EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

Public consultation on the revised ECB guide to internal models

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General comments

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorised as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to respond to ECB Consultation on revisions to its Guide to internal models (EGIM). Our response is focused on credit risk topics while our large members have contributed to and support ISDA response on counterparty credit risk and market risk topics.

In the following general comments, we would like to highlight some key areas of attention for the French banking industry on which we elaborate in our detailed comments.

- **Treatment of low-default portfolios**

We suggest introducing more flexibility for low-default portfolios (‘LDP portfolios’), in line with the requirements of EBA Guidelines on PD-LGD estimation which have been precisely ‘specified in a flexible manner to accommodate to various estimation methodologies and types of portfolios’, via the addition of a proposed specific paragraph within the overarching principles (comment ID #1).
We believe that ECB should adapt its expectations to the features of LDP portfolios because the outcome of the debate at the Basel Committee was not to remove the use of A-IRB approach for some LDP portfolios such as specialised lending.

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 may expectedly be used to a greater extent for low default portfolios. In the same vein, in case of data scarcity because of the low volume of defaults, the risk parameters calibration methods could be adapted to the structure of data, in order to ensure that the model outcomes reflect economic reality.

Accordingly, we also propose adding more flexibility within specific provisions of draft ECB Guide, pertaining to model performance, to homogeneity within grades/pools and risk differentiation across grade/pools, to the margin of conservatism expected at grade level, etc. (comment IDs #28 to #32, #41 to #44, #50, #52 and #53).

- **Treatment of climate-related and environmental risks**

We challenge the draft supervisory expectation to include climate-related and environmental risk (C&E risks) drivers in internal rating-based (IRB) models which, in our view, goes beyond the expectations of ECB Guide on C&E risks (comment ID #2).

We think that ECB proposed drafting would to some extent pre-empt EBA CRR mandate on the prudential treatment of exposures to environmental and/or social factors and BCBS work on climate-related risk at international level.

As long as no or little evidence for climate-related gaps in the measurement of risk-weighted assets (RWAs) has been substantiated, further work is required to explore the correlations between risk and assets of varying greenhouse gas intensity or exposure to broader climate risks – and importantly how those risks might change over time.

We believe that the current Pillar 1 framework already allows to account for C&E risk drivers, when they are relevant and material, as for any other risk driver and that at this stage, the Pillar 2 framework should be the key tool to address microprudential gaps within the existing regime.

Accordingly, we also specifically suggest removing C&E risks-related footnotes throughout the draft Guide (comment IDs #26, #39, #40 and #45) and importantly the expectation to apply a MoC for ‘missing or inaccurate climate-related information considered in risk estimates’ (comment ID #51).

- **Operational implementation**

We believe that ECB strengthened expectations regarding new model implementation and model roll-out and also those regarding material model changes/extensions are excessively prescriptive, do not seem to fully rely on the applicable legal basis, and may in some cases be hardly meetable in practice.

When submitting the application package, if the supervised entity is expected to have already implemented and tested all IT evolutions (at least in a non-live environment), even including COREP reporting and integration in internal risk management, this would impact submission deadlines and generate significant cost for the parallel run. We believe that ECB expectations should be limited to the ability for the supervised entity to provide strong supporting evidence that it will be ready to implement in a reasonable timeframe (comment ID #11).

Moreover, for material model changes/extensions specifically, the 3-month implementation deadline may turn out to be problematic when further clarifications from ECB are necessary, such as on limitations or obligations, and/or if additional IT developments are needed. In a pragmatic approach, we suggest extending at least the deadline to the COREP remittance date of the next quarter since this would then be the relevant deadline in practice (comment ID #3).

Finally, in order to provide institutions with enhanced visibility and to ease their planning efforts to meet this deadline, we would also much appreciate if ECB could commit on the timing of its final decision letter after the draft decision has been communicated, all the more since the length of some model implementation processes cannot be reduced and adequate time for preparation is needed.

- **Definition of default**

Whereas ECB draft Guide logically includes numerous revisions in relation to EBA Guidelines on the application of the definition of default under Article 178 (CRR), we believe that some provisions go precisely beyond the requirements of these Guidelines. This is in particular the case for the consolidation at a banking group level of client behavioural information (comment IDs #15), for immaterial past-due amounts that could prevent a return to non-default status (comment IDs #20) and for ECB ‘best practice’ considerations regarding joint credit obligations (comment ID #17).

- **CCF estimation**

As the Guidelines on Credit Conversion Factor (CCF) estimation are expected to be drafted by EBA according to its CRR3 mandate under (article 182(5) of CRR), we urge ECB not to provide any prescriptive interpretation in this regard and to consider the currently applicable legal basis until EBA has finalised its Guidelines on CCF estimation (comment ID #48).

- **Roll-out and Permanent Partial Use (PPU)**

We believe that the reversion to F-IRB as a less sophisticated approach for institutions, financial sector entities and large corporates portfolios should not trigger the application of article 149 of CRR as this reversion is legally required in CRR3 (comment ID #7).

Moreover, regarding the conditions for PPU, we think that institutions should keep the possibility to maintain portfolios treated under the standardised approach, even if these are ‘material’ (at the level of a business unit or of an exposure class / type), so as to account relying mainly onfor relevant qualitative criteria to justify the choice of applying PPU (comment IDs #5 and #6).

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	Name of commenter	Institution	Personal data

1	General topics	1 Overarching principles for internal models	1	5	Amendment	We propose including a specific paragraph in the "Overarching principles for internal models" which reflects EBA concerns about low-default portfolios (LDP portfolios) and in particular the necessity to accommodate 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 the inclusion of such paragraph is the following: - There was a debate at the Basel Committee to remove the possibility to use the A-IRB approach for all LDP portfolios, however the choice was made to allow some LDP portfolios such as specialised lending to remain in A-IRB approach in the Basel 3 finalisation. Therefore, the modeling expectations should be accommodated accordingly. - As a reminder, the EBA mentioned the following 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 the application of margins of conservatism (MoCs), the EBA mentioned the following 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, it is stated that " 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, it is stated that "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.	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish
2	General topics	1.8 General principles on climate-related and environmental risks	25	12	Amendment	We propose the following rewording of the paragraph (in line with Expectation 8 of the Guide on climate-related and environmental risks - C&E risks): "**Institutions should assess the materiality of all risks at all relevant stages of the credit-granting process and monitor the risks in their portfolios, including climate-related and environmental risks. Where climate-related and environmental risks drivers are found to be relevant and material for the assessment of credit or market risk only (and over the same period), institutions should include such risk drivers in their risk monitoring, including portfolio-level assessment, for credit and market risk.**"	As of today, there are no precise Guidelines describing how to consider C&E risks in IRB models. This new draft paragraph would represent a step further compared to ECB Guide on climate-related and environmental risks published in 2020.	LAFFEACH, Erwin	French Banking Federation	Publish

3	General topics	1.9 General principals for the implementation of changed or extended model	26	12	Amendment	Reference is made to the following statement: "The ECB generally expects this time frame to be no longer than three months from the date of the notification. Exceptions to this expectation should be requested by the institution in question, which should provide reasons for the request, and can only be granted under specific circumstances (for instance in the case of implementation requiring a staggered approach or joint implementation, or in the case of technical constraints inherent to the IT framework)." The time frame of 3 months after the notification of the permission to implement the approved material model change or extension seems challenging and not achievable for the reasons explained below: - In general, as some additional clarifications and IT development work could be necessary to finalise the implementation once the ECB decision is communicated (due to obligations or limitations, etc). In particular, the following topics may need to be addressed: (i) the bank's requests of clarifications on the potential changes/adjustments required by ECB, (ii) the implementation of possible complex IT changes/adjustments and (iii) the go live to be confirmed in the PI (Program Increment) planning hold on quarterly basis. - Moreover, in the particular case where the model needs to be implemented across different jurisdictions and under different regulatory requirements, we believe that, given the differing approval times across multiple supervisors, the implementation timeframe of 3 months would imply applying multi risk rating (dual regulatory reporting) in some sites supervised by different regulators, which is costly and complex to implement. Therefore, we suggest amending this requirement to avoid implementation burden at a time where banks are struggling to get their IRB models approved by their respective supervisors within the same timeframe. In practice, while banks should have the capacity to implement model changes or extensions in a timely manner, there is no absolute necessity to have this implementation finalised before a first application in regulatory reporting requirement. Thus, we suggest that the deadline for implementing model changes / extensions be set at the COREP quarterly remittance date that immediately follows the envisaged 3-month time period. Proposed amendment: "the ECB generally expects this time frame **not to exceed COREP remittance date of the next quarter**" If this suggestion is not taken onboard in the final version of the Guide, we would appreciate a commitment from the ECB to send the final decision letter [N] months after sending the draft decision letter in order to prioritise in advance in the quarterly PI planning the go live for the use of the model (N to be defined) as otherwise, it would be difficult on institutions' side to commit to the 3-month time period after the receipt of the final decision letter without knowing when ECB will send it.	The requirement to implement material model changes within three months after the notification of the approval is hardly feasible in practice.	LAFFEACH, Erwin	French Banking Federation	Publish
4	General topics	1.9 General principles for the implementation of a changed or extended model	26	12	Clarification	The ECB generally expects this timeframe to be no longer than three months from the date of the notification. In particular, ECB mentions "exceptions to this expectation should be requested by the institution in question, which should provide reasons for the request, and can only be granted under specific circumstances (for instance in the case of implementation requiring a staggered approach or joint implementation, or in the case of technical constraints inherent to the IT framework)." We think that "staggered approach" should be clarified: we suggest that it encompass the modalities of the re-rating process as defined under the section 7.6 Re-rating process, in case of an immediate re-rating is not possible (paragraph 131).	Clarifications on exceptions requiring "staggered approach" should encompass the modalities of the re-rating process as defined under the section 7.6 Re-rating process, in case of an immediate re-rating is not possible (paragraph 131).	LAFFEACH, Erwin	French Banking Federation	Publish

5	General topics	2.4 Changes to the roll-out plan for the IRB approach	28	13	Amendment	Under paragraphs 28 and 32 of ECB Guide, institutions are expected to define internal criteria to trigger the 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 makes a general reference to the draft EBA RTS on roll-out and PPU (CP 2014/10), which in particular suggests clarification on article 150(1) points (a), (b) and (c) of CRR. However, the draft RTS have never been finalised, and it should be made clear that this reference is not legally binding. The concept of materiality / immateriality should be defined by the bank on a best effort basis, and it is up to banks to decide whether they want or not to rely on specific aspects of the final draft RTS as to best reflect their internal portfolio specificities. Also, for large IRB 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 EAD/RWEAs are not negligeable, but the best choice would be to keep the exposures concerned under the standardised approach, because of strong impediments such as constraints on data. The outcome of a strict application of article 150(1) is to systematically conclude for a change to IRB and leaves little room to remain in PPU. Even if the bank maintains such exposures under the standardised approach, it does not prevent it from applying adequate IRB roll-out and PPU approach and maintaining a sound risk management approach. Therefore, when analysing the criteria for the purpose of article 150(1) of CRR, materiality can only be a help to decision-making for roll-out approach. As a consequence, we suggest amending 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, as the final choice for PPU (and in mirror the choice for roll-out) is not purely quantitative.	LAFFEACH, Erwin	French Banking Federation	Publish
6	General topics	2.2 Application of the IRB approach	40	16	Amendment	Regarding PPU, paragraph 40 of draft ECB Guide only focuses on exposure classes and types of exposures, whereas article 150(1) point (c) (CRR) also includes the concept of business units. We think that this should be reflected in paragraph 40.	Inclusion of business unit concept on top of exposure classes / types in order to align with article 150(1) point (c) of CRR.	LAFFEACH, Erwin	French Banking Federation	Publish
7	General topics	2.6 Reversion to a less sophisticated approach	41/42	17	Amendment	Regarding the reversion to F-IRB for institutions, financial sector entities and very large corporates as per CRR3 requirement, we think that ECB should include a specific paragraph clarifying that no trigger of article 149 of CRR is needed in this case, as banks have no other choice than applying CRR3 regulation when it enters into force. Hence the following proposal of a new paragraph to include in this sub-section 2.6 Reversion to a less sophisticated approach: "**Reversion to F-IRB approach for institutions, financial sector entities and large corporates as required by CRR3 can be implemented by institutions at CRR3 date of application, without applying article 149 of CRR. Moreover, the reduction of a portfolio as a result of the reversion to a less to sophisticated approach for some of its exposures should not necessarily trigger an application for a material model change.**"	Treating the cases where reversion to less sophisticated approaches is driven by compliance to new regulatory requirements and does not need any trigger of article 149 of CRR.	LAFFEACH, Erwin	French Banking Federation	Publish

8	General topics	2.6 Reversion to a less sophisticated approach	42 point (b)	18	Amendment	We propose the following amendment: "(a) the availability of minimum representative data for redeveloping a model ~~or for developing another admissible approach (for example, in the case of reversion to the SA, institutions should first consider whether other admissible IRB approaches, such as the F-IRB or, where relevant, the approach under Article 153(5) of the CRR known as the supervisory slotting criteria approach (SSCA) could be developed without disproportionate effort);"~~ We propose simplifying the expectation because, in our opinion, the most important point when it comes to returning to a less sophisticated approach is the availability of minimum representative data for redeveloping a model and the justified strategic decision of the bank to return to that less sophisticated approach. In addition, article 149 does not consider the reversion to the slotting approach.	The most important point for the return to a less sophisticated approach is the availability of minimum representative data for redeveloping a model and the institution's justified strategic decision.	LAFFEACH, Erwin	French Banking Federation	Publish
9	General topics	6.2 Use test requirement	97	38	Amendment	We propose the following amendment: "Where, following the consolidation and while the institution is returning to compliance, a single exposure is in the scope of the IRB rating systems of the acquirer and of the target, the institution should have appropriate processes in place to **monitor the use of** a rating system **on both the exposures of the acquirer and the target during the transitional arrangements period while the return to compliance plan is being implemented."**	Need to allow the application of rating systems during the transitional period while returning to compliance.	LAFFEACH, Erwin	French Banking Federation	Publish

10	Credit risk	2.2.2 IT implementation of a new model or model change	7 & 8	62	Amendment	Proposed amendment for paragraph 7&8 From our understanding of requirements set out in points (a) to (f) of paragraph 7, at the time of model application package submission, the supervised entity must have already implemented all IT evolutions (at least in a non-live environment) and validated them through acceptance tests, including evolutions in risk management and reporting processes. Although we understand the objective of these expectations, we have strong concerns on the ability and the relevance to fulfil them before the model application package submission. Indeed: - In case of non-approval by ECB, the model may be abandoned or may need to be reviewed (including the associated risk management and reporting processes). Such situation would imply significant undue costs for the supervised entity. - The time needed to meet all these expectations would induce an important delay between the end of modeling works and the actual submission of the application package to the ECB. We would like to emphasise that ECB expectation to fully replicate the execution of the model in a non-production environment is challenging and costly. There are capacity constraints and significant cost in maintaining a parallel run for all their ongoing model changes at the same time. This can be even more challenging under a multi-rating scenario wherein banks would be expected to maintain multiple non-production environments to support varying regulatory reporting capabilities for a model requiring multiple supervisory approvals. It should also be noted that ECB requirements appear more challenging with regards to the model submission timeline compared to other jurisdictions where there is no such requirement/expectation. Thus, we propose phasing-in the fulfilment of these expectations as follows: - Expectations set out in point (a) of paragraph 7 shall be fulfilled before the model application package submission, in the sense of demonstrating data availability to produce risk parameter estimates and providing a clear implementation roadmap outlining key evolutions planned in the IS and risk management processes with the associated timeline. - The fulfilment of other expectations shall be demonstrated between the notification of ECB draft decision and 3 months after the notification of the final decision. We propose amending paragraphs 7 and 8 as follows: "**When applying for an initial model approval or for roll-out of the IRB approach, the institution should provide evidence that it has the ability to implement the proposed model into a live or, if duly justified, non-live production environment in a reasonable timeline.** **In particular, this means that the institution should provide :** **(a) detailed business requirements for the implementation of the model** **(b) IT impact study on global IT tools and IT framework paper based on business requirements** **(c) IT roadmap / planning for implementation** **(d) Budget estimate and approval** " Besides, as discussed for paragraph 26 of the General topics section, the requirement to implement material model changes within three months after the notification of the approval is hardly feasible in practice and our suggestion is to set the expected deadline at the COREP remittance date of the next quarter. Should ECB decide to maintain paragraphs 7 and 8 as in the draft version of the Guide, we would appreciate a commitment from ECB ; - to provide a decision letter [N] months after the end of the internal model investigation (IMI) / model review (N to be defined) as the supervised entity will be ready from an IT standpoint - not to increase any limitation regarding overdue obligations as the requirements from the ECB could lengthen the timeline for the go live of the new models (as a result of increasing number of overdue obligations on the models to be remediated)	As the ECB requirements listed in paragraphs 7 and 8 are very demanding in terms of IT readiness, they could lead to some delays in the submission of the application package compared to the initial timeline planned (as part of IRB Repair roadmap and other ongoing regulatory projects) which does not take into account the time required to meet ECB expectation listed in paragraph 7. When adding to this delay the additional timeline for receiving a final decision letter from the ECB, it could lead in the end to a lengthening of the duration of the whole model approval process, from the design to the effective use of the new model. Meeting these expectations would also be particularly challenging under a multi-rating scenario wherein banks would be expected to maintain multiple non-production environments to support varying regulatory reporting capabilities for a model requiring multiple supervisory approvals. To avoid such situation, if the bank provides evidence that it has implemented the model in a live or non-live production environment, the ECB should commit to provide a final decision letter within a period of [N] months after the end of the review (N to be defined). It could also lead to an increase of the number and the duration of the overdue obligations related to the model to be remediated. The ECB could agree not to issue new limitation(s) / increase current limitation(s) on models to be remediated after the submission of the application package.	LAFFEACH, Erwin	French Banking Federation	Publish

11	Credit risk	2.3 Policies, roles and responsibilities in data processing and data quality management	15, point (b)	64	Amendment	We would like to request an amendment on this point: "(b) IT functions are responsible for supporting the operation of the systems for data collection, processing, transformation, storage ~~and availability~~ during the entire life cycle of the data." We think that data 'availability during the entire life cycle of the data' is not clear. Indeed, according the definition of availability (being data is made available to the relevant stakeholders) and the definition of the 'life cycle of the data' (being the whole data life cycle, from data entry to reporting, and encompass both historical data and current application databases'), the spectrum of data to be made available can be very broad (regarding the modeling, calibration, back testing and application data sets on the whole history, or the data based on which the RDS are built and regarding the outputs of the models, the data contributing to the regulatory reporting or use test and this on the whole history also). We think that "availability" should be deleted in order to allow for a proportionate expectation.	Supporting availability during the entire life cycle of data is a too extensive expectation.	LAFFEACH, Erwin	French Banking Federation	Publish
12	Credit risk	3.7 Use of data in the case of consolidations	55	76	Clarification	We request clarification that in paragraph 55 the defaults relating to the acquired bank's portfolio may be excluded where this exclusion makes it possible to obtain a better estimate because of the limited quality/knowledge of the acquired bank's portfolio data and/or the gap between the former and the target workout processes which could bias the outcome (as specified in paragraph 57 of the Credit risk section).	There might be cases where the default history of an acquired portfolio is not representative to an extent which cannot be healed by appropriate adjustments. In particular, the loss data to be taken into account for the acquired portfolio should be of sufficient quality and should reflect to the target workout process for that portfolio. Therefore, institutions should be allowed to exclude such data where justified.	LAFFEACH, Erwin	French Banking Federation	Publish
13	Credit risk	3.7 Use of data in the case of consolidations	56	76	Clarification	Beyond the acquisition of data, the issue of maintaining the audit trail and the knowledge of data and processes of the acquired entity should also be taken into account. Otherwise, the data of the merged entity may not be used in a relevant way and their exclusion could be a preferable solution if the target workout processes of the "acquirer" significantly differs from the former workout process of the acquired bank.	There might be cases where the default history of an acquired portfolio is not representative to an extent which cannot be healed by appropriate adjustments. In particular, the loss data to be taken into account for the acquired portfolio should be of sufficient quality and should reflect to the target workout process for that portfolio. Therefore, institutions should be allowed to exclude such data where justified.	LAFFEACH, Erwin	French Banking Federation	Publish
14	Credit risk	3.7 Use of data in the case of consolidations	57	76	Clarification	It should be clarified, when data of the acquired entity is already retrieved, that MoC for potential lack of representativeness may be considered instead of MoC for data deficiency.	The RDS used should be consistent with the target process. There should be flexibility, if adequately justified, not to take into account the overall loss history of the acquired bank.	LAFFEACH, Erwin	French Banking Federation	Publish
15	Credit risk	4.2 Consistency of the application	60	78	Amendment	Regarding the information on the behaviour of the obligor that has to be consolidated, we want to underline that it goes beyond what is required in the EBA Guidelines. Therefore, we propose the following amendment: "This implies that, for a banking group, all information about the different exposures ~~and the behaviour~~ of the obligor across the banking group must be consolidated".	We suggest adding precisions and modifications when the proposal goes beyond EBA guidelines on definition of default.	LAFFEACH, Erwin	French Banking Federation	Publish
16	Credit risk	4.2 Consistency of the application	62	79	Deletion	A breach of thresholds for more than 90 days in a given country (including a country out of EU) is not an indication that an obligor will default in other countries for the purpose of the definition of default in these countries. It should trigger a global Unlikely-to-Pay (UTP) assessment and then (if needed) a potential downgrade to default but it should not lead automatically to a default. This ECB expectation goes beyond the EBA guidelines on DoD which do not require such action from banks and the regulation allows to have different default triggers based on national discretions. We therefore suggest removing the following sentence: ~~"The default will be triggered in the jurisdiction where the materiality threshold is first exceeded for 90 consecutive days, and institutions are then expected to apply additional unlikely to pay triggers, making use of the provisions set out in paragraph 58 of the EBA Guidelines on DoD, to achieve a consistent default status across all jurisdictions."~~	We propose modifying statements that go beyond EBA guidelines on definition of default.	LAFFEACH, Erwin	French Banking Federation	Publish

17	Credit risk	4.2 Consistency of the application	63	79	Amendment	We would like to underline that the term "best practice" used in this paragraph for the joint credit obligation (JCO) should not constitute a requirement but rather a "nice to have" process expected by the ECB and we would like to avoid that ECB consider this process to be mandatory since EBA Guidelines on DoD do not require it. Moreover, the JCO for retail and non-retail exposures is difficult to compare. For retail exposures, the notion of co-borrowers (equally liable) is homogeneous, but it is not the case for the non-retail exposures. For non-retail exposures - there are cases when several companies have joint liabilities, nevertheless each case is very specific (e.g., extent of liability, partners, co-owners, guarantees, cash pooling …). It would be extremely complex and burdensome to apply this notion to non-retail exposures as it is a case-by-case assessment for each JCO. That is why 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[44] involving non-retail exposures."	We propose modifying statements that go beyond EBA guidelines on definition of default.	LAFFEACH, Erwin	French Banking Federation	Publish
18	Credit risk	4.5 Return to non-defaulted status	79	84	Deletion	This identification of the loss should be adapted to the portfolio and the complexity of the products, The calculation of NPV is too costly, burdensome, complex, and it should not be the only way to assess the existence of a financial loss due to a distressed restructuring. Some alternative approaches, such as the identification of some types of concessions, also allow to identify the financial loss in a more efficient way for the bank.	We believe that other approaches than NPV, simpler, can apply for the determination of a diminished financial obligation regarding distressed restructurings, if it is relevant for the portfolio and the complexity of the product considered.	LAFFEACH, Erwin	French Banking Federation	Publish
19	Credit risk	4.5 Return to non-defaulted status	84	85	Deletion	We suggest deleting the last sentence of paragraph 84 "~~It is the ECB's understanding that the appropriateness of such a definition is one of the elements that institutions should consider when monitoring the effectiveness of the policy for the return to non-default status as described in paragraphs 76 to 78 of the EBA Guidelines on DoD~~." 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 a systematic control of this definition.	If an exposure is wrongly reclassified to non-default status, it is not necessarily due to the definition of 'material payments.	LAFFEACH, Erwin	French Banking Federation	Publish
20	Credit risk	4.5 Return to non-defaulted status	85	85	Amendment	- It is mentioned in EBA Guidelines on the definition of default 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 the 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 amounts. A change in the detection of past-due amounts 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 ~~immaterial or are~~ less than 90 days past due."	We propose modifying statements that go beyond EBA guidelines on definition of default. Immaterial past-due amounts, such as small amount of fees and commissions should not prevent a return to non-default status. If the obligor is experiencing severe financial difficulties, this should be observed in past due amounts in excess of EBA-defined thresholds	LAFFEACH, Erwin	French Banking Federation	Publish
21	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	89	87	Amendment	We consider that changes made by banks to "other indicators of unlikeliness to pay" as defined by EBA Guidelines on the definition of default (EBA GL on DoD) should not trigger any prior approval from the competent authority for a "Change in the definition of default according to Article 178 as per CRR" (Annex I - Part II - Section 1 - paragraph 3 of Commission delegated Regulation 529/2014). The rationale is that such "other indicators of unlikeliness to pay" are mentioned not to be in article 178 but "besides the article 178(3) of the CRR" (as indicated in EBA GL on DoD). Therefore, we think that ECB should add a precision on this specific topic in paragraph 89.	Changes to "other indicators of unlikeliness to pay" should not trigger any prior approval from competent authority for a change in the definition of default.	LAFFEACH, Erwin	French Banking Federation	Publish

22	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	91	88	Amendment	When it is stated that "institutions should demonstrate the model's risk differentiation on a time series of realised default rates (or LGD or CCF) reflecting the new definition of default", ECB should take into account that in many countries, the roll-out of the new definition of default coincided with the Covid-19 pandemic crisis. Both these phenomena could affect deeply the model's risk differentiation, but properly identifying and separating the two effects could be a challenge for institutions, considering also that Covid-19 consequences are still not perfectly clear at a bank system level. Therefore, we suggest replacing "it is the ECB's understanding that ~~a recalibration is not sufficient to adjust the models to the new definition of default and, in addition to the recalibration, institutions should perform a full redevelopment of their models~~" by "it is the ECB's understanding that **institutions monitor any decreased risk differentiation post implementation of the new definition of default (NDoD) and should take appropriate measures where relevant**."	NDoD implementation may have occurred at the same time as the COVID pandemic, the expectation on maintaining good risk differentiation post NDoD implementation should be more flexible.	LAFFEACH, Erwin	French Banking Federation	Publish
23	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	92	88	Amendment	We suggest making clear that the paragraph 92 dedicated to the adjustment of risk estimates in case of changes of definition of default describes good practices (nice to have) or illustrative examples. The legal basis specified by the EBA does not provide to date any detailed prescriptive quantitative/qualitative methods to adjust risk parameters in case of change of default definition. Therefore, the retrospective simulation, the parallel run or the similar classification of data are only examples, banks can use their internal adjustment methods as long as long they comply with CRR.	Need to explicitly clarify that the methods proposed by ECB are illustrative as there is no prescriptive detailed method in the legal basis. Banks may use their internal methods to adjust risk parameters as long as they are compliant with CRR.	LAFFEACH, Erwin	French Banking Federation	Publish
24	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	92	88	Clarification	In the new paragraph 92 dedicated to the adjustment of risk estimates, in case of changes of the definition of default, the ECB describes good practices (nice to have). Could the ECB please provide explanations regarding "a similar classification of data according to the new definition of default"?	We do not clearly understand the 3rd proposed option to adjust data at granular level.	LAFFEACH, Erwin	French Banking Federation	Publish
25	Credit risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	92	88	Amendment	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, (...)*"	Using simplifying assumptions can be a relevant alternative to "using simplifying assumptions.	LAFFEACH, Erwin	French Banking Federation	Publish

26	Credit risk	5.1 Structure of PD models	94	90	Amendment	We suggest deleting footnote 50. According to the recent research of the Network for Greening the Financial System (NGFS) and the European Banking Authority (EBA), there is little evidence of risk differential between green and non-green assets/activities. However, the conclusions do call into question the potential to implement capital surcharges to respond to climate-related risks, such as the modification of risk weights through a brown penalizing factor (BPF), or green supporting factor (GSF), in a risk-based and data-driven manner. We also believe that it is too early to include climate-related risk drivers in banks' internal model and that the Pillar 2 framework should be the key tool to address microprudential gaps within the existing regime. Including ESG risk drivers in models used for P1 requirement when policy making discussions on gaps in the Pillar 1 framework are ongoing internationally at BCBS level would pre-empt their works and ECB should wait for their conclusions. As long as no or little evidence for climate-related gaps in the measurement of risk-weighted assets (RWAs) has been substantiated, further work is required to explore the correlations between risk and assets of varying greenhouse gas intensity or exposure to broader climate risks – and importantly how those risks might change over time. This in also why, as part of the CRR3 revision, EBA should be mandated to assess whether the current prudential framework under Pillar 1 should be amended. We support the emerging consensus among certain supervisors (such as PRA) that adjustments to the Pillar 1 framework to account for climate-related and environmental risks are not warranted and should not be pursued at present. The design of the Pillar 1 framework may already enable climate risks to be appropriately accounted for [see also Basel FAQ dated December 8, 2022], and therefore there should be no modification to Pillar 1 models to account for climate risks, nor should there be efforts undertaken to utilize the existing framework (without modifications) to target climate-related risks in the absence of the necessary risk signals. In particular, the current internal model framework already allows, when needed, the inclusion of C&E risk drivers as part of existing risk drivers. A focus on C&E aspects would suggest that the C&E risk drivers, when relevant and material, should be treated differently from existing risk drivers and would be the most important risk drivers of the models, which is not the experience of banks. We consider there to be significant methodological challenges associated with amending the overarching design of internal model framework, including challenges of coping with the long time horizon of climate-related risks materialisation, and the backward-looking nature of most calibration methodologies. Also, the inclusion of such paragraph in the ECB Guide raises level-playing-field issues between IRB and SA banks.	The EBA has yet to assess if Pillar 1 requirements should be amended to take into account any ESG considerations, the Pillar 2 framework being already a sufficient existing key tool to address microprudential issues.	LAFFEACH, Erwin	French Banking Federation	Publish
27	Credit risk	5.1 Structure of PD models	95	91	Amendment	We propose changing this part: "Independent datasets should correspond not only to random sampling (out-of-sample), but also to different time periods (out-of-time), unless there are no sufficient data available for the training sample. " We have added a comma to clarify that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.	Need to clarify that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.	LAFFEACH, Erwin	French Banking Federation	Publish

28	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 portfolios in some cases. It is therefore essential to enhance the paragraph to accommodate for various estimation methodologies and types of portfolios. For this purpose, we suggest rephrasing 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 on 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: (...)".	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish
29	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**." Indeed, for LDP portfolios, homogeneity could also be assessed: - through less quantitative techniques, relying more on the expert-driven knowledge of portfolios, - or through simulation techniques (bootstrapping, for instance).	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish
30	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 Commission Delegated 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 rewording the paragraphs to align with Commission Delegated Regulation 2022/439.	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish
31	Credit risk	5.1 Structure of PD models	103	96	Amendment	This paragraph should be enhanced in order to accommodate various estimation methodologies and types of portfolios (such as LDP portfolios). We therefore suggest the following rewording: "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 accommodate the various estimation methodologies and types of portfolios, this paragraph may be applied with some flexibility**."	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish

32	Credit risk	5.1 Structure of PD models	103	96	Clarification	It is not clear what is the difference between a granular scale and a very granular scale, having in mind that External Credit Assessment Institutions (ECAIs) use mostly 18/25 grades vs. a minimum of 7 grades mentioned in CRR for non-retail. This question raises concerns typically on portfolios for which the comparability with external rating agencies is important for benchmarking purposes.	This question raises concerns typically for some LDP portfolios on which shadow rating can be used and the comparability with external agencies is important in the model use, risk processes and benchmarking.	LAFFEACH, Erwin	French Banking Federation	Publish
33	Credit risk	5.1 Structure of PD models	114	98	Amendment	Paragraph 114 mentions that shadow rating models rely on external ratings provided by an external credit assessment institution or similar organisation, rather than internal directly observed defaults. For certain 'ultra-low' default portfolios, it should be clarified that banks are allowed to use their past internal ratings as a target variable for the shadow rating model.	Clarification on shadow rating approach to take into account all possible approaches.	LAFFEACH, Erwin	French Banking Federation	Publish
34	Credit risk	5.2 PD risk quantification	122(f)	101	Amendment	Regarding the migration of obligors between rating models, rating systems or approaches to calculation of capital requirements within the observation period, it seems that the expectation of the Guide is inconsistent with model implementation : - For modeling purposes, the obligor is considered as pertaining to the rating model / system to which it belongs when it enters into default and the obligor stays in that rating model / system until the end of the default period. - For model implementation (application of risk parameters on sound portfolio), we cannot predict any migration to come, so it is consistent that the parameters applied to the obligor are based on the information at the snapshot date (for instance if an obligor is a mid-corp at the snapshot date, it will be applied the mid corp rating model without knowing that the obligor will become a large corporate). It is only in the re-rating process (within for instance a one-year time period) that the obligor may be affected another rating if need be.	Inconsistency between model development and model implementation.	LAFFEACH, Erwin	French Banking Federation	Publish
35	Credit risk	5.2 PD risk quantification	122, point (f)	101	Amendment	As for the tracking of sale of credit obligations, it could be considered conservative not to take them into account as the institution has not observed all the workout process for such credit obligations. Therefore, flexibility in the application should be warranted if the approach is deemed conservative by the institution.	Flexibility is needed where the approach remains conservative.	LAFFEACH, Erwin	French Banking Federation	Publish
36	Credit risk	5.2 PD risk quantification	130	104 - 106	Clarification	The paragraph states that cases where it is not possible to backwards recalculate the assignment of exposures in the likely range of variability period should be duly justified and documented. This could be particularly the case where new qualitative or quantitative risk drivers are identified or where there is no sufficient historical data for the modeling. In this context, could ECB please clarify what is considered 'reasonable efforts' and the possible (accepted) proxies?	The recalculation of the new assignment back through time for the full period of likely may be deemed impossible. Additional clarifications would be useful.	LAFFEACH, Erwin	French Banking Federation	Publish
37	Credit risk	5.2 PD risk quantification	130, point (a)	104	Deletion	We propose deleting point (a) as the EBA legal basis is not 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.	LAFFEACH, Erwin	French Banking Federation	Publish
38	Credit risk	5.2 PD risk quantification	137	108	Amendment	Paragraph 137 mentions that overrides should be taken into account in the calibration process. However, it is not clear how to consider overrides during the development phase since this information is still unknown during this phase. We recommend therefore providing a more pragmatic approach on this specific point and deleting this specific expectation.	Coping with the fact that overrides are not known to the bank during the model development phase.	LAFFEACH, Erwin	French Banking Federation	Publish

39	Credit risk	6.1 Realised LGD	143	113	Amendment	We suggest deleting footnote 74. According to the recent research of the Network for Greening the Financial System (NGFS) and the European Banking Authority (EBA), there is little evidence of risk differential between green and non-green assets/activities. However, the conclusions do call into question the potential to implement capital surcharges to respond to climate-related risks, such as the modification of risk weights through a brown penalizing factor (BPF), or green supporting factor (GSF), in a risk-based and data-driven manner. We also believe that it is too early to include climate-related risk drivers in banks' internal model and that the Pillar 2 framework should be the key tool to address microprudential gaps within the existing regime. Including ESG risk drivers in models used for P1 requirement when policy making discussions on gaps in the Pillar 1 framework are ongoing internationally at BCBS level would pre-empt their works and ECB should wait for their conclusions. As long as no or little evidence for climate-related gaps in the measurement of risk-weighted assets (RWAs) has been substantiated, further work is required to explore the correlations between risk and assets of varying greenhouse gas intensity or exposure to broader climate risks – and importantly how those risks might change over time. This in also why, as part of the CRR3 revision, EBA should be mandated to assess whether the current prudential framework under Pillar 1 should be amended. We support the emerging consensus among certain supervisors (such as PRA) that adjustments to the Pillar 1 framework to account for climate-related and environmental risks are not warranted and should not be pursued at present. The design of the Pillar 1 framework may already enable climate risks to be appropriately accounted for [see also Basel FAQ dated December 8, 2022], and therefore there should be no modification to Pillar 1 models to account for climate risks, nor should there be efforts undertaken to utilize the existing framework (without modifications) to target climate-related risks in the absence of the necessary risk signals. In particular, the current internal model framework already allows, when needed, the inclusion of C&E risk drivers as part of existing risk drivers. A focus on C&E aspects would suggest that the C&E risk drivers, when relevant and material, should be treated differently from existing risk drivers and would be the most important risk drivers of the models, which is not the experience of banks. We consider there to be significant methodological challenges associated with amending the overarching design of internal model framework, including challenges of coping with the long time horizon of climate-related risks materialisation, and the backward-looking nature of most calibration methodologies. Also, the inclusion of such paragraph in the ECB Guide raises level-playing-field issues between IRB and SA banks.	The EBA has yet to assess if Pilar 1 requirements should be amended to take into account any ESG considerations, the Pillar 2 framework being already a sufficient existing key tool to address microprudential issues.	LAFFEACH, Erwin	French Banking Federation	Publish

40	Credit risk	6.2 LGD structure	172	121	Amendment	We suggest deleting footnote 79. According to the recent research of the Network for Greening the Financial System (NGFS) and the European Banking Authority (EBA), there is little evidence of risk differential between green and non-green assets/activities. However, the conclusions do call into question the potential to implement capital surcharges to respond to climate-related risks, such as the modification of risk weights through a brown penalizing factor (BPF), or green supporting factor (GSF), in a risk-based and data-driven manner. We also believe that it is too early to include climate-related risk drivers in banks' internal model and that the Pillar 2 framework should be the key tool to address microprudential gaps within the existing regime. Including ESG risk drivers in models used for P1 requirement when policy making discussions on gaps in the Pillar 1 framework are ongoing internationally at BCBS level would pre-empt their works and ECB should wait for their conclusions. As long as no or little evidence for climate-related gaps in the measurement of risk-weighted assets (RWAs) has been substantiated, further work is required to explore the correlations between risk and assets of varying greenhouse gas intensity or exposure to broader climate risks – and importantly how those risks might change over time. This in also why, as part of the CRR3 revision, EBA should be mandated to assess whether the current prudential framework under Pillar 1 should be amended. We support the emerging consensus among certain supervisors (such as PRA) that adjustments to the Pillar 1 framework to account for climate-related and environmental risks are not warranted and should not be pursued at present. The design of the Pillar 1 framework may already enable climate risks to be appropriately accounted for [see also Basel FAQ dated December 8, 2022], and therefore there should be no modification to Pillar 1 models to account for climate risks, nor should there be efforts undertaken to utilize the existing framework (without modifications) to target climate-related risks in the absence of the necessary risk signals. In particular, the current internal model framework already allows, when needed, the inclusion of C&E risk drivers as part of existing risk drivers. A focus on C&E aspects would suggest that the C&E risk drivers, when relevant and material, should be treated differently from existing risk drivers and would be the most important risk drivers of the models, which is not the experience of banks. We consider there to be significant methodological challenges associated with amending the overarching design of internal model framework, including challenges of coping with the long time horizon of climate-related risks materialisation, and the backward-looking nature of most calibration methodologies. Also, the inclusion of such paragraph in the ECB Guide raises level-playing-field issues between IRB and SA banks.	The EBA has yet to assess if Pillar 1 requirements should be amended to take into account any ESG considerations, the Pillar 2 framework being already a sufficient existing key tool to address microprudential issues.	LAFFEACH, Erwin	French Banking Federation	Publish
41	Credit risk	6.2 LGD structure	174	122	Amendment	Paragraph 106 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 accommodate various estimation methodologies and types of portfolios (such as LDP portfolios). For this purpose, we suggest rephrasing 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 on 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."	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish

42	Credit risk	6.2 LGD structure	175, point (b)	122	Amendment	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 defaults. We therefore suggest the following rewording: "(b) sufficient homogeneity of the risk within each grade or pool by providing empirical evidence that the grade-level LGD is adequate for all facilities in that grade. For this purpose, 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 facilities within a grade or pool yields a significantly different average realised LGD 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 prevents the bank from having sufficient default data to perform LRA calibration.**"	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish
43	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 amending point (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;"	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios.	LAFFEACH, Erwin	French Banking Federation	Publish

44	Credit risk	6.3 Risk quantification	190	129	Amendment	In order to have a harmonised view of Inspection teams, it is useful to recall several general principles regarding downturn estimation: - The application of downturn requirements as provided by CRR cannot be boiled down to conservatism of risk parameters. Given the 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 have 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 economic 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. In some cases, economic crisis can imply that certain sectors are neutral to an economic crisis, or even 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 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 section 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 consist in applying the highest years of LGD. We think that this should be reflected in the Guide.	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios and to follow the EBA logic in the downturn estimation.	LAFFEACH, Erwin	French Banking Federation	Publish

45	Credit risk	6.4 Estimation of ELBE and LGD in-default	191	130	Amendment	We suggest deleting footnote 86. According to the recent research of the Network for Greening the Financial System (NGFS) and the European Banking Authority (EBA), there is little evidence of risk differential between green and non-green assets/activities. However, the conclusions do call into question the potential to implement capital surcharges to respond to climate-related risks, such as the modification of risk weights through a brown penalizing factor (BPF), or green supporting factor (GSF), in a risk-based and data-driven manner. We also believe that it is too early to include climate-related risk drivers in banks' internal model and that the Pillar 2 framework should be the key tool to address microprudential gaps within the existing regime. Including ESG risk drivers in models used for P1 requirement when policy making discussions on gaps in the Pillar 1 framework are ongoing internationally at BCBS level would pre-empt their works and ECB should wait for their conclusions. As long as no or little evidence for climate-related gaps in the measurement of risk-weighted assets (RWAs) has been substantiated, further work is required to explore the correlations between risk and assets of varying greenhouse gas intensity or exposure to broader climate risks – and importantly how those risks might change over time. This in also why, as part of the CRR3 revision, EBA should be mandated to assess whether the current prudential framework under Pillar 1 should be amended. We support the emerging consensus among certain supervisors (such as PRA) that adjustments to the Pillar 1 framework to account for climate-related and environmental risks are not warranted and should not be pursued at present. The design of the Pillar 1 framework may already enable climate risks to be appropriately accounted for [see also Basel FAQ dated December 8, 2022], and therefore there should be no modification to Pillar 1 models to account for climate risks, nor should there be efforts undertaken to utilize the existing framework (without modifications) to target climate-related risks in the absence of the necessary risk signals. In particular, the current internal model framework already allows, when needed, the inclusion of C&E risk drivers as part of existing risk drivers. A focus on C&E aspects would suggest that the C&E risk drivers, when relevant and material, should be treated differently from existing risk drivers and would be the most important risk drivers of the models, which is not the experience of banks. We consider there to be significant methodological challenges associated with amending the overarching design of internal model framework, including challenges of coping with the long time horizon of climate-related risks materialisation, and the backward-looking nature of most calibration methodologies. Also, the inclusion of such paragraph in the ECB Guide raises level-playing-field issues between IRB and SA banks.	The EBA has yet to assess if Pilar 1 requirements should be amended to take into account any ESG considerations, the Pillar 2 framework being already a sufficient existing key tool to address microprudential issues.	LAFFEACH, Erwin	French Banking Federation	Publish

46	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 deleting the condition “as long as this additional assessment includes a re-rating or a confirmation of the rating of the obligor” under point (a). 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 (paragraph 78 and footnote 53), definition which 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.	More flexibility should be needed for the additional credit assessment of the obligor. Re-rating or confirmation of the rating of the obligor is not necessary if the creditworthiness is monitored otherwise.	LAFFEACH, Erwin	French Banking Federation	Publish
47	Credit risk	7.3 CCF structure	202	136	Amendment	We propose adding a comma in "Independent datasets should correspond not only to random sampling (out-of-sample)**,** but also to different time periods (out-of-time), unless there are no sufficient data available for the training sample." to clarify that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.	Need to clarify that "unless there are no sufficient data available for the training sample" applies to both out-of-sample and out-of-time methods.	LAFFEACH, Erwin	French Banking Federation	Publish
48	Credit risk	7.4 CCF risk quantification	204	138	Amendment	Regarding the paragraph "When the historical observation period is considered representative of the LRA, the average realised CCFs should be computed as the arithmetic average of the yearly averages of realised CCFs in that period", we think this expectation is misaligned with 'CCF philosophy' and should be amended. Whereas for PD, such approach could be done this way (average of yearly averages of default rates), the CCF estimation is closer to the LGD estimation in terms of structure, meaning that CCF is computed for each facility and aggregated in a similar way to the LGD, without having an intermediate step of calculation of yearly averages. Article 182(1) point (a) only specifies 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". We are still waiting for EBA Guidelines on CCF estimation, meaning that the detailed legal basis is not yet available.	The PD calculation methods cannot be an inspiration for the CCF calculation. The EBA has not yet published its draft Guidelines for CCF estimation.	LAFFEACH, Erwin	French Banking Federation	Publish
49	Credit risk	8 Model-related MoC	208	140	Amendment	The paragraph requests that MoC should not affect rank ordering. However, such requirement is not in the EBA Guidelines on PD-LGD estimation. Therefore, we recommend bringing flexibility and propose the following rewording: "It is also the ECB’s understanding that **it is a good practice** that the MoC should not affect **significantly** the rank ordering".	The draft ECB Guide goes beyond the legal basis (specified in EBA GL on PD-LGD estimation)	LAFFEACH, Erwin	French Banking Federation	Publish

50	Credit risk	8. Model related MOC	208	140	Clarification	We would like to request clarification on ECB expectations with regard to MoC estimation in cases where the number of observations and defaults in each grade is very low. In such instances, calculating the MoC individually at grade level can result in a disproportionate level of conservatism at aggregate portfolio level. This can usually be mitigated by using 'direct estimates' of PDs for which the uncertainty/sampling error can be calculated and compared at appropriate PD sub ranges. However, banks typically map direct estimates from continuous models into discrete PD estimates via masterscales which, based on paragraph 100 in section 5.1.2, makes them grade/pool-based estimates. Could the ECB further clarify how, in the case of low-default portfolios, a disproportionate level of conservatism can be avoided?	For LDP and grades with a low number of observations, the industry seeks clarification on how a disproportionate level of conservatism and impact on rank ordering could be avoided. We are in favour of amending this part and bringing more flexibility to account for these specific cases.	LAFFEACH, Erwin	French Banking Federation	Publish
51	Credit risk	8 Model-related MoC	208	140	Amendment	We suggest deleting the end of the paragraph: "the MoC should consider any deficiencies stemming from missing or inaccurate information including, where relevant and material, any missing or inaccurate climate-related information considered in risk estimates". According to the recent research of the Network for Greening the Financial System (NGFS) and the European Banking Authority (EBA), there is little evidence of risk differential between green and non-green assets/activities. However, the conclusions do call into question the potential to implement capital surcharges to respond to climate-related risks, such as the modification of risk weights through a brown penalizing factor (BPF), or green supporting factor (GSF), in a risk-based and data-driven manner. We also believe that it is too early to include climate-related risk drivers in banks' internal model and that the Pillar 2 framework should be the key tool to address microprudential gaps within the existing regime. Including ESG risk drivers in models used for P1 requirement when policy making discussions on gaps in the Pillar 1 framework are ongoing internationally at BCBS level would pre-empt their works and ECB should wait for their conclusions. As long as no or little evidence for climate-related gaps in the measurement of risk-weighted assets (RWAs) has been substantiated, further work is required to explore the correlations between risk and assets of varying greenhouse gas intensity or exposure to broader climate risks – and importantly how those risks might change over time. This in also why, as part of the CRR3 revision, EBA should be mandated to assess whether the current prudential framework under Pillar 1 should be amended. We support the emerging consensus among certain supervisors (such as PRA) that adjustments to the Pillar 1 framework to account for climate-related and environmental risks are not warranted and should not be pursued at present. The design of the Pillar 1 framework may already enable climate risks to be appropriately accounted for [see also Basel FAQ dated December 8, 2022], and therefore there should be no modification to Pillar 1 models to account for climate risks, nor should there be efforts undertaken to utilize the existing framework (without modifications) to target climate-related risks in the absence of the necessary risk signals. In particular, the current internal model framework already allows, when needed, the inclusion of C&E risk drivers as part of existing risk drivers. A focus on C&E aspects would suggest that the C&E risk drivers, when relevant and material, should be treated differently from existing risk drivers and would be the most important risk drivers of the models, which is not the experience of banks. We consider there to be significant methodological challenges associated with amending the overarching design of internal model framework, including challenges of coping with the long time horizon of climate-related risks materialisation, and the backward-looking nature of most calibration methodologies. Also, the inclusion of such paragraph in the ECB Guide raises level-playing-field issues between IRB and SA banks.	The EBA has yet to assess if Pilar 1 requirements should be amended to take into account any ESG considerations, the Pillar 2 framework being already a sufficient existing key tool to address microprudential issues.	LAFFEACH, Erwin	French Banking Federation	Publish

52	Credit risk	8 Model-related MoC	210	141	Amendment	Reference is made to the following sentence under point (a): "When calibration is performed at calibration segment level, the general estimation error may be computed at that level when the statistical uncertainty/sampling error is neither significantly different across grades or PD sub-ranges [nor significantly different between the calibration segment level and the grades or PD sub-ranges level]". The level of calibration of MoC may influence MoC C, as it will depend on the size of the sample used and variability within this sample. Therefore, the definition of MoC would structurally imply that this expectation is not met. We suggest reverting to previous version of this paragraph in 2019 Guide ("Paragraph 210 (a) - "When calibration is performed at calibration segment level, the general estimation error may be computed at that level when the statistical uncertainty/sampling error is not significantly different across grades or PD sub-ranges") or providing flexibility on this specific point.	The changes introduced to the previous version of ECB Guide seem in contradiction with the structural definition of MoC. For LDP, this could lead to major negative impacts on rank ordering in the final estimates (as required in §208). The previous version of the Guide insisted more on the coherence between the level of calibration of the LRA and the level of computation of the MoC.	LAFFEACH, Erwin	French Banking Federation	Publish
53	Credit risk	8 Model-related MoC	210	141	Deletion	On the 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 take into account that it is counterintuitive to apply a higher MoC on less risky portfolios.	ECB expectations need to accommodate the various estimation methodologies and types of portfolios such as LDP portfolios	LAFFEACH, Erwin	French Banking Federation	Publish