ("Qualità del credito")): the counting of the past due days starts once all administrative checks imposed by the law have been completed and is suspended as soon as the obligor returns at least partially one of its past due credit lines. The transition to the new overdue computation will clearly determine a huge impact on this portfolio and we therefore require to allow for a transitional period.</p>	<p>Public Sector Entities: request of transitional period before cancellation of current Bank of Italy existing rule</p>	<p>Capelli, Chiara Francesca</p>	<p>Publish</p>