Template for comments

Public consultation on the revised ECB guide to internal models

Institution/Company

EU CRO Group

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General comments

Template for comments

Public consultation on the revised ECB guide to internal models

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: 15 September 2023

ID	Chapter	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated
1	General topics	1 Overarching principles for internal models	Non- existent	Non- existent	Amendment	We suggest inserting the following paragraph to clarify that no trigger of article 149 of CRR is needed when the reversion to a less sophisticated approach is required by the regulation (for instance : reversion to F-IRB for institutions, financial sector entities and large corporates under the upcoming CRR3). Such a paragraph could also be inserted in section 2.6- Reversion to a less sophisticated approach. Under the upcoming CRR3, internal LGD and CCF models for Large Corporates, Institutions and Financial Sector Entities are not eligible any longer. As this is a legal requirement, ECB will not require banks that treat exposure to these clients prior to the advent of CRR3 under the A-IRB to submit model changes for the return to a less sophisticated approach. For the obligatory return to a less sophisticated approach, requirements stated under Art. 149 are deemed not relevant.	The final result will be that banks will be obliged to apply the FIRB for Large Corporates, Institutions and Financial Sector Entities anyways and we would like to reduce unnecessary efforts for both, regulator and banks

2	General topics	1 Overarching principles for internal models	1	5	Amendment	We propose to include a specific paragraph in the "Overarching principles for internal models" which reflects EBA concerns about LDP portfolios and in particular the necessity to accomodate to various estimation methodologies and types of portfolios. Here is the proposed paragraph : "EBA Guidelines on PD-LGD estimation have been specified in a flexible manner, to accommodate various estimation methodologies and types of portfolios. Especially in the phase of model development, it is the ECB's understanding that institutions may use data and methods that are considered most appropriate for a given portfolio. While human judgement is an integral element of all models it is expected that in the case of models for low default portfolios it may be used to a greater extent. In the same vein, in case of data scarcity because of the low volume of defaults, the risk parameter calibration methods could be adapted to the structure of data, in order to ensure that the model outcomes reflect economic reality." The rationale for inclusion of such paragraph is the following : - There was a debate at the Basel Committee to remove IRBA for all LDP portfolios, however the choice was made to allow some LDP portfolios such as specialised lending to remain in IRBA approach in the Basel 3 finalisation. Therefore, the modelling expectations should be accommodated accordingly. - As a reminder, the EBA mentioned about the application of its GL on PD-LGD estimation on LDP portfolios (page 117) : "The requirements of the GL have been specified in a flexible manner, to accommodate various estimation methodologies and types of portfolios. Especially in the phase of model development, institutions may use data and methods that are considered most appropriate for a given portfolio. While human judgement is an integral element of all models it is expected that in the case of models for low default portfolios it may be used to a greater extent". - Moreover, on application of MoCs, the EBA mentioned in its GL on PD-LGD estimation (page 118) : "While many respondents expressed general support for the proposal, the majority expressed operational concerns, especially regarding the quantification and aggregation of MoC relating to different identified deficiencies and categories. The aspect of low default portfolios was also mentioned in the context of potentially higher MoC due to lower data availability. It was considered counterintuitive that greater conservatism would have to be applied to less risky portfolios. The EBA has carefully considered the feedback received and adjusted the concept of MoC by simplifying the aspects of categorisation, quantification and aggregation, and by providing additional clarifications where necessary" - As per CRR, article 174 mentions that banks can use “statistical models” or “other mechanical methods”. “Other mechanical methods” can be interpreted as methods which can be replicated and have clear recurring/auditable patterns when rating the same risk profile. In footnote 29 of ECB Guide Credit risk chapter," the concept of model is not intended to refer to pure statistical models and can encompass other methods for assigning exposures to grades or pools". - In paragraph 50 of ECB Guide Credit risk chapter, "the higher the number of relevant observations, the more the institution should rely on the outcomes of the statistical model". Conversely, we may understand that for LDP portfolios, the expert input is more extensive.	Need to accommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios

3	General topics	1 Overarching principles for internal models	16	9	Amendment	In our view the paragraph 16 on page 9 of the Guide should be amended as follow: "Consequently, the ECB understands that large and complex institutions should implement the most robust independence option. the options a) or b). Such institutions may consider to reserve the appointment of the Head of the internal validation function to the Management Body in its supervisory function." Please find below the supporting reasons: The Guide states that effective independence of the internal validation function from the model development process (i.e. model design, development, implementation and monitoring) shall be ensured and, therefore, institutions should have appropriate organisational arrangements in place. According to this principle, in order to ensure independence of the validation function from the function responsible for model development process and to allow for an objective assessment of the rating systems, the ECB sets three different possible organisational arrangements, depending on the nature, size and scale of the institution and the complexity of the risks inherent in its business model: 1. separation into two different units reporting to different members of the senior management; 2. separation into two different units reporting to the same member of the senior management; 3. separate staff within the same unit. Nevertheless, in the Guide it is expected that large and complex institutions implement the most robust independence option, as specified in point 1 above, although the Regulation 2022/439 explicitly allows such institutions to choose from the first two options. More specifically, according to the Regulation 2022/439, in large and complex institutions the Credit Risk Control Unit (CRCU) and the validation function - which is required to be set as a unit separated from the CRCU - can report to different members of the senior management or to the same member of the senior management. In the latter case, further measures are to be adopted by the institution in terms of adequacy of the decision-making process and effectiveness of the recommendations provided by the internal validation, along with a regular assessment of this requirements by the internal audit. In this regard, ECB specifies that, where option 2 is adopted, it is good practice if the institution fulfils the additional requirements specified in Article 10(3) of Commission Delegated Regulation (EU) No 2022/439 Having said the above, it is not clear why the Guide does not allow the large and complex institutions to freely choose between the above two options, as permitted by the Regulation 2022/439. Large and complex banks should be also allowed to set up two different and separated units reporting to the same member of the senior management (i.e Chief Risk Officer of the Bank), in compliance with all the measures protecting the independence of the validation function. Please note that, according to some national laws, the validation function is located - as an independent unit - within the risk control function and reports to the chief risk officer. A different organizational position of the validation function should not be allowed. This organization set up is adopted by several European banks, being also consistent in terms of organizational efficiency. Just consider that the chief risk officer is required to possess adequate skills and experience in his/her area of expertise, including the development and control of internal models. It is also worth noting that the complete separation of the internal validation and the function responsible for model development processes, reporting to different members of the senior management, raise issues from a business organizational perspective, being it necessary to locate the internal validation function within a different area ensuring an adequate and consistent level of independence especially from the business. The above issues lead to reconsider the proposed approach, by allowing large and complex institutions to choose between option 1 and 2, as provided by the Regulation 2022/439. In any case, in order to further strengthen the independence of the internal validation function, the appointment of the head of the function by the management body in its supervisory function could be positively considered by the Authority and explicitly recommended by the ECB Guide as an additional option.	Allowing large and complex institutions to freely choose between the two options listed in the Guide (cfr. part.15, page. 9), as permitted by the Regulation 2022/439. Allowing large and complex institutions to set up two different and separated units reporting to the same member of the senior management (i.e Chief Risk Officer of the Bank), in compliance with all the measures protecting the independence of the validation function.

4	General topics	1.8 General principles on climate-related and environmental risks	25	12	Amendment	In general, we understand and accept emphasizing the requirements on the consideration of climate-related and environmental risk drivers in internal models. The proposed concept is fully in line with the common social and political efforts to build a more sustainable economy. Moreover, they are consistent with the requirements in the Guidelines on loan origination and monitoring. According to the proposed ECB's guide, where Climate & Environmental (C&E Hereinafter) risks drivers are found to be relevant and material, institutions should include such risk drivers in their internal models for the calculation of own funds requirements, even after the date of default and until the date of termination of the recovery process. The ECB guide also proposes to consider C&E risks in the rating systems (allowing to apply an override to the final output of the rating assignment process, if appropriate) and also in the application of a potential Margin of Conservatism (MoC), in case of any missing or inaccurate climate-related information considered in risk estimates. ECB expects institutions to incorporate C&E risks into the risk management process. Considering the above, the explicit incorporation of the C&E risks into the Internal models Guide poses the following concerns: 1) The first sentence mixes the concepts of "risks" and "risk drivers". Climate-related and environmental risk are not only the own risk category (or subcategory of the non-financial risks), but more of a (potential) driving force for the financial risks (credit, market, liquidity risks). Therefore, their handling should be generally consistent with all other potential driving forces considered in internal models, e.g. obligor-related or financial information. They are not explicitly mentioned in "general principles". Moreover, the second sentence is tautological in its style. From the methodological perspective, it is a necessary condition for any internal model in place that all its risk drivers are relevant and material and vice versa, that all risk drivers found to be relevant and material are considered in the model. 2) How to define "material" in this context within the process of internal model development 3) Envisaged portfolios in scope (e.g.climate risk is less likely to arise in some portfolios such as classic consumer finance and have therefore less ESG variables available) 4) Uneven playing field between standardised approach vs internal model institutions. A. The inclusion of the C&E risks into the standardised rules (CRR) is dependent on the final approach in EBA's report on the role of environmental risks in the prudential framework. Such EBA report is expected by the end of the year, so the amendments incorporated in this Guide would be frontloading EBA's approach (which has not yet been released). B. Even if the EBA had published its report on the role of environmental risks in the prudential framework, the Capital Requirements package (CRR and CRD) would need to be amended before any incorporation of C&E considerations in the internal model guide in order to avoid a preferential treatment for standardised banks (vs institutions under internal models). 5) Non-recognition of the ESG advantages: the spirit of internal models (and generally the prudential framework) is risk-based. This means that the inclusion of C&E risks in internal models will focus on on any potential negative impacts stemming from C&E risks. However, the inclusion of ESG factors in risk management should also encompass the potential benefits, not only the risks 6) For market risk OFR calculation, our view is that these emerging risks are potential drivers of the traditional risks, and that are already captured in the risk assessment framework of internal models. Including them as a driver in itself, creates the following issues: A. Technical feasibility considering that there is no clear methodology as to how to measure separately the impact of C&E drivers in market prices and, hence, derive an input for internal models. B. Risk of double-counting as these drivers are potentially priced in the market. As to what counterparty credit risk refers, it is not directly in scope, as it is indirectly affected through credit risk parameters (PD, LGD, etc.). 7) Disproportionate penalisation in risk estimates via MoCs in case of missing or inaccurate climate-related information Proposal: To delete the second sentence and put the requirement on considering climate-related and environmental risk drivers from the first sentence in the risk-specific chapters (e.g. §96 for PD models).	To avoid a misinterpretation of the supervisory expectation Uneven playing field between standardised approach vs internal model institutions Non-recognition of the ESG advantages: Unrealistic and burdensome expectation with no added value to model Risk of double-counting Disproportionate prudential penalisation System level historical series "tested as reliable and homogeneously recognized" are not avaiable, not yet allowing proper modelling and potentially jeopardizing the level playing field

5	General topics	1.9 General principles for the implementation of a changed or extended model	26	12	Amendment	Chapter 1.9 (paragraph 26) is difficult to interpret and seems to be not consistent with chapter 2.2.2. In particular paragraph 26 states that ECB´s expectation is that the implementation time frame should be no longer than three months from the date of notification. Such flexibility seems to collide with the requirement in Section 2.2.2, paragraph 8 ("IT implementation of a new model or model change"), where it is required that by the time of the application of a material model the IT systems need to be have been executed into a non-live parallel environment Implementation of a materially changed model is quite complex and requires proper preparation. Often it is followed by an assessment of the changes by an independent function (typical internal audit), for which the timing must also be factored in. Proposed wording: : "[…] The ECB generally expects this time frame to be no longer than twelve months from the date of the notification. […]"	Unrealistic and burdensome expectation with no added value to model To avoid a misinterpretation of the supervisory expectation
6	General topics	2.4 Changes to the roll-out plan for the IRB approach	28	13	Amendment	The paragraphs 28 and 32 of the ECB Guide asks for defining internal criteria to trigger application of IRB roll-out. As IRB and PPU are connected vessels, the criteria used for remaining in PPU also impacts the sequential application of IRB. Therefore, IRB banks will primarily look at article 150(1) of CRR in order to assess the exposures which could remain in PPU. In particular, banks should analyse items mentioned in article 150(1) of CRR : - as per subparagraph (a), exposures to central governments and central banks, where the number of material counterparties is limited, and it would be unduly burdensome for the bank to implement a rating system for these counterparties - as per subparagraph (b), exposures to institutions, where the number of material counterparties is limited, and it would be unduly burdensome for the bank to implement a rating system for these counterparties - as per subparagraph (c), the non-significant business units, as well as exposure classes or types of exposures that are immaterial in terms of size and perceived risk profile The ECB Guide provides general reference to the draft EBA RTS on roll-out and PPU (CP 2014/10), which in particular suggests clarification on article 150.1(a), (b) and (c) of CRR. However, such draft RTS was never finalised and voted, and it should be made clear that this reference is not legally binding. For large and significant banks, when assessing such criteria for material counterparties or immaterial business units or exposure classes / types, experience shows that the cumulative nature of the requirements such as having both quantitative and qualitative criteria will lead to consider materiality (or immateriality) criteria as primarily striking. There may be business units/ exposure classes or types for which exposure / RWA are not negligible, but the best choice would be to remain in STD, because of strong impediments such as data constraints. The outcome of strict application of article 150(1) is to systematically conclude for a go to IRB, and leaves little room to remain in PPU. Even if we maintain such exposures in STD, it does not distract the bank from applying adequate IRB roll-out and PPU approach and maintain a sound risk management approach. Therefore, when analysing criteria for the purpose of article 150.1 of CRR, materiality can only be a help to the decision-making for roll-out approach. We propose as a consequence to amend the paragraph 28 : "[...] (b) Qualitative aspects which can overrule materiality criteria if justified : [...]"	The concepts of materiality / immateriality as per article 150(1) of CRR should only be a help to decision-making, while the final choice for PPU (and in mirror the choice for roll-out) is not purely quantitative.
7	General topics	2.6 Reversion to a less sophisticated approach	42	18	Amendment	The new text introduced in paragraph 41 of section 2.6 is appreciated as a positive example of the additional guidance that was missing in the earlier version. Having said that, the new text poses the following concerns: 1) Unclear and unintuitive criteria, on how to read the Art. 149 of the CRR at Legal Entity level in a way that can leave a reasonable level of flexibility to the banking system- The reference to “arose after” might put further limitation on the deployment of the new strategy to be defined 2) concept of “non-negligible reduction of capital requirements” referred in paragraph 42 requires a subjective assessment by each institution that may lead to different interpretations. It is also important that the envisaged proving efforts are commensurate to the underlying risk, for the avoidance of undue burden of proof. 3) Potential distorting effect of including supervisory limitations in the calculation of impacts of reverting to a less sophisticated approach. We propose as a consequence to amending paragraph 28: "[...] (b) Qualitative aspects which can overrule materiality criteria if justified: (...)"	To avoid a misinterpretation of the supervisory expectation Potential lack of flexibility for institutions to decide upon their internal model landscape

8	General topics	2.7 Internal models in the context of consolidations	46-49	19	Clarification	The new text increases the complexity and burden of proof on the acquirer even if the acquired portfolio is not representative after the consolidation. It is proposed that the relevant historical series to be collected could be the ones representative of the processes of the acquirer. Not being able to collect historical series due to legal constraints should not trigger a MoC C. Otherwise, there a risk of attracting undue higher MoCs due to lack of historical data on the acquired portfolio if the absence of legal right exception cannot be triggered.	To avoid a misinterpretation of the supervisory expectation
9	General topics	6.2 Use test requirement	97	38	Clarification	The new text states that extensions to additional exposures that are not significantly different from the scope of the existing coverage require the fulfilment of experience requirements on the new scope/Legal Entity, unless requested for consolidated level only (in which case the requirement does not apply) Against this backdrop, further clarification would be needed on how to deal with the implications: 1) How to account for the experience requirement on the current scope for spin-offs 2) Risk of potential delays in Roll Out plans to gather the 3 years experience test For these reasons we suggest to specifically provide that the specific requirements for the extension to additional exposures that are not significantly different from the scope of the existing coverage apply "without prejudice to the continued application of the IRB approach to exposure within the scope of the existing coverage" and that new LEs established as spin-off of portfolios in the scope of the existing coverage should be considered as having met the Use test requirements considering the existing experience of the institution also for the purpose of application at individual level.	To avoid a misinterpretation of the supervisory expectation
10	General topics	6.6 Assignment of exposures to grades or pools	103	42	Clarification	In the case of Retail portfolios, rank ordering models contain inputs that have not always the same level of availability for their update (e.g. financial information of individuals are in many instances recorded under the application scorecard, but not necessarily regularly updated by the customer during the life of the transaction) Against this backdrop,we would ask for the following clarifications with regards Footnote 95: 1) The outdated status should be triggered when all necessary inputs for updating the ratings become stale 2) Rather than automatically triggering the outdated status if financials are older than 2 years, there should the possibility of compensating the older than 2 years issue with a MoC but without applying the progressive penalisation of the score, for cases with a sound justification	Unrealistic and burdensome expectation with no added value to model
11	General topics	7 Management of changes to the IRB approach	122	49	Clarification	The nine-month rule might be feasible in most of the cases, however there might be cases where the snapshot has to be older (for example of external data delivery is needed for the calculation, or where manual input for the re-rating is needed). Exception for well documented cases should be possible.	Unrealistic and burdensome expectation with no added value to model

12	Credit risk	2.2 IT systems: infrastructure and implementation testing	7-8	61-62	Deletion	The introduced details in the new text is appreciated as an intent to provide more clarity on supervisory expectations. Whilst we understand the requirements in paragraph 7 for new model due to the use test requirements (where COREP reporting from our understanding should not belong to), we consider the requirements of paragraph 8 on having the IT implementation ready ((in a non-live production environment) before material model change application to ECB as highly challenging and disproportionate for the underlying regulatory risk. We elaborate below the grounds for our view: 1) IT implementation can be audited within the Internal Model Inspection, hence, the competent authority itself has the ability to mandate an assessment by the IMI teams and does not need to rely on the assessment of the institution's internal validation or audit teams. We think, however, that the AT can, in case of material model change, and reusing large parts of an existing rating system, take considerable comfort from the existing production and the IT change and testing procedures in place. Cons: 2) Significant increase in time to market for an improved model: For a material model change the required steps are 1) model development, 2) review by IVU, 3) review by internal audit and 4) IT implementation 5) Internal Model Inspection 6) ECB approval process. Steps 1), 2), 3), 5) and 6) cannot be performed in parallel they have to be done sequentially. Up to now it was industry practice to submit the material model change application to ECB after step 3) review by internal audit/IVU and IT implementation was finalised in the time period after material model change submission to ECB until final approval by ECB. This ECB approval has on average been taking approx. 2y, which gives enough time for the model implementation. Hence, IT implementation did not enlarge the time span from the start of model development until its application in the IT systems If ECB requires that all of the above mentioned steps will be performed in parallel it means that the time to market for a material model change will be enlarged by the time needed for IT implementation including testing activities as well as the assessment from IVU and internal audit This means that i) productive models that obviously have weaknesses (otherwise a material model change application would not have to be submitted) will have to run for a longer period of time and ii) the newly developed models additionally will have further matured before their go life, making a subsequent material model change application more likely Production of a significant amount of investment and maintenance costs for institutions, unnecessarily having a negative effect on CET1 ratio as institutions will be required to run two IT systems in parallel even though final own funds calculation will remain unchanged. This has two significant cost implications: (i) new IT environments with a sizing close to production needs to be purchased and set-up for a considerable number of IT systems (none of the current IT environments can be used as those are needed to maintain the productive rating system; (ii) two versions of the source code need to be held in sync – in fact any change in the productive system (e.g. non-material ex-post changes or improvements for the user) has to be done, tested and released in the non-productive version as well. For the latter the costs of having the two branches of the source code in sync increases with time and really becomes prohibitive considering the average approval time of at least 2 years. In addition, there are some aspect of these 2 paragraphs that can lead to misinterpretation of supervisory expectations: 1) The requirements outlined in this section refer to material changes / new models / roll-out. This can be interpreted such requirements do not apply to changes requiring ex ante or ex post notification. 2) Our understanding of the requirement of "is able to use the model for internal risk measurement and management purposes" when referred to estimation of risk parameters is that it can be met if there are previous versions in place for internal risk management. In other words, the requirement does not demand having new versions of Economic Capital and IFRS 9 risk parameters calibrated by the time of the application submission, as the timeliness of Economic Capital and IFRS 9 models is not in scope of the IRB regulation. Based on the above, we propose the deletion of paragraphs 7 and 8. For paragraph 7 the requirement on COREP reporting should be deleted as well. Finally, we ask for further clarifications of the two aspects raised above.	Consistency with the modelling approach for the rest of potential risk drivers To avoid a misinterpretation of the supervisory expectation Potential risk of restricting the flexibility of institutions to plan their modelling activities

13	Credit risk	2.2 IT systems: infrastructure and implementation testing	7(d)	62	Amendment	The requirement of "the institution is able to submit the the respective COREP reporting (Article 144(1)(g) of the CRR" by the initial model approval or roll-out submission generates the following concerns that deserve being further clarified: 1) It seems to collide with the provision in paragraph 26 of General Topics chapter/ 1.9 section (page 12) of the EGIM where it is stated that :"The ECB generally expects this time frame to be no longer than three months from the date of the notification" of the permission. 2) There is a risk that the change request could eventually not be approved by ECB, and natural dependency on the supervisory decision timelines (for which there is no any predefined committed deadlines). In such cases, undoing the COREP processes to the previous set up or having fully ready the entire process so far in advance can constitute and unduly burdensome for the institution. Proposed Rewording: The materiality thresholds for the purpose of the definition of default applied by an institution outside the SSM area and a parent significant institution may be different, even if both belong to the same banking group, because a materiality threshold which differs from the one set by the ECB may apply under national law outside the SSM area. This scenario is one of those addressed by paragraphs 83 to 85 of the EBA Guidelines on DoD.	To align the General topics and Credit Risk chapters as well as not requiring undue burden to Institutions.
14	Credit risk	2.2 IT systems: infrastructure and implementation testing	8	62	Amendment	The expectations outlined in the paragraph for a material model change, namely "fulfilling the points set out in paragraphs 7(a) to (f)" of paragraph 7, are too restrictive in comparison with Article 144 of CRR and EBA Consultation paper on the supervisory handbook on the validation of IRB rating systems that apply only for new model submissions. Hence, we suggest the following amendment: "fulfilling the points set out in paragraphs 7(a) to (c)".	Unrealistic and burdensome expectation with no added value to model
15	Credit risk	4.2 Consistency of the application	62	79	Amendment	When assessing the consistent identification of the default of common obligors it is important to bear in mind that it is usually limited to global portfolios. Non-global portfolios could naturally fit in the exemptions of paragraph 81 and 83 EBA GL on DoD) The general approach to assess the credit quality of global clients is to evaluate their overall status by aggregating of all the unpaid balances and exposure converted into a single currency (euro) and applying the ECB materiality thresholds (500 € absolute threshold and 1% relative threshold). However, in some occasions global clients have at the same time exposures in both SSM and non-SSM geographies where the National Competent Authority has set different thresholds In cases where most of the total exposure is booked in a geography under the SSM thresholds, having parallel dpd counting processes can be excessively burdensome, and would collide with the spirit of a sound credit risk management. This means that especially the last phrase of the paragraph should be deleted.	Soundness of risk management for global clients and undue burden to Institutions
16	Credit risk	4.2 Consistency of the application	63	79	Amendment	According to paragraph 63 it could be understood that the treatment of non-retail must be the same as for retail, but the EBA clarifies in the Q&A (https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2018_4431) and based on EBA guidelines on DOD that it should be up to institutions to specify the treatment of joint credit obligations other than retail and for default contagion between exposures in their internal policies and procedures. We suggest the following rewording : "In the ECB's understanding, it is best practice for institutions to may foster consistency within the process related to the default identification by also applying these requirements to joint credit obligations involving non-retail exposures."	To avoid a misinterpretation of the supervisory expectation
17	Credit risk	4.3 Days past due criterion	67	80	Amendment	Some delay may exist between the issuance of the leasing invoice and the payment, generating cumulated late payments. Proposed rewording: However, in the specific case of factoring or leasing arrangements where the purchased receivables are recorded in the balance sheet of the institution, if the counter at obligor level reaches 90 but none of the receivables to the obligor is more than 30 consecutive days past due at facility level, then this should be recognised as a technical past due situation according to paragraph 23(d) of the EBA Guidelines on DoD and the default should not be triggered. In such a case, the counters at obligor and facility levels keep running (unless the obligor repays past due exposures) and default is triggered as soon as one receivable is more than 30 consecutive days past due.	To avoid a misinterpretation of the supervisory expectation
18	Credit risk	4.3 Days past due criterion	69	81	Amendment	It is required to convert past due amounts into EUR on a daily basis. However, in non-SSM geographies, other key risk management processes (e.g. risk limits setting) do not usually apply daily exchange rate conversions (e.g. monthly, instead) Applying daily exchange conversions in non-SSM geographies, could potentially lead to undesired distortion in the counting of days past due (with exposures potentially coming in and out too frequently), and eventually on the ability to maintain a sound risk management. It is proposed that the text reflects that changes in the exchange rate should not trigger resetting the counting of days. This ECB requirement goes beyond EBA guidelines on DOD who don't impose such a mechanism	Soundness of Risk Management

19	Credit risk	4.3 Days past due criterion	70	81	Amendment	It is our understanding that fees past due stemming from non-credit products (products which themselves do not constitute credit exposures), such as maintenance fees for deposit accounts that remain unpaid because the accounts are empty, should not be recognised as credit obligation past due since: (i) The charges are associated with the use of a service (e.g., use the deposit account for electronic payments), meaning that the non-payment by the customer is similar to the suspension/cancellation of the service instead of a credit product. (ii) As reflected in EBA Q&A 2018_4301, a separate calibration segment within PD models to accommodate information related to obligors whose obligations stem solely from non-credit products would then be required, increasing the complexity of the modelling exercise without any actual benefit from a credit risk management perspective. (iii) To avoid biases in the LGD quantification, a separate calibration segment to accommodate obligors in default solely due to obligations stemming from non-credit products would be required due to their distinct recovery profiles that, once again, results in an increased complexity of the modelling exercise without any tangible benefits from a credit risk management perspective. Hence, we propose the following amendment: "Institutions should recognise as a credit obligation past due any amount of principal, interest or fee that has not been paid at the date it was due in line with paragraph 16 of the EBA Guidelines on DoD. Fees in this context refer to amounts stemming solely from a credit obligation. Written-off amounts should not be considered in the calculation of the obligor's total and past due exposures when assessing the materiality threshold, but institutions should assess, whenever a write-off occurs, whether this qualifies as an indication of unlikeness to pay according to paragraphs 36 to 40 of the EBA Guidelines on DoD."	Unrealistic and burdensome expectation with no added value to model
20	Credit risk	4.3 Days past due criterion	73	82	Amendment	'The paragraph clarifies that "situations where the bank has approved a moratorium or restructuring for an obligor that is less than 90 days past due on material credit obligations but the resulting suspension or reset of days in the past due counter is applied in the systems with some delay when the counter has already reached 90 days" shall be treated as technical default in accordance to EBA GLs on the application of the DoD, par. 23 a) that qualifies a default as technical "where an institution identifies that the defaulted status was a result of data or system error of the institution, including manual errors of standardised processes but excluding wrong credit decisions". However such specification leaves uncovered all circumstances subject to payment suspension by law that were retroactively recorded in the systems after the definition and check of the eligibility criteria set by the law that prolongued the credit decision. The last sentence, seems somehow contradictory with paragraph 71, where disputes can be subject to dpd counting suspension. In case this cannot be done technically, this would qualify as similar to technical default situation. To this end we suggest the following: 1) introducing a dedicated provision stating that "moratoria granted based on applicable laws having retroactive effects from a period where the obligor was less than 90 days past due on material obligation might be treated as technical default also in the case the credit decision approving a moratorium was taken when the counter had already reached 90 days" 2) that past due linked to disputes initiated before the classification shall be allowed for a treatment as technical default although the corresponding suspension of the counting of days past dues is recorded after the classification in Default 3) To remove the last part of the sentence related to disputes: "This includes, for instance, issues with payments resulting from errors in the data or systems of the obligor and disputes under paragraph 19 of the EBA Guidelines on DoD. With regard to the latter, it is the ECB's understanding that treating disputes as technical past due situations, for instance because of the impossibility of suspending the counting of days past due in the systems, would lead to an unwarranted inflation of technical past due situations."	To avoid a misinterpretation of the supervisory expectation

21	Credit risk	4.3 Days past due criterion	74	82	Clarification	It is recommend to enhance guidance in this section to clearly state the expectations regarding 180DPD as it is vague when it comes to the exemption granted by the EBA Default GL regarding 180DPD on exposures to central governments and Institutions. According to the ECB regulation the following must be considered: The ECB has chosen to remove the option for 180 days past due and that is regulated in article 4 in REGULATION (EU) 2016/445 OF THE EUROPEAN CENTRAL BANK of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), which is also highlighted this in their guidance to banks on NPLs. According to Article 178(1)(b) of the CRR, for certain segments the past-due period may be extended by the competent authorities from 90 days to 180 days. However, the option to recognise defaults only after 180 days past due for some portfolios has been disregarded in the Regulation (EU) 2016/445 of the ECB37 which became effective in October 2016. Article 4 of the Regulation requires a uniform application of the 90-day period. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016R0445 And as stated below. The EBA has advised the commission to remove the option of 180days: https://www.eba.europa.eu/eba-advises-the-commission-to-disallow-the-application-of-the-180-day-past-due-exemption-for-material-exposures and its currently removed as an option in the CRR3: Current version of CRR art 178 (b) the obligor is more than 90 days past due on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries. Competent authorities may replace the 90 days with 180 days for exposures secured by residential property or SME commercial immovable property in the retail exposure class, as well as exposures to public sector entities. The 180 days shall not apply for the purposes of point (m) Article 36(1) or Article 127. CRR3 art 178 We propose that in paragraph 1, point (b) is replaced by the following: '(b) the obligor is more than 90 days past due on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.';	To avoid a misinterpretation of the supervisory expectation
22	Credit risk	4.4 Unlikeness to pay criterion	77	83	Clarification	Proposed rewording: […] When applying the formula, the sale price should be used without any type of adjustment. It should be noted that sales of credit obligations in the context of true sale securitisations where there is a significant risk transfer according to Article 244 of the CRR and the EBA Guidelines on SRT are also considered sales of credit obligations for the purposes of this unlikeliness to pay criterion.	To avoid a misinterpretation of the supervisory expectation
23	Credit risk	4.4 Unlikeness to pay criterion	79	84	Deletion	The calculation of NPV is too costly, burdensome, and complex. Also, NPV calculation is not the only way to assess the existence of financial loss due to a distressed restructuring. Some other alternatives (e.g. identification of some types of concessions) also allow to identify the financial loss in a more efficient and sustainable way for the bank. Therefore we suggest deleting §79	To avoid a misinterpretation of the supervisory expectation
24	Credit risk	4.4 Unlikeness to pay criterion	84	85	Amendment	We suggest deleting the last sentence of paragraph 84 Indeed, if an exposure is wrongly reclassified to non-default status, there may be various explanations. As mentioned in the draft Guide, the inappropriateness of the definition of "material payment" is just one of them. Therefore, there is no need for systematic control of this definition.	Unrealistic and burdensome expectation with no added value to model
25	Credit risk	4.4 Unlikeness to pay criterion	85	85	Amendment	The EBA NDoD GL mentions that a client should not have any past-due amount to return to non-default status (para 73, point c). We understand that the past-due amounts referred to in this paragraph are 'material' past-due amounts because EBA Guidelines always consider that there is a past-due amount when the counter starts because both thresholds are breached. Therefore, the monitoring and risk management has been built around the detection of material past due. A change in the detection of the past due could lead to significant IT and operational changes. If an immaterial past-due amount has an impact on the return to non-default status for the 12-month probation period but not on the 3-month probation period, there is lack of consistency. We therefore propose the following wording: "Hence, it is the ECB's understanding that institutions should refrain from allowing the return to non-default status as long as exposures are subject to outstanding past due amounts, even if these past due amounts are less than 90 days past due."	To avoid a misinterpretation of the supervisory expectation

26	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	90	88	Clarification	As any change in the definition of default implies material model change (as changes are expected to be jointly managed across portfolios) and as changes in the light of para 91 might eventually imply a full redevelopment of a certain model, in our view the introduction of a two step approach would enhance flexibility and better ensure feasibility of the different expectations would be helpful. In a two-step approach mechanism similar to that envisaged for the adoption of the new DoD, the adoption of the DoD changes across portfolios might better be managed through material model change as first step, whereas the calibration/re-estimation of parameters follow a second step to be deployed across portfolios in a reasonable time-frame through, depending on the changes envisaged, either ex-ante notification or material model changes. Furthermore, In case each smaller adjustment to the DoD leads to material model changes for both, DoD and risk parameters the required effort for the application is disproportionate and will motivate institutions to wait as long as possible for these changes contradicting to ECBs target to apply appropriate DoD and IRB models as early as possible. Proposed rewording -at the end of the paragraph: In case of smaller changes to the DoD for which the institution can demonstrate that the expected impact on PD/LGD parameter estimation is not material ECB advises to apply for the material model change on the DoD without applying for model changes on the risk parameters at the same point in time to avoid disproportionate time frames and reduce effort needed for a joint application	Higher flexibility and feasibility in adopting changes to the DoD. ECB should allow for a fast track process for smaller changes.
27	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	92	88	Amendment	Further clarity on the following points would be needed: 1) The paragraph specifies that that the correction factors should be based on a Reference Data Set that covers at least two years of data adjusted at granular level by means of a retrospective simulation, parallel run or similar classification of data according to the new definition of default. Please, specify how to proceed when the entity is not able reach the two years of data using the proposed alternatives (e.g. due to the application of a new UTP) or amend with proposed change at the end: The retrospective simulation may be performed on a best effort basis to avoid disproportionate effort 2) in case of changes of the definition of default, the ECB describes best practices (nice to have). Could the ECB please provide explanations regarding "a similar classification of data according to the new definition of default"? Also, we suggest amending the following sentence "Where the adjustments in granular data do not cover the entire historical observation period of the model, institutions may complement the missing periods by applying correction factors to aggregated metrics, model components or risk estimates, (...)" by considering also the option of "using simplifying assumptions" in addition to "applying correction factors" (as mentioned in footnote 49 on page 89) The sentence would be amended as follows: "Where the adjustments in granular data do not cover the entire historical observation period of the model, institutions may complement the missing periods by using simplifying assumptions or applying correction factors to aggregated metrics, model components or risk estimates, (...)"	Avoid misinterpretation of the criteria
28	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	93	89	Amendment	In many instances a change in the Definition of Default is triggered by either a supervisory obligation, or to strengthen risk management soundness Having addition of a MoC triggered by changes in the Definition of Default is perceived as a disproportionate measure compared to the underlying credit risk	Disproportionate prudential penalisation for institutions

29	Credit risk	5.1 Structure of PD models	95	91	Amendment	In defining expectations in terms of control and mitigation of the risk of overfitting, it is required that for model development purposes both out-of-sample and out-of-time testing are provided unless there are no sufficient data available for the training sample. We deem, in this context, that: i) the opportunity to enhance the representativeness of data leveraging on most recent observation shall not be undervalued in a context where the effects of the most recent pandemic still need to be fully analysed in terms of their effects on the historical relations between risk drivers and observed defaults; ii) the subsequent opportunity to value potential emerging/new patterns in the risk differentiation in a forward looking perspective; iii) the availability of efficient alternative means to control and mitigate the risk of overfitting. The expectations set out above in this paragraph are specifically related to the model development phase. Model calibration sample and the corresponding statistical uncertainty in the model estimates are not in the scope of the stated expectations and should reflect all available information on realised default rates More clarity would be appreciated on what data threshold is set and what are the consequences if certain samples cannot be assessed due to data scarcity. e.g.: 1) On the one hand it is stated the described measures are in particular important for data poor portfolios. 2) On the other hand it is stated that out-of-time sampling has to be performed unless there are nor sufficient data available. "Carving out" a part of a development sample (i.e. a sample used to define the process of assigning exposures to grades or pools) results into a smaller sample with more statistical uncertainty. It is our understanding that the calculation of Margin of conservatism can still be based on a full sample. Otherwise it would mean an increase in MoC and correspondingly the capital requirements for financial institutions as compared to the currently valid EGIM version. As a consequence, we deem appropriate to amend the text of the paragraph by adding after "unless there is insufficient data available for the training sample" the following "or the risk of mis-specification connected to the exclusion of this information outweighs the risk of overfitting of including them. In such cases, however, institutions should ensure that the risk of overfitting is adequately controlled. .	Avoid misinterpretation of the criteria
30	Credit risk	5.1 Structure of PD models	96	91	Amendment	Draft EGIM provides valuable reference for the definition of sub-ranges of application of a PD model over which model performances shall be tested. However, the level of granularity is rather big and therefore it shall be acknowledged that discriminatory power is inherently lower when tested at more granular level compared to the overall model and predictive power might find some form of compensation among different clusters, especially for those clusters of lower materiality that were found not significant/appropriate to be integrated in the risk differentiation model and/or in the definition of calibration segments. To account for this it is suggested to amend the paragraph by allowing a proper justification of potential deviations that cannot be avoided at that level of granularity. Specifically while providing "should perform adequately on economically significant and material sub-ranges of application" we deem appropriate to add "or otherwise be properly justified"	Avoid misinterpretation of the criteria
31	Credit risk	5.1 Structure of PD models	96	92	Amendment	Paragraph 96 explains that it is the ECB's understanding that PD models should perform adequately on economically significant and material sub-ranges of application. It also introduces the non-exhaustive lists of drivers to use where relevant for portfolios, which can be low default in some cases. It is therefore essential to enhance the paragraph to accomodate for various estimation methodologies and types of portfolios. For this purpose, we suggest to rephrase the beginning of paragraph 96 in this manner : "In accordance with Article 144(1)(a) of the CRR, institutions' rating systems must provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk. To comply with this requirement, it is the ECB's understanding that PD models may perform adequately on economically significant and material sub-ranges of application, WHERE APPLICABLE depending of the various estimation methodologies and type of portfolios. The sub-ranges are identified by splitting the full range of application of the PD model into different parts on the basis of potential drivers for risk differentiation, including the following non-exhaustive list of drivers, where relevant: [...]"	Need to accommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
32	Credit risk	5.1 Structure of PD models	101	93	Deletion	This requirement is difficult to be evidenced with data for banks using the same predefined master scale across all portfolios. Justification remains rather qualitative. It is proposed to delete the paragraph	Avoid misinterpretation of the criteria

33	Credit risk	5.1 Structure of PD models	102	94	Amendment	This paragraph relies in particular on paragraph 69 of EBA Guidelines on PD-LGD estimation. However the sub-paragraph b is added on top of EBA requirement. It seems essential to amend this sub-paragraph in order to cope with various estimation methodologies and types of portfolios. In particular for LDP portfolios, the volume of data conditions the number of possible grades, and it may be difficult to include additional risk drivers without ending with some grades with very scarce volume of default. We suggest therefore the following rewording : "Articles 170(1)(b) and (d) and 170(3)(b) and (c) of the CRR require, among other things, that the structure of rating systems must ensure the homogeneity of obligors or facilities assigned to the same grade or pool. In accordance with this requirement and under paragraph 69 of the EBA Guidelines on PD and LGD: [...] (b) in cases where it is found (through the use of additional drivers or a different discretisation of the existing ones) that a material subset of obligors or facilities within a grade/pool yields a significantly different default rate to that of the rest of the grade or pool, this is considered to indicate a lack of homogeneity, EXCEPT if the use of additional drivers will be detrimental to having minimum default data to perform LRA calibration."	Unrealistic and burdensome expectation with no added value to model
34	Credit risk	5.1 Structure of PD models	103	94	Amendment	Requirement practically does not allow for the use of global master scale, which is perceived as intervention in the bank steering. This makes comparability between portfolios and with this meaningful use test very difficult. 1. Without a master scale concept, comparability of ratings from different rating systems is not given anymore. This is in particular relevant in case of rating transfer and third party support. For example, when performing a rating transfer between a subsidiary and its parent – a more concrete example would be a bank subsidiary of a corporate entity, as e.g. often the case in the automotive industry – the ratings must be comparable as they are in certain cases either directly inherited or notched according to predefined rules. 2. Also the rating override process and respective policies are based on the master scale concept. Several parts (e.g. when it comes to notch downgrades or considerations of investment vs. non-investment grade) would need to be reworked from scratch when leaving or collapsing the master scale, with potential inconsistencies and reduced transparency being the result. 3. The concept of sovereign ceiling requires ratings of counterparties and their sovereign to be directly comparable and would hence not work without a master scale concept either. 4. With regards the granularity of the rating/master scale note that risk differentiation between grades is not only based on default observations, but also other criteria impacting the risk profile like data availability (for example for listed counterparties much more information can flow into the assessment) and support considerations. Proposal: to change the last phrase to: "To comply with the requirement to ensure adequate risk differentiation across grades or pools, institutions should ensure that there are no significant overlaps in the distribution of the default risk between grades or pools. This should be ensured through a meaningful differentiation of the default rates of each grade. In particular, the ECB expects that a very granular rating scale will only be used in cases where the institution is able to empirically confirm the risk differentiation across grades as described in this paragraph. Also, in order to accomodate for various estimation methodologies and types of portfolios, this paragraph may be applied with some flexibility."	Unrealistic and burdensome expectation with no added value to model
35	Credit risk	5.1 Structure of PD models	102-103	96	Amendment	Paragraphs 102 and 103 discuss the homogeneity within grades and heterogeneity across grades. The paragraphs mention that these two aspects should be tested by relying on the default rates. The expectations should be adapted in the case of low default portfolios in terms of tests of homogeneity and heterogeneity for these special cases where there are no default rates. Article 36 of Regulation 2022/439 (IRB assessment methodology) mentions that "For exposures other than retail exposures competent authorities shall assess them only for those rating systems in respect of which a sufficient quantity of data is available". Therefore, we suggest to reword the paragraphs to align with Regulation 2022/439.	Need to accommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
36	Credit risk	5.2 PD risk quantification	124(b)	102	Amendment	This condition is very likely to be met for the reason that using overlapping time windows leads to overweighting of snapshots in the middle of the time period. Thus, the use of overlapping time windows should not be expected if any of the a) b) c) conditions is given. We propose b) to be used in conjunction with a) and/or c).	Avoid misinterpretation of the criteria
37	Credit risk	5.2 PD risk quantification	125	102	Amendment	The requirements around the use of external data seem so complex that it is rather likely to see deviating/inconsistent assessments and findings if external data is used (or even not used). Based on this, some flexibility would be needed	Unrealistic and burdensome expectation with no added value to model
38	Credit risk	5.2 PD risk quantification	126	103	Clarification	More clarity in what other pragmatic analyses than testing for statistical significance should be used would be appreciated, especially in the context of Wholesale portfolios where there is no statistical evidence based on internal data (due to scarcity of internal defaults)	Unrealistic and burdensome expectation with no added value to model
39	Credit risk	5.2 PD risk quantification	130(a)	104	Deletion	We propose to delete this part as the EBA legal basis is not being that prescriptive : "In particular, it follows from the applicable rules that under no circumstances should an approach be adopted to overcome data scarcity at grade or pool level, lack of evidence of discriminatory capacity, homogeneity or heterogeneity across grades".	The legal basis does not include such detailed requirement.

40	Credit risk	5.2 PD risk quantification	130	105	Amendment	It is required that the Long Run Average Default Rate needs to be calculated both at grade and at calibration levels, and also for the entire Likely Range of Variability period. This is leading to the following concerns: 1) Extremely burdensome data and testing challenge, but more importantly disproportionate capital charges if attracting higher MoCs. This issues is especially evident in wholesale portfolios given the data scarcity. Also testing and potentially simulating the impact would also severely affect the ability to timely remediate the supervisory findings and obligations on this matter. In the specific case of changes in the method for assigning exposures to grades or pools, the requirement to make all reasonable efforts to recalculate the new assignment back through time is deemed fully reasonable. However, where the recalculation is not possible, we do not consider as appropriate practice to use the historical rating assignments based on previous versions of the assignment methodology. Analyses performed on these old rating assignments, such as Representativeness of the likely range of variability or Calibration tests could be biased and therefore not conclusive. 2) Not clear whether taking at least 5 years of history is sufficient to cover the historical observation period. The terms "long" and "reasonable efforts" should be clarified 3) RWA impact should not be the driver of the methodological choice on the calibration approach. 4) Under-representation of bad years could be solved not only via upward adjustments to defaults, but also by the use of another year as replacement, which would also lead to appropriate average default increase. ECB interpretation to this point limits possible mitigations. Proposal :It is proposed that the requirement is reworded in terms of proportionality and timeliness, especially considering cases where the change in risk parameters calibration is triggered by the remediation of a supervisory obligation. In particular to leave the possibility to not use historical assignments to grades in case the recalculation of historical ratings for the full historical observation period is impossible or too burdensome.	Unrealistic and burdensome expectation with no added value to model Consistency with the supervisory request for the timely remediation of obligations
41	Credit risk	5.2 PD risk quantification	131	106	Clarification	Depending on calibration approach there might be deviations between average PD and LRA default rate for some grade or pools. As far as deviation does not affect significant proportion of the relevant population and are not systematic it should not be automatically regarded as violation against this paragraph.	To avoid a misinterpretation of the supervisory expectation
42	Credit risk	5.2 PD risk quantification	135	107	Amendment	The proposed challenger of quantifying the RWEAs resulting from the application of alternative PDs calculated on the basis of the LRA default rate at grade level is, in our understanding, not reasonable in the case when there are no systematic deviations between the estimated PDs and the LRA default rate of the grades. If any observed deviations are not systematic, they are random, meaning they have no statistical significance. Given the statistical insignificance of the difference, comparing RWA in this scenario would introduce unnecessary unclarity on how to interpret the results and also on what follow-up actions should be taken, ultimately leading to different steps across different banks and thus unwarranted RWA variability. Hence, we propose the following amendment: "When the deviations are systematic, the ECB expects institutions to demonstrate that such grade-level deviations do not distort the RWEA calculations.".	Potential unwarranted RWA variability
43	Credit risk	5.2 PD risk quantification	136	108	Deletion	Necessary tests and analysis for the calibration segment of the PD model at hand are already sufficiently precise in regulations and also in this EGIM. The paragraph suggests that for a specific year excesses of the LRA DR and/ or the 1-year DR over the 1-year average PD should be considered as exceptional cases and this would lead to unduly conservative PD models. Depending on the "PiTness" of the model at hand, such situations are however to be expected and should not be seen as a reason for concern. Based on the above,we ask for deletion of the paragraph. Necessary tests and analysis for the calibration segment of the PD model at hand are already sufficiently precise in regulations and also in this EGIM. The paragraph suggests that for a specific year excesses of the LRA DR and/ or the 1-year DR over the 1-year average PD should be considered as exceptional cases and this would lead to unduly conservative PD models. Depending on the "PiTness" of the model at hand, such situations are however to be expected and should not be seen as a reason for concern.	Unrealistic and burdensome expectation with no added value to model Consistency with the supervisory request for the timely remediation of obligations
44	Credit risk	5.2 PD risk quantification	137	108	Deletion	In our view, considering potential future overrides in a redevelopment exercise (risk differentiation and quantification) is a burdensome activity to perform (i.e. projection of overrides is required) without clear benefit. Overrides will generally result in obligors moving to worse rating. A small part of these obligors will then default changing the default rate in the rating where they moved. This can potentially slightly improve the risk differentiation and most likely results in a negative AA. Hence, we request a deletion of this paragraph or an amendment for this paragraph to be applicable only for recalibration exercises (risk quantification only).	Unrealistic and burdensome expectation with no added value to model Consistency with the supervisory request for the timely remediation of obligations

45	Credit risk	6.1 Realised LGD	153	116	Deletion	ECB's proposal to additionally take into account NPV reductions stemming from prolonging the payback schedule and reduction of interests/fees seems to collide the following provisions: a) Paragraph 132 of the EBA Guidelines on PD and LGD which points out that the economic loss should be calculated based on the outstanding amount at the time of default (including interests/fees) minus any recoveries realised after the default. Additional losses due to a reduced NPV are not mentioned. b) Paragraph 134 of of the EBA Guidelines on PD and LGD which refers to losses incurred through only forgiveness or write-offs which to our understanding means reduction of the principal amount, not taking additionally reduction of interest/fee payments or to prolonging the payback schedule.Paragraph 137 of the EBA Guidelines on PD and LGD which points out that interests/fees need to be taken into account for the calculation of the realised LGD only up to the time of default but not thereafter. c) The accounting regime. Booking of LLP also only take into account book value changes with do not consider maturity / interest / fee changes for hold to maturity transactions (and only for those LLP needs to be calculated). d) The playing level field as the requirement to additionally include NPV losses for the calculation of realised LGDs into account (potentially leading to higher LGD estimates) is only relevant for those institutions regulated by ECB but not for institutions outside of the SSM area. Proposal: To delete the entire paragraph 153.	To avoid a misinterpretation of the supervisory expectation
46	Credit risk	6.1 Realised LGD	155	117	Clarification	The introduced details in the new text is appreciated as an intent to provide more clarity on supervisory expectations. Having said further clarification on the following aspects would be very much welcome: 1) The possibility to request new adjustment due to massive disposals (art. 500 1.a CRR) is extinguished on 28th June 2022 (as from current CRR 2) However, it is supposed that the CRR III agreement will allow to apply it until June 2024. Further clarity is required on whether this new provision in EGIM will be mandatory when the CRR III entries into force,and if so, how can institutions seek for a transitory extension of the waiver in line with the CRR III. Furthermore, relevant data should be referred to the disposal date and not to the request to adopt Art 500 2) The requirement to assess that "sufficiently long time may be considered to have passed" seems not fully consistent with the provision of not considering information after disposal date in the adjustment update 3) If the NPL strategy and related disposal plan is defined at the level of overall consolidated Group, the 20% threshold shall be defined accordingly and not at legal entity level 4) Disposals should be excluded from Maximum Recovery Period calculation to avoid bias Overall, we expect that the envisaged proving efforts are commensurate to the underlying risk, for the avoidance of undue burden of proof.	To avoid a misinterpretation of the supervisory expectation
47	Credit risk	6.1 Realised LGD	160	119	Clarification	The overall paragraph implies, in out understanding, that adjustments to disposals under CRR article 500 might be updated over time based, for instance, on a change in the methodology for the adjustment, but data referring to periods beyond disposals date shouldn't normally be considered in the application of the updated approach (i.e. data available within the date of disposals should normally be considered). To this purpose, in point (b) it is specified that "The ECB expects the update to the Article 500 adjustment to reflect the (economic) conditions and processes as of the date of disposal and not as of the date of the adjustment.". In this context, however, point (c) seems to imply a wider usage of post-disposals information. The reference to "sufficiently long time may be considered to have passed once most of the cases that were incomplete as of the date of the disposals have been closed or if the maximum period of the recovery process has been reached as of the time of the estimation)" seems not fully consistent with the reported point (b) provision	To avoid a misinterpretation of the supervisory expectation

48	Credit risk	6.2 LGD structure	173	121	Amendment	In defining expectations in terms of control and mitigation of the risk of overfitting, it is required that for model development purposes both out-of-sample and out-of-time testing are provided unless there are no sufficient data available for the training sample. We deem, in this context, that: i) the opportunity to enhance the representativeness of data leveraging on most recent observation shall not be undervalued in a context where the effects of the most recent pandemic still need to be analysed in terms of their effects on the historical relations between risk drivers and observed losses; ii) the subsequent opportunity to value potential emerging/new patterns in the risk differentiation in a forward looking perspective; iii) the availability of efficient alternative means to control and mitigate the risk of overfitting LGD development in recent time slices is highly affected by open cases for which LGD realisations depend on the assumption of future cash flows. Performing an out of time analysis by just omitting recent time slices would have a high impact on the ratio between open vs. closed cases which would bias the outcome of the analysis. As a consequence, we deem appropriate to amend the text of the paragraph by adding after "unless there is insufficient data available for the training sample" the following "or the risk of mis-specification connected to the exclusion of this information outweighs the risk of overfitting of including them. In such cases, however, institutions should ensure that the risk of overfitting is adequately controlled.	To avoid a misinterpretation of the supervisory expectation
49	Credit risk	6.2 LGD structure	174	122	Amendment	Paragraph 174 explains that it is the ECB's understanding that LGD models should perform adequately on economically significant and material sub-ranges of application. It is therefore essential to enhance the paragraph to accomodate for various estimation methodologies and types of portfolios (such as LDP portfolios). For this purpose, we suggest to rephrase the paragraph in this manner : "Institutions' rating systems must provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk. It is the ECB's understanding that to comply with this requirement institutions should demonstrate that, in terms of the range of application of LGD models, the model performs adequately (in terms of discriminatory power and predictive power) on economically significant and material sub-ranges of application of the rating systems, WHERE APPLICABLE depending of the various estimation methodologies and type of portfolios. The sub-ranges are identified by splitting the full range of application of the LGD model into different parts on the basis of potential drivers for risk differentiation, among which, where relevant, the drivers referred to in paragraph 121 of the EBA Guidelines on PD and LGD."	Need to accommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
50	Credit risk	6.3 Risk quantification	181	125	Amendment	The paragraph 159(a) of EBA Guidelines on PD-LGD estimation requires that for the purpose of estimation of the future costs and recoveries to analyse the costs and recoveries realised on these exposures until the moment of estimation, in comparison with the average costs and recoveries realised during a similar period of time on similar exposures. This part is interpreted by the ECB in a more prescriptive manner, imposing to base the extrapolation of future recoveries on defaults arising from vintages. However it is essential to enhance the paragraph to accommodate various estimation methodologies and types of portfolios such as LDP portfolios. For low volume of data, the extrapolation may in some cases be performed at more aggregated level in order to have sufficient data to estimate the projections. Therefore, we suggest to amend the sub-paragraph b : "[...] (b) for the purpose of paragraph 159(a) of the EBA Guidelines on PD and LGD in particular, WHEN the data volume allows such granular approach, base the extrapolation of future recoveries on defaults arising from vintages (i.e. group of exposures which defaulted in a given period of time) for which, during the period already observed, similar average past recoveries have been realised on similar exposures [...]"	Need to accommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios

51	Credit risk	6.3 Risk quantification	190	129	Amendment	In order to have a harmonised view of Inspection teams, it is useful to remind several general principles regarding the downturn estimation : - The application of downturn requirements as provided by CRR cannot be boiled down to conservatism of risk parameters. Given complexity to reach consensual harmonization on downturn estimation, the EBA conducted a consultation by two times with the industry (one in March 2017, one in May 2018). Should the regulator had assumed that the downturn estimation to be only used for conservatism purposes, the EBA would have imposed a fixed and conservative approach such as the fallback approach (LRA LGD + 15%) harmoniously through the European banks. However, the legal basis decomposes the work in several structured steps, with the first step being the identification of downturn period based on studies on macroeconomic factors, and the second step the downturn impact on LGD. The downturn LGD quantification is done in such a way that the EBA provides the most risk-sensitive conditions when the banks have data to objectivize their downturn impact ("best estimates"). - From an economic perspective, the downturn conditions do not always lead to an increase of risk parameters, even less on an impact on specific grades. For some cases, economic crisis can imply that certain sectors being neutral to an economic crisis, even to benefit from an economic downturn - For low default portfolios, the choice of calibration may be more aggregated due to the high concern to keep enough volume of defaults to perform the calibration of downturn margin. Therefore it is important to accommodate various methodologies and types of portfolios. - As the EBA mentioned in its Guidelines by several times, the reference value acts as a non-binding challenger to the final downturn LGD estimation. The paragraph 32 of the Background and rationale states : "the reference value can be driven by other issues than the impact of an economic downturn period (e.g. low number of defaults, changes in the portfolio composition, fraud or operational risk cases, or even natural disasters such as an earthquake). Even if the reference value is driven by an economic downturn period, the reference value itself should not be considered an appropriate quantification of downturn LGD (as it may not comply with all the requirements laid down in these GL)". In other words, according to CRR, an appropriate downturn estimation quantification cannot be solely applying the highest years of LGD. We think that this should be reflected in the Guide.	Need to accommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios and to follow the EBA logic in the downturn estimation
52	Credit risk	7.1 Commitments, unadvised limits and scope of application	195	132	Amendment	With regard to committed limits, the nominal amount of the respective off-balance sheet item is determined as the advised limit, unless the unadvised limit is higher. However, this "higher (unadvised) credit limit may be disregarded if its availability is subject to a further credit assessment by the institution, as long as this additional assessment includes a re-rating or a confirmation of the rating of the obligor." In practice, an on-demand re-rating or an explicit confirmation of the rating of the obligor would be extremely onerous for many customer types and not feasible in a timely manner. This is because many rating methods have a certain amount of manual input (expert judgements) or allow manual overrides. Therefore, we propose to deleting the condition "as long as this additional assessment includes a re-rating or a confirmation of the rating of the obligor". For this credit assessment, it should be sufficient if the institution approves each additional drawing by the obligor on an individual basis by, for example, assessing whether there are indications of deterioration of the obligor's creditworthiness. This would be in line with the EBA Q&A ID 2017_3246 since the EBA also uses the terms 'bank's approval' and 'creditworthiness' and does not require a re-rating or an explicit confirmation of the rating of the obligor: „As an illustration, framework arrangements would not give rise to off-balance sheet items if the institution needs not only to approve the initial and each subsequent drawdown by the client but it has also the complete discretion on whether to give its approval regardless of the fulfilment by the client of the conditions set out in the arrangement, since no drawdown would be possible without a prior and specific approval of the institution.[…]" As outlined above, we believe that this credit assessment prior to each drawdown by the obligor is only required for committed unadvised limits. If such a process exists, these higher committed unadvised limits can be disregarded. We note that ECB was inspired by the definition of commitment of the Basel III finalisation accord (§ 78 and footnote 53), definition that has been transposed in the draft CRR3 in article 5 (9). However, none of these definitions require a re-rating of the client or a confirmation of the rating and they are limited to an assessment of the creditworthiness of the client.	Consistency with the modelling approach for the rest of potential risk drivers To avoid a misinterpretation of the supervisory expectation Potential risk of restricting the flexibility of institutions to plan their modelling activities

53	Credit risk	7.3 CCF structure	202	136	Amendment	In defining expectations in terms of control and mitigation of the risk of overfitting, it is required that for model development purposes both out-of-sample and out-of-time testing are provided unless there are no sufficient data available for the training sample. We deem, in this context, that: i) the opportunity to enhance the representativeness of data leveraging on most recent observation shall not be undervalued in a context where the effects of the most recent pandemic still need to be analysed in terms of their effects on the historical relations between risk drivers and observed drawings; ii) the subsequent opportunity to value potential emerging/new patterns in the risk differentiation in a forward looking perspective; iii) the availability of efficient alternative means to control and mitigate the risk of overfitting. As a consequence, we deem that exception to the requirements shall not be limited to cases where otherwise there wouldn't be enough information for modelling purposes. As a consequence, we deem appropriate to amend the text of the paragraph by adding after "unless there is insufficient data available for the training sample" the following "or the risk of mis-specification connected to the exclusion of this information outweighs the risk of overfitting of including them. In such cases, however, institutions should ensure that the risk of overfitting is adequately controlled.	To avoid a misinterpretation of the supervisory expectation
54	Credit risk	7.4 CCF risk quantification	204c	137	Amendment	The interpretation of the EGIM to first calculate the default weighted average CCF per year of default and then use a simple arithmetic average over these yearly observations contradicts CCR Article 182 (1)(a) since this would introduce an unjustified weighting of the defaults depending on the year of default. Especially for LDP, CCF becomes a function of a small number of defaults in each calendar year. Article 182 (1)(a) of CRR clarifies that “institutions shall estimate conversion factors by facility grade or pool on the basis of the average realised conversion factors by facility grade or pool using the default weighted average resulting from all observed defaults within the data sources;” Moreover, this approach would be neither in line with the calculation / aggregation of LRA LGD nor LRA PD and hence introduce a bias. Additionally, the choice of calendar year is fully arbitrary: there is absolutely no economic rationale for taking average from January to December compared to e.g. July to June. We propose to align calculation of LRA CCF to LGD, i.e. consider all individual defaults from the observation period directly in the LRA CCF via count weighted average. This treatment is consistent to the general alignment between LGD and CCF in terms of exposure (i.e. treatment of drawings after default), level of calculation, etc. As justification for this EGIM interpretation typically Response 6 in the Responses to the public consultation on the draft ECB guide to internal is quoted, namely "The ECB’s understanding is that Article 182(1)(a) of the CRR does not exclude the interpretation reflected in paragraph 134(c), i.e. the use of the arithmetic average of the yearly averages of realised CCF. The comparison with LGD is also not deemed a valid argument. The rationale for the use of a number-weighted average for LGD is that this parameter captures the losses across the recovery process, which covers multi-year periods". Although we still disagree to the conceptual view outlined in this response, in this response, yearly average is seen as one, but not the only possible option. We, therefore, propose either to change the approach to overall count-weighted average or include respective clause to allow alternative way of calculating LRA CCF.	Consistency with the modelling approach for the rest of potential risk drivers To avoid a misinterpretation of the supervisory expectation Potential risk of restricting the flexibility of institutions to plan their modelling activities
55	Credit risk	7.4 CCF risk quantification	207	139	Amendment	In the original iteration of the ECB Guide, par. 137(b) concluded that fixed yet conservatively specified CCF were considered by the ECB as compliant when these estimates are applied in specific circumstances, such as scarcity of data or low materiality of the scope of application. In the current version under consultation, the ECB Guide refers to the use of fixed yet conservatively specified CCF as CCF values which are “mostly based on judgemental considerations” and raises several additional challenges: - It explicitly states that both the condition on materiality and data scarcity must be fulfilled for such CCF values to be assigned, which makes portfolios that traditionally resorted to this approach as ineligible for the future (e.g., retail mortgage portfolios); - The determination of CCF estimates appropriate for an economic downturn that include a sufficient MoC contradicts the use of a (mostly) expert-based model; - A floor of 100% over CCF estimates is enforced without: (i) taking into consideration that CCF estimates appropriate for an economic downturn that include a sufficient MoC can be below 100%; (ii) referring to the relevant studies or sources that sustain the selection of this floor; and (iii) indicating the appropriate regulatory references where this floor is framed. Hence, we request the following amendments: - The fulfilment of either the materiality or data scarcity condition should be sufficient for the use of CCF values which are "mostly based on judgemental considerations". - Adjust the wording used for the categorization of this methodology from "CCF values which are mostly based on judgemental considerations" to the original one used, namely "use of fixed yet conservatively specified CCF". - Remove the floor of 100% for CCFs that are obtained through this methodology.	Unrealistic and burdensome expectation with no added value to model

56	Credit risk	8 Model-related MoC	208	140	Amendment	The requirement to calculate MoC C at grade at both calibration and segment levels posses raises the following questions where more clarity would be welcome 1) What the statistical rationale of the new requirement 2) Some flexibility is needed to avoid incurring into an excessive conservatism on capital requirements beyond the actual uncertainty. In this sense, It is our understanding that, as long as direct estimates (e.g. continuous models) are allowed under the prerequisites mentioned in §141, every PD estimate is to be understood as a separate grade or pool (CRR Art. 169(3)). Therefore, a "continuous" MoC calculated e.g. as a confidence interval is also allowed. Proposal: We ask the ECB to add a clarification for applying MoC in continuous models in the final version of the updated EGIM. A potential wording is: "It is the ECB's understanding that for continuous models, following the requirements of paragraph 141, every PD estimate is to be understood as a separate grade or pool. Therefore, a "continuous" MoC calculated e.g. as a confidence interval of the estimation function is also allowed."	Unrealistic and burdensome expectation with no added value to model
57	Credit risk	8 Model-related MoC	210	140	Deletion	Condition laid out in 210 a) for use of MoC C at calibration segment level seems unrealistic, considering the available real data. It is practically impossible to have the same statistical uncertainty at both calibration segment level and the grades or PD sub-ranges level, because it depends on the number of observations in the sample. Also, such requirement seems to go far beyond the prescription of EBA GL 2017/16. Proposal: We propose to delete the extension	Unrealistic and burdensome expectation with no added value to model
58	Credit risk	5.1 Structure of PD models	210	141	Deletion	On application of MoCs, the EBA mentioned in its GL on PD-LGD estimation (page 118) : "While many respondents expressed general support for the proposal, the majority expressed operational concerns, especially regarding the quantification and aggregation of MoC relating to different identified deficiencies and categories. The aspect of low default portfolios was also mentioned in the context of potentially higher MoC due to lower data availability. It was considered counterintuitive that greater conservatism would have to be applied to less risky portfolios. The EBA has carefully considered the feedback received and adjusted the concept of MoC by simplifying the aspects of categorisation, quantification and aggregation, and by providing additional clarifications where necessary". Therefore we think that the following stance written in the subparagraph 210(a) "As a result, it is expected that the lower the number of observations per grade and the shorter the time series are, the higher the MoC of the grade should be." should be deleted in order to carefully take into account that it is counterintuitive to apply a higher MoC on less risky portfolios.	Need to accommodate the expectations to various estimation methodologies and types of portfolios such as LDP portfolios
59	Market risk	2.2 Delimitation of the regulatory trading book	10	149/150	Clarification	With the sentence "The ECB considers that this also applies to CVA hedges for counterparties which are exempted from the own funds requirement for CVA risk in accordance with Article 382(4) of the CRR.", we understand that CVA hedges for exempted counterparties from CVA ofrs are exempted of IMA ofrs for specific risk and only should be included for IMA ofrs related to general risk (in line with EBA Q&A question 2013_402 about article 386 CRR regulation)	To avoid any misinterpretations regarding the supervisory expectation.
60	Market risk	2.6 Treatment of specific positions	31	157	Clarification	We appreciate clarification on the new sentence which has been added at the end of this paragraph: "…the ECB understands that the funding risk embedded in own liabilities held in the trading book should be modelled in the IMA". However, the industry does not believe that the treatment of own credit spread should be changed temporarily at this instance, while the broader revisions due to implementation of the FRTB are due in 18 months. Subject to the release of the final CRR3, the treatment of own credit in the A-IMA is unclear. The Swedish Presidency "4 columns" documents released in May could be interpreted as requiring the filtering of own credit from the SBM and the DRC in A SA, from the ES, the SSRM and the DRC in A-IMA [AM 2132, 2282b, 2282d]. At the same time, the RTS on back-testing and profit and loss attribution [EBA/RTS/2020/02] requires that own credit is filtered from the actual P&L (APL) and the hypothetical P&L (HPL) where CRR article 33(1) applies, i.e. for liabilities of the institution valued in fair value. At the same time, CRR article 325bg mandates a revision of this RTS, which means further changes, may be coming." This poses uncertainty on different fronts (e.g. if the liquidity value adjustment (LVA)" is under IMA scope. As there is not a common benchmark in the industry on the LVA treatment, this could generate not desirable differences among banks)	To avoid any misinterpretations regarding the supervisory expectation.
61	Market risk	5.2 General requirements	109	179	Clarification	More clarification would be welcome on the following points: 1) why the new part is backed by the CRR. 2) Rationale for imposing requirements retrospectively given that HistSim VaR model has historic roots and it is unclear whether all historic analysis will be available. Is is proposed to discard a part of the comment as follows "or the risk of mis-specification connected to the exclusion of this information outweighs the risk of overfitting of including them. In such cases, however, institutions should ensure that the risk of overfitting is adequately controlled ~~with alternative testing techniques and mitigated where appropriate~~"	To avoid any misinterpretations regarding the supervisory expectation.

62	Market risk	6 Methodology for IRC models focusing on default risk	158	197	Amendment	In article 158, it is stated that institutions should analyse any observed differences between these estimates and estimates that are derived in combination with current market prices where the relevant corrections were performed to obtain real-world PDs. This is an additional burden that is not explicit in the regulation. The obtention of real world PDs from CDS spread quotes will rely inevitably on strong assumptions. Moreover CDS market quotes have relevant liquidity and market risk components which contaminate the pure default risk contribution. It should also be noted that real world PDs are not only what is needed. Since in IRC systemic factors are simulated, long run PDs should be used as input in order to not double count the effect of the economic cycle, ad obtaining this from volatile CDS quotes is very difficult. An alternative approach could be to replace the requirement by a benchmark of PDs against the historically observed defaults (e.g. EBA guidelines on IRC paragraph B.12.3.) Also, the following points would require further clarification: • Are the reference to “estimates of PDs derived in combination with Market prices” understood as spread implicit PDs? • What does it mean the reference to “relevant corrections made to obtain real-world PDs”? • If IRBA or external PDs (derived from real historic data) are used for IRC calculations, would be necessary to perform the article’s mentioned analysis?	Unrealistic and burdensome expectation with no added value to model
63	Market risk	6.5 Ratings, probabilities of default and recovery rate assumptions	159	198	Clarification	If for a particular sector the entity has no IRBA PD model approved, no real data is available to calibrate PDs for a range of rating grades (e.g. sovereign issuers if rated BBB or above) and no external PDs are available: • How would be possible to calibrate a “conceptually sound” PD model which produces PDs “accurate and consistent across all rating grades”? • As the hypothetical calibrated model would be based on no real data, would not be extremely weak and not fit for the purpose of being used within a regulatory capital calculation? If for a particular sector the entity has no IRBA PD model approved, no real data is available to calibrate PDs for a range of rating grades (e.g. sovereign issuers if rated BBB or above) and no external PDs are available: • How would be possible to calibrate a “conceptually sound” PD model which produces PDs “accurate and consistent across all rating grades”? • As the hypothetical calibrated model would be based on no real data, would not be extremely weak and not fit for the purpose of being used within a regulatory capital calculation?	To avoid any misinterpretations regarding the supervisory expectation.

64	Market risk	6.5 Ratings, probabilities of default and recovery rate assumptions	6.5.2.160	198	Amendment	With respect to the section. 6.5.2.160. the ECB requirement of meaningful differentiation of risk, developed as a) all annual PDs greater than, or equal to, one basis point AND "increase strictly in line with the decreasing creditworthiness of the obligor" b) PD ratios between adjacent rating grades should be consistent with the observed ratios distribution. may lead to undesired and unintended consequences, as detailed below. 1) For Corporate issuers, historical data do comply with the requirements above only for macro-grades, but at micro-grade level monotonic behaviour is violated. 2) For high yield Sovereign issuers (with ratings below BBB), few historical data are available, leading to unstable PDs, in particular for BB rating, which is based on two default events only. 3) Combining data related to the two points above, PD ratios between adjacent rating grades result unstable as well, ranging from 2 to 15 and above. Even the smallest value generates an exponential PD shape leading to very conservative values once combined with the required floor of 1 bps for AAA sovereign issuers. 4) For investment-grade Sovereign issuers (with ratings from AAA to BBB) no historical data are available, hence Institutions should resort to statistical methodologies (e.g. Bayesian approaches) that could lead to over conservative PDs, especially if combined with the exponential shape mentioned above. Regarding PD ratios: a) What would be the thresholds or criteria to be considered as an outlier? b) If the PDs obtained according to the applicable calibration model are lower than one basis point for a range of adjacent rating grades (e.g. from AAA to A) but they increase in line with the decreasing creditworthiness: • If these PDs are floored to one basis point for a range of adjacent rating grades as required by this article ¿is the strict increase being satisfied? • Would the ratios performed among the floored PDs for a range of adjacent rating grades be useful or should be discarded from the computation of outliers? c) Considering that external PDs are allowed for being used within IRC calculations, as gathered in the "EBA Guidelines on the IRC (EBA/GL/2012/3) 12. Source of PDs and LGDs: 4" and they are based on real observed default data: • What would the supervisor's expectations regarding ratios when there are outliers or when they do not increase strictly in line with the decreasing worthiness? Should some transformation/interpolation be implemented even if the real default data shows a different situation? The industry fears that the last sentence "The ECB also considers that institutions should calculate the PD ratios between adjacent rating grades and should justify the ratios that can be considered outliers when compared with other ratios or the median of the ratios" could lead to many ratios considered outliers as the relationship between PDs and rating grades becoming non-linear. This sentence should be deleted due to the potential severe consequences	Consequences of meaningful differentiation of risk
65	Market risk	6.5 Ratings, probabilities of default and recovery rate assumptions	161	198	Clarification	• Which particular PDs are alluded to when referring to "PDs used to account for expected losses"? • If IRBA PDs are used, as mandated in the "EBA Guidelines on the IRC (EBA/GL/2012/3) 12. Source of PDs and LGDs: 1", is it necessary to perform additional analysis and documentation to the ones already considered within the calibration?	To avoid any misinterpretations regarding the supervisory expectation.
66	Counterparty credit risk	3.2 Principles for ECB Banking Supervision	24	226	Clarification	Our understanding is that "exchange of collateral" in Article 272(9) of the CRR refers to the time of the margin call being issued. Also, the settlement/grace period of the margin call can be considered as part of the regulatory MPOR, e.g. part of the 10 business days for OTC or the 5 business days for SFT (assuming no MPOR extension is triggered by illiquidity, disputes etc.). We would like to request the ECB to confirm if our understanding is correct	To avoid any misinterpretations regarding the supervisory expectation.

67	Counterparty credit risk	3.2 Principles for ECB Banking Supervision	25	226	Deletion	1) Could you please clarify that IM or Independent Amounts (IA) are not included in the collateral which should be considered when determining the length of the MPoR? MPoR are typically associated with VM interchanges and obtaining additional collateral in the form of IM or IA should not adversely impact the MPoR. Apart from the MPoR being linked to VM, illiquid IM could lead to higher exposure amounts if they lead to MPoR increases. This would seem to contradict Article 193 paragraph 1 of the CRR according to which Credit Risk Mitigation should not result in a higher risk-weighted exposure. We suggest the end of paragraph to be amended with "Independent Amount and Initial Margin should be excluded from the scope of illiquid collateral assessment mentioned in a)" 2) The paragraph identifies netting sets containing "one or more trades" involving either illiquid collateral or an OTC derivative that cannot be easily replaced. However, it is not reasonable to expect a MPoR increase for a single or a few immaterial OTC trades among thousands of trades in a large netting set. This will severely limit institutions capability to service the needs of their most important clients. We suggest the paragraph to be amended to say "...one or more trades, which are material when considered together,..." or similar. 3) Regarding principle 25(a) "illiquid collateral, which includes the collateral legs of securities financing transactions (SFTs);", again we would expect the MPoR to reflect frictions in the interchange of VM, and any illiquid collateral leg in an SFT would be better treated by applying a haircut to it in order to make it improbable that it cannot be liquidated for at least the recognized amount. Having applied such a haircut it would then double count to illiquidity of this collateral to increase the MPoR as well. We therefore suggest this subparagraph to be deleted.	To avoid disincentivizing sound collateral management.
68	Counterparty credit risk	3.2 Principles for ECB Banking Supervision	26	227	Clarification	Regarding footnote 22 "For example, a ratio as a risk metric divided by the average daily traded volume." from principle 26(a)(x), could you please provide examples on what risk metrics are you referring to? There is a reference in section 4.1. of the CCR Sound practices in counterparty credit risk governance and management where it is mentioned "xVA models (e.g. additional valuation adjustments (AVA) calculations) or assess bid/ask spreads for each position". Could you please clarify that this is the expectation?	To avoid any misinterpretations regarding the supervisory expectation.
69	Counterparty credit risk	9.2 Principles for ECB Banking Supervision	68	244	Clarification	The requirement of parallel runs for internal risk management much longer than EGMA requests on regulatory side would disentivice banks to improve their internal models. Therefore, we suggests to replace the sub-paragraph of Paragraph 68 (p245) as follows: Implementation of material model changes and extensions to be investigated by ECB should be completed before the date of the application letter within a time coherent with EGMA prescriptions to assess impacts on own fund requirements	To avoid any misinterpretations regarding the supervisory expectation.
70	Counterparty credit risk	13 Risks not in effective expected positive exposure	92-125	255-269	Amendment	1) A new framework for counterparty credit risk (“Risks not in effective expected positive exposure”) is introduced whose principal component seems to be the treatment of cash flows during the margin period of risk. Leaving aside whether cash flow spikes should really be captured in IMM (further regulatory guidance is needed), the framework also introduces the need to identify, quantify and potentially introduce AddOns for non-spike risks which are not currently in the EPE calculation. This is a very burdensome requirement since there are many approximations performed in a CCR framework due to the large number of portfolio valuations that have to be realized. It is much more costly to calculate a RNIEPE in CCR than a RNIMe in market risk, for instance. Furthermore, CCR exposures are already incremented by the alpha factor which provides a buffer for model inaccuracies, and can be further increased by the relevant authorities if relevant model deficiencies are detected. There is therefore already a framework in place to identify model deficiencies through periodic internal validations, backtesting etc, with a buffer through the alpha parameter or Ad Hoc capital Addons as possible consequences, so this new framework apart from burdensome is potentially overly conservative with overlaps with existing components. We therefore suggest that : - any risk which is not covered by the CRR should be addressed in the Pillar 2 framework (that is spikes case) - the non-cash flow related part of the proposed RNIEEPE framework to either be removed or be heavily modified so that it only requires identifying material risk factors (where materiality could be assessed by simpler metrics such as market risk sensitivities) which are currently not covered by the applied alpha parameter or backtesting and stress testing exercises. 2) Given the IMM has been validated in the past without this component, further clarity would be need around the process to introduce and validate this new component in the IMM	To avoid a complicated and overly burdensome new framework, possibly double counting deficiencies in the IMM. To avoid any misinterpretations regarding the supervisory expectation.
71	Counterparty credit risk	13 Risks not in effective expected positive exposure	99	260	Deletion	Back-testing of RniEPEs will almost never be possible, so the last sentence should be dropped.	Proposed text not possible to comply with.

72	Counterparty credit risk	13 Risks not in effective expected positive exposure	109	265	Amendment	1) The formula in paragraph 109 (b)(iii) has an apparent inconsistency regarding the definition of the delta t_k . On the one hand it is stated that they "denote the time period inside the MPOR during which the cash flow payments … are possible". On the other hand it is stated to have the same meaning as the delta t_k in Article 284(6) of the CRR. There is a contradiction between these two statements since the delta t_k in Article 284(6) reflects the length of time between each pair of time grid points, while " time period inside the MPOR during which the cash flow payments … are possible" does not. Indeed, proportionality with respect to the length of time between time steps is needed since otherwise the ERE calculation will depend on the number of time steps with a more dense time point grid producing a higher ERE value. Furthermore, the time period inside the MPOR during which cash flow payments are possible will be reflected in the estimated exposure increase itself. We therefore suggest the text to clarify that the delta t_k = t_k - t_{k-1} in line with Article 284(6). 2) When calculating the ERE formula in paragraph 109, should the result be floored at zero in the overall ERE calculation, or should a floor be applied at the level of each individual ESE_t_k ?	Clarification on how to calculate proposed ERE formula