Template for comments

Public consultation on the revised ECB guide to internal models

Institution/Company

JPMSE

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First name

Surname

Email address

Telephone number

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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

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<td>Counterparty credit risk</td>
<td>3.2 Principles for ECB Banking Supervision</td>
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<td>We would like to point out, that the list of attributes provided to be utilised in the identification of transactions and collateral positions which are concentrated, illiquid and/or hard-to-replace, is exhaustive. We fully appreciate the guidance provided by this list but on the other hand would like to bring a potential downside of requiring the consideration of each line item to the ECB's attention. Not all features are applicable across all possible combinations of asset classes and counterparties. Another, not unlikely, challenge is likely posed by the availability and reliability of the data, such as market price observations. In our view, the provided list should serve as guidance and an institution should select the relevant items for which reliable market data is available. This can be achieved by rewording the paragraph to: “In establishing the definitions of the items mentioned in paragraph 25(a) to (c) above, along with the related processes, the ECB sees it as good practice if an institution considers, where appropriate, the following features and attributes of transactions and collateral: […]”</td>
<td>The list provided is exhaustive, but not every feature is applicable for every use case.</td>
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<td>Whilst we understand and appreciate the intention to harmonise the practices across the SSM regulated banks in the EU, it should be highlighted, that the rules outlined exceed the Basel as well as regulatory rules in other jurisdictions. The harmonisation within the EU would come at the cost of a divergence across regulatory regimes. We therefore ask the ECB to balance between harmonisation within the EU while ensuring not to create an imbalance on a global scale.</td>
<td>Level of detail provided by regulators in different jurisdictions differs significantly and could potentially create regulatory imbalances for global institutions</td>
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From our point of view, the requirements with respect to parallel runs imposed by EGMA make perfect sense to ensure a meaningful impact estimation. The requirements imposed in paragraph 67, however, are considered problematic in more than one way. On the one hand, it will lead to a violation of CRR article 289: "Institutions shall ensure that the distribution of exposures generated by the model used to calculate Effective EPE is closely integrated into the day-to-day CCR management process of the institution." On the other hand we are concerned about a potential excessive cost associated with expected very long parallel run periods. It should be in a firm’s own interest to ensure that a model change undergoes sufficient testing to gain experience with the new setup. As procedures, systems and setups differ across different firms, we feel that an institution is best placed to assess how much testing of the different aspects of a change is necessary to gain this experience. For significant changes the testing plan should be discussed and agreed upon with the respective JST, as the JSTs usually possess some insight in the system and testing setup.

We consequently propose to reword paragraph 99 as follows:

"In accordance with Article 287(2) of the CRR, the RNIEPE framework and Article 288 of the CRR respectively. In this context and where set out in further detail in Article 294(1)(d), (g), (l), (m), (n) and (o) of the CRR and Article 288 of the CRR respectively. Individuals and institutions applicable back-testing of RNIEPE models is seen as beneficial."

System setups and release procedures differ from firm to firm. The detailed plans should be subject to agreement with the JST to ensure efficiency.
We would like to draw the ECB's attention to the fact that RNIEPEs are, at least in some cases, likely to be burdensome calculations, be it from a technical or process point of view. While we agree to the fact that RNIEPEs need to be refreshed sufficiently often to provide meaningful information we would like to suggest splitting the RNIEPE population into the material items, the ones resulting into a capital overlay/add-on, and the non-material ones. For the material ones we propose an at least quarterly assessment, whereas for the non-material ones we propose to reassess the impact on at least an annual basis.

The below rewording would incorporate this differentiation:

"In accordance with Article 430 of the CRR in conjunction with Article 5(1) of the Commission Implementing Regulation on supervisory reporting, institutions must submit the information relating to own funds requirements with quarterly frequency. Therefore, the ECB considers that in order to assess the adequacy of own funds, institutions should quantify and monitor the RNIEPE and adjust their scope on a regular basis and should update the RNIEPE at least quarterly for any RNIEPE subject to a capital add-on calculation, while flooring RNIEPE add-on at zero.

The frequency for the re-assessment should distinguish between items resulting in a capital buffer on less material ones.

Changes to the netting rules compared to the EEPE introduce a different "measure" making meaningful comparisons extremely difficult.

The formulas provided are not consistent and can cause significant misinterpretations of impact numbers.

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