

Template for comments

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

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General comments

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Template for comments

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

Please enter all your feedback in this list.

When entering feedback, please make sure that:

- each comment deals with a single issue only;
- you indicate the relevant chapter/section/paragraph, where appropriate;
- you indicate whether your comment is a proposed amendment, clarification or deletion.

Deadline: 07 November 2018

ID	Chapter	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated
1	Credit Risk	4.1 Structure of PD models	51	21	Clarification	The paragraph is unnecessarily complex. More clear statement would be: When choosing risk drivers for a model, the risk of overfitting should be considered, particularly where default data is scarce.	The current wording is unnecessarily complicated, tries to capture specific methodological issues that could lead to overfitting, while ignoring others. A broader scope of the paragraph would therefore be more adequate.
2	Credit Risk	4.1 Structure of PD models	61	24	Clarification	Unclear how a choice can be made on inclusion/exclusion of risk drivers to achieve "an appropriate balance" with regard to time horizon of predictability, if all relevant risk drivers are included in a model. Please specify how that is relevant for various modelling approaches.	Requirement to include all relevant risk drivers but assure a good balance of various time horizons of predictability is potentially contradictory.
3	Credit Risk	4.2 PD risk quantification	79	30	Amendment	The EBA Guideline captures the advantages/disadvantages of overlapping vs. Non-overlapping approach. Both approaches require additional analyses to assure that their deficiencies do not result in a potential distortion. The ECB proposed guidance to use overlapping time windows in the described circumstances does not address all relevant problems, e.g. observed intra-year variation of default rate are usually not plausible and should be analysed and understood, instead of taken just an average. Proposal: Regardless of which approach is used (overlapping/non-overlapping), additional analysis should support the determination of LRA DR when the analysis performed by the institution under paragraphs 80(a), 80(b) and/or 80(d) of the EBA GL on PD and LGD reveals any of the following: a) ... b) ... c) ...	ECBs proposed guidance unnecessarily limits modelling choice where the proposed modelling approach does not result in a clear advantage, but could result in a hiding of underlying problems.
4	Credit Risk	4.2 PD risk quantification	80	30	Amendment	The art. could be read such that external data is always required. Propose to delete the second sentence.	The second sentence of Art. 80 creates ambiguity whether external data should be used in all circumstances, even if sufficient internal data is available and does not add additional information.
5	Credit Risk	4.2 PD risk quantification	88	34	Amendment	The analysis described is not appropriate on "portfolio level" but only on rating grade level. Suggest to delete "portfolio level"	Requirement to perform an analysis on portfolio level that is only defined on grade level is unclear.
6	Credit Risk	5.1 Realised LGD	96	37	Amendment	Calculation of realised LGD on facility level if the recovery process is performed on obligor level has the potential to distort LGD parameters. This should also be mentioned and described and corresponding requirements should be formulated for this case.	In case that recovery process work on facility level but realised LGDs are calculated on Obligor level there is almost no risk of severe distortion of LGD parameter. If on the other hand recovery processes are performed on obligor level but realised LGDs are calculated on facility level material distortions could result. ECB should focus more on those situations and articulate corresponding requirements.
7	Credit Risk	5.1 Realised LGD	97	38	Clarification	a) "written-off before" is misleading and propose to be clarified, in particular with respect to multiple defaults	potential source of ambiguity
8	Credit Risk	5.1 Realised LGD	99	39	Clarification	Unclear what this art. means, as it seems to be in contradiction to EBA-GL §160.	potential source of ambiguity
9	Credit Risk	5.3 Risk quantification	108	44	Clarification	While we fully support the ECBs view, it is in direct contradiction to the EBA GL §147 c) and the rationale provided by EBA in the appendix of EBA/GL/2017/16.	To avoid ambiguity due to conflicting regulatory requirements/expectations we suggest to formally address this point to EBA or provide evidence that ECB opinion can be taken as reliable supervisory expectation in the SSM

10	Credit Risk	7 Model-related MoC	142 c)	62	Clarification	This entails an additional requirement, not specified in EBA GL. This needs clarification to avoid a situation where this opinion is regarded as the need to add any uncertainty in the estimation of model coefficients as a MoC. This would be inappropriate as uncertainties of coefficient estimates especially in multivariate models are not reflective of the model output uncertainty.	Current text is ambiguous.
11	Market Risk	2.2 Delimitation of the regulatory trading book	7	69	Amendment	Change introduction to paragraph 7 to: "Notwithstanding the ability to demonstrate trading intent, the ECB considers..."	Trading intent remains the criterion for allocation into the Trading / Banking book. Whilst there may be an expectation, which requires justification where not met, it should not override the principle.
12	Market Risk	2.3 Treatment of banking book positions	13	71	Clarification	Given RNIME's are defined as being part of the Internal Model per paragraph 171, please confirm that this article refers only to Banking Book FX positions which are not captured either through the Model Engine or RNIMES.	There is already an approach (RNIMES) to capture risk that is not in the Model Engine, so it is unlikely that institutions would utilise this alternative.
13	Market Risk	2.5 Exclusion of positions in the regulatory trading book from the scope of application of the IMA	23	74	Amendment	Remove the 2nd sentence of this paragraph.	Standardised Approach is the default method for calculating own funds capital. This is prescribed by the CRR. Any underestimation should be considered by the institution as part of Pillar 2, but there is no allowance to amend the Standardised Approach in Pillar 1.
14	Market Risk	3.2 Scope of application of regulatory back-testing	49	83	Clarification	Whilst we understand that there is a CRR requirement to include FX p&l from the Banking Book in backtesting p&l, we propose that this should only apply to Fair Value instruments in the Banking Book. Guidance to this effect would still meet the requirement of inclusion of FX risk p&l from the Banking book into backtesting p&l, but would avoid creation of artificial valuation methodologies or highly volatile periodic (typically monthly) p&l equivalent numbers distorting the backtesting results.	Non Fair Value instruments typically do not have a daily p&l and as such cannot be incorporated into backtesting p&l
15	Market Risk	3.7 Analysis of overshootings	85	92	Amendment	Amend paragraph to require analysis on the elements which are caused solely by the actual p&l – i.e. the difference between actual and Hypothetical p&l's, rather than reference to intraday p&l.	Assumption that actual overshootings are always based on intraday changes is false. An overshooting caused by actual p&l (only) may not be a result of intraday changes, but could be due to e.g. Valuation Adjustments.
16	Market Risk	5.2 General requirements	102	98	Clarification	A criterion for observability has not been clearly defined.	The FRTB rules around observability have not been finalised and the infrastructure needed to do an observability assessment should not be brought forward prior to the finalisation of FRTB requirements.
17	Market Risk	5.5 Proxies, beta approximation and regressions	128	106	Amendment	The paragraph indicates two P&L calculations. The test is a hybrid between HPL and RTPL and it feels unnecessary to introduce a third P&L metric. The requirement to re-price hypothetical p&l using market data where proxies are utilized in VaR, presents operational challenges. The p&l pricing may be price based, but for risk management & VaR purposes risk factor based. IN this case, where a proxy is used for a risk factor in VaR, there is no equivalent approach for substituting this proxy into the price based approach used for p&l. The implementation of P&L tests such as these should therefore be aligned with FRTB go-live (and therefor the finalisation of FRTB requirements with respect to PLA), rather than being extended to the existing framework.	The requirements from this paragraph front-run elements of FRTB.
18	Market Risk	5.6 Risk factors in the model	131	107	Amendment	The implementation of P&L tests such as these should be aligned with FRTB go-live (and therefor the finalisation of FRTB requirements with respect to PLA).	The requirements from this paragraph front-run elements of FRTB.
19	Market Risk	5.7 Pricing functions and methods in the model	132	108	Amendment	sub-bullet (c) mentions outstanding 'notional' as a materiality metric. Although intuitive in some cases, in some derivatives, this metric is not well defined nor meaningful.	This is again related to the concept of notional in Residual Risk Add-on (RRAO) component of FRTB. For exotic products, this is not necessarily easy to define or meaningful. The metric could be replaced with more market-sensitive measures of materiality (e.g. sensitivities). Once FRTB requirements have been implemented for RRAO, they could be leveraged for this definition of 'notional' as well but, prior to that time, other metrics should be used.
20	Market Risk	5.7 Pricing functions and methods in the model	135	109	Amendment	The requirement to re-price p&l using market data from the hypothetical p&l, employing the pricing functions used in VaR, may not be operationally possible e.g. where the p&l pricing is price based, but for risk management & VaR purposes risk factor based. In addition, similar to other new requirements in section 5, the implementation of P&L tests should be aligned with FRTB go-live (and therefor the finalization of FRTB requirements with respect to PLA), rather than being extended to the existing framework.	The requirements from this paragraph front-run elements of FRTB.
21	Market Risk	6.2 General requirements	139	111	Amendment	The IRC section lists a variety of impact studies and sensitivity analysis that either have to be performed on request by ECB or be part of regular IRC monitoring. The guide prescribes that generally these impact studies have to be carried out for IRC and Default Risk in IRC (switching off migration risk). Additional calculation of Default Risk in IRC doubles the effort for the regular IRC monitoring process and is of limited value as focus is still on IRC including migration risk. Therefore, the calculation of impact studies for Default Risk in IRC should be optional until FRTB Default Risk Charge model goes live.	The requirements from this paragraph front-run elements of FRTB.

22	Market Risk	6.4 Distribution and correlation assumptions	150	113	Amendment	The IRC section lists a variety of impact studies and sensitivity analysis that either have to be performed on request by ECB or be part of regular IRC monitoring. The guide prescribes that generally these impact studies have to be carried out for IRC and Default Risk in IRC (switching off migration risk). Additional calculation of Default Risk in IRC doubles the effort for the regular IRC monitoring process and is of limited value as focus is still on IRC including migration risk. Therefore, the calculation of impact studies for Default Risk in IRC should be optional until FRTB Default Risk Charge model goes live.	The requirements from this paragraph front-run elements of FRTB.
23	Market Risk	6.4 Distribution and correlation assumptions	151	114	Amendment	This paragraph (and others) require impact studies and sensitivity analysis to be performed for the Default Risk in IRC (i.e. switching off migration risk). Additional calculation of Default Risk in IRC doubles the effort for the regular IRC monitoring processes and is of less limited value to current capital calculations these include migration risk. This requirement appears to derive from bringing forward potential elements of the DRC from future FRTB charges, which is inappropriate, given institutions may not either apply for the IMA or may use different models for DRC under IMA and SBA.	Remove requirement to calculate correlation tests for IRC with Default only, as this is not a requirement of the current capital model
24	Market Risk	6.4 Distribution and correlation assumptions	152	114	Amendment	The IRC section lists a variety of impact studies and sensitivity analysis that either have to be performed on request by ECB or be part of regular IRC monitoring. The guide prescribes that generally these impact studies have to be carried out for IRC and Default Risk in IRC (switching off migration risk). Additional calculation of Default Risk in IRC doubles the effort for the regular IRC monitoring process and is of limited value as focus is still on IRC including migration risk. Therefore, the calculation of impact studies for Default Risk in IRC should be optional until FRTB Default Risk Charge model goes live.	The requirements from this paragraph front-run elements of FRTB.
25	Market Risk	6.4 Distribution and correlation assumptions	153	115	Amendment	The IRC section lists a variety of impact studies and sensitivity analysis that either have to be performed on request by ECB or be part of regular IRC monitoring. The guide prescribes that generally these impact studies have to be carried out for IRC and Default Risk in IRC (switching off migration risk). Additional calculation of Default Risk in IRC doubles the effort for the regular IRC monitoring process and is of limited value as focus is still on IRC including migration risk. Therefore, the calculation of impact studies for Default Risk in IRC should be optional until FRTB Default Risk Charge model goes live.	The requirements from this paragraph front-run elements of FRTB.
26	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	156	116	Amendment	The IRC section lists a variety of impact studies and sensitivity analysis that either have to be performed on request by ECB or be part of regular IRC monitoring. The guide prescribes that generally these impact studies have to be carried out for IRC and Default Risk in IRC (switching off migration risk). Additional calculation of Default Risk in IRC doubles the effort for the regular IRC monitoring process and is of limited value as focus is still on IRC including migration risk. Therefore, the calculation of impact studies for Default Risk in IRC should be optional until FRTB Default Risk Charge model goes live.	The requirements from this paragraph front-run elements of FRTB.
27	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	161	118	Amendment	We re-iterate our comment from previous TRIM consultations: "Institutions should be allowed to exclude defaulted issuers from average PD calculation if this leads to more adequate modelling. E.g. Defaulted positions are not relevant for further migration and default risk, but rather their price risk is modelled. Bank have established process to ensure, that unrated positions do not contain defaulted issuers. I.e. in such case fall-back rule is not relevant for defaulted issuers and consequently they should also be excluded from calculation of average PD used as input". As the PD scale is exponential, the average PD would be dominated by defaulted issuers with PD=100% although they bear no further default and migration risk. In particular this leads to a material distortion of the average PD applied for unrated positions for banks with active trading in defaulted debt.	The requirements from this paragraph front-run elements of FRTB.
28	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	163	119	Amendment	The IRC section lists a variety of impact studies and sensitivity analysis that either have to be performed on request by ECB or be part of regular IRC monitoring. The guide prescribes that generally these impact studies have to be carried out for IRC and Default Risk in IRC (switching off migration risk). Additional calculation of Default Risk in IRC doubles the effort for the regular IRC monitoring process and is of limited value as focus is still on IRC including migration risk. Therefore, the calculation of impact studies for Default Risk in IRC should be optional until FRTB Default Risk Charge model goes live.	The requirements from this paragraph front-run elements of FRTB.
29	Market Risk	7.2 The framework for risks not in the model engines	171	123	Clarification	Please clarify whether RNIME add-ons are part of the IMA Own Fund Requirements as figure 4 is unclear and how this relates to the IMA OFR as stated under CRR 364	The scope of OFR in CRR 364 is explicit and deemed to be complete. The expectation is that RNIME add-ons are not within the scope of OFR.
30	Market Risk	7.2 The framework for risks not in the model engines	171	123	Amendment	Remove validation from scope of the internal model	As noted in paragraph 173 and CRR 369, the Internal Model is required to be validated. The validation cannot therefore be part of the internal model.
31	Market Risk	7.4 Quantification of RNIME	178	127	Clarification	At present, the formula implies (via the term "incorporated") that an institution has to actually incorporate the risk into (e.g.) VaR and then see the difference. We request that a note is added to clarify that appropriate estimations are allowable in this regard.	Given RNIMES may not be possible to estimate via direct incorporation, alternative estimates to the incremental impact should be allowed.
32	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129	Amendment	The 10% threshold should exclude any RNIMES which are already capitalised (including any substantial RNIMES). This is consistent with the requirement that the Internal Model captures all material risk, with the definition provided in these guidelines (paragraph 171) that the RNIMES are part of the Internal Model.	In many cases it may not be practical to incorporate RNIMES into the underlying model engine, thus capitalisation should be an alternative option. To prevent being over the 10% threshold through capitalised RNIMES, they should therefore be excluded from the measure.

33	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	The paragraph should be amended to require reporting of Regulatory backtesting for the VaR Model Engine number for transparency to Competent Authorities, however, the VaR Internal Model number incorporating RNIMEs which are capitalised, should be used for the purpose of calibrating the addend per CRR Article 366.	RNIMEs which are capitalised should be included in the VaR number for the purpose of calibrating the addend. As the RNIMEs are part of the internal model capital per paragraph 171, it is inconsistent to exclude them for consideration of a capital multiplier.
34	Market Risk	1 Scope of the market risk chapter	1	66	Clarification	The multiplier referred to in Article 366.2 is set to a minimum of 3. However, there is a lack of guidance for Banks as to what drives the setting of this multiplier by Competent Authorities and the process for applying to as for a reduction as Banks address CA concerns. The TRIM offers the ECB an opportunity to make the setting of and process around changes to the multiplier more consistent and transparent and in doing so remove one area of potential significant Own Funds variation between Banks in the SSM. In particular, given the future requirement for capitalisation of RNIMEs, we would expect to lead to a reduction in discretionary multipliers for institutions. We would encourage the ECB to pursue this avenue of investigation regarding consistency and transparency of the multiplier as part of the broader TRIM exercise.	The Multiplier used in Own funds requirements calculations for VaR and SVaR can be set at the discretion of the Competent Authority. We would like to see greater transparency and consistency in the setting and framework for amending these multipliers.
35	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	15	137	Amendment	Increase the amount of 15 (a) from €100,000 to €500,000 and increase the % of 15 (b) from 0.5% to 5%	Thresholds should be increased in order to focus investigations on important price differences: Low thresholds will result in an operational burden without significant enhancement to exposure modeling. In particular the notional amount condition 15 (b) should be increased from 0.5% to 5% and absolute differences in 15 (a) from EUR 100k to EUR 500k
36	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	16	138	Deletion	Amend the paragraph by removing the final sentence or propose alternative treatment to that described in footnote 158. "In this case, in order to address any unacceptable performance of the exposure model, the ECB considers that the netting benefit ¹⁵⁸ due to not carving out should be added to the entire netting set's expected exposure (EE) profile."	The netting benefit as described in footnote 158 p138 only makes sense if the exposure is uncollateralized and is unfit for purpose in the collateralized case. The reason for this is that CCE (or CCE benefit) is not an appropriate measure of risk in the collateralized case as a corresponding amount of collateral will offset the CCE.
37	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	16	138	Amendment	Amend the text to provision for the use of standard approach for SFTs.	If the intention for the scope of this paragraph is for both OTC and SFTs, then the articles which cover the standard approach for SFTs (CRR 222 (FCSM) and 223 (FCMI)) should be referenced under 16 (j). SFTs cannot be carved out and treated as per Sections 3, 4 and 5 of Part Three, Title II Chapter 6 as these are not adapted to SFTs.
38	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Amendment	Replacement of "For all future grid points, the adjustment of the netting set value using the aggregated difference should only be taken into account if this difference increases the netting set exposure. For these grid points, the difference could be estimated using more sophisticated methods taking amortising transactions into account" by "For all future grid points, institutions shall assess the potential impact of pricing differences between risk and front office valuation tools on the exposure computation, and adjust the exposures accordingly."	Controls over price differences between IMM and FO prices are introduced via paragraph 15. There is no reason to request an asymmetric alignment of IMM prices to FO prices since retained trades would be deemed to be adequately priced under IMM even if price differences exist. In addition, for the margined case, it is not trivial to determine which way the adjustment is conservative. Systematic bidirectional adjustments are the most appropriate. Sophisticated methods for adjustment of future grid points need not only apply to amortising transactions.
39	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	19	138	Deletion	Option 1 should be deleted and only Option 2 should be retained	In some cases option 1 is not possible and option 2 should be retained as IMM would still provide a more accurate view of the risk compared to the standardized approach.
40	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	143	Amendment	Annex I stipulates that theta effect is usually small (generally a daily theta is below 5bps of notional) and acknowledges that the methodologies proposed to isolate cash-flows ignore it. We propose to offer banks the option to remove the theta effect providing it has an adequate approach for doing so. It was found that removing the theta effect on all trades (hence only leaving genuine cash-flows) can halve the cash-flow impact (Option B from TRIM with spike add-on where cash-flows are averaged) at representative sub-portfolios level.	Theta effect is generally small but the impact adds up on large portfolios, in particular when cash-flows cannot be netted. This leads to large overestimation of cash-flow effect overall if the institution makes use of the approaches proposed in TRIM to estimate cash-flows without further adjustments for removing the daily theta effect.
41	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	24	144	Amendment	Institutions should have the option to integrate the add-on for cash flow spikes within the EPEE calculation framework (without effectivization which is not economical) which would render the corresponding alpha increase obsolete.	The assumptive requirement is that cash flow spikes should be captured within the exposure calculation, i.e. through the EPEE metric, and if not an add-on stipulated by §24 and computed as required in Annex 1 applies. This would be more accurately captured through expected exposure as exposure spikes typically result from a small number of trades with large cash flows. Typically such trades are not repeated continuously and modelling rollover on such trades does not reflect economic reality and would introduce undesired volatility in exposure and capital, even when the time grid is perfectly granular. These arguments are recognized in the methodology underlying the calculation of the add-on proposed in §24, which uses the expected exposure curve as input. Provision within the paragraphs should be made to allow for incorporation of risks related to cash flows in the exposure itself, rather than through alpha parameter, by using the same or an equivalent methodology. This offers incentive for banks to comply with requirements of §23 directly. Direct incorporation presents the advantages of counterparty level impact allowing for appropriate capital allocation and the removal of the operational cost associated with the computation and reporting of a separate add-on.
42	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	35	149	Amendment	For clarification suggest rephrasing: "[...] potential FX risk arising from currency mismatches between (i) the exposure calculated in settlement currency as defined in paragraph 32 (b) and (ii) the reporting currency."	The current phrasing is prone to double counting and confusion with paragraph 32, which defines the expectation that FX risk is captured when the collateral currency is different from the "settlement" currency as defined in 32 (b). The remaining FX risk arises when the "settlement" currency in which the exposure needs to be calculated is different from the reporting currency. The proposed rephrasing supports consistent definitions of currency mismatch.
43	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	37	150	Amendment	Effective deletion of condition (a) and (c) through a restatement *, the ECB considers that the real margin collateral should be assigned to the synthetic netting sets in a way that also reflects their respective current exposures , as defined in Article 272(17) of the CRR. by *, the ECB considers that the real margin collateral should be assigned to the synthetic netting sets in a way that does not double count collateral	Allocation of collateral (IM in particular) to different synthetic netting sets which are not related to real netting sets is not specified in the CRR as outlined in paragraph 28 (c). Although double counting of collateral should be prohibited, institutions should be allowed to allocate collateral to the various netting sets in whichever way they see fit.

44	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	41	152	Amendment	The paragraph should be reworded (primary changes in italics): ² In relation to the requirements set out in Article 292(1)(b) of the CRR, and for exposures subject to IM that are within the IMM scope, the ECB considers as good practice that institutions <i>control on a regular basis that their IM modelling adequately accounts for contractual arrangements for the respective netting set. In particular, if contractual arrangements provide that the IM should reflect forward variability of netting set values, institutions shall demonstrate and monitor that the IMM modelling of the IM reflect this feature adequately. If the IMM modelling of the IM does not reflect forward variability of the IM in different market scenarios, institutions shall demonstrate that it leads to an adequate assessment of the exposures.</i>	Modelling initial margin as part of EEPE is very complex. IM can be determined based on a wide range of margining models depending on the type of product (e.g. cleared OTC derivatives, bilateral OTC derivatives subject to SIMM margining, transactions margined following the schedule method...). It is not achievable to reflect the contractual arrangements of every margining scheme in the EEPE model. Therefore, institutions should rather be allowed to retain one modelling approach, and apply controls to ensure that the internal modelling retained is sufficiently conservative. The paragraph should also allow for an assumption of a constant IM over time if it can be evidenced that it does not systematically underestimate exposure.
45	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	41	152	Amendment	It should be clarified that the current phrasing only applies to IM in IMM scope and that having the exposure in the IMM scope does not imply that all IM should be in IMM scope. In particular it should be left to institutions to provide an argumentation for including or not posted IM within IMM. If institutions choose not to include posted IM in IMM, then posted IM would not be subject to IMM modelling.	There are numerous arguments for not including posted IM within IMM and it should be left to institutions to elaborate on excluding posted IM from IMM if deemed more appropriate
46	Counterparty Credit Risk	5.3 Principles for ECB banking supervision	42	152	Clarification	When IM is commingled with VM, it is redundant to benchmark both IM and VM (cf paragraph 36) with "real" IM and VM as only the total collateral is known.	Avoid redundancy of investigation.
47	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	48	144	Amendment	IM for open repos should be set to a 5 days fixed maturity rather than an estimated average where the institution has the right to terminate.	An averaging tends to capture maturity in a normal regime, however, a drop in counterparty credit quality leads to a shortening of the transaction maturity by the exercise of termination rights. This advocates the use of a short-term fixed maturity which would also avoid the operational cost of regular computation of the maturity parameter. □
48	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	48	144	Amendment	Propose to replace 2 years with 6 months averaging period in part i)	Notwithstanding our previous comment on this paragraph, if averaging is required the use of a 2 year average may not reflect changes in market practices in a sufficiently reactive manner, and a 6 month average is proposed.
49	Counterparty Credit Risk	7.3 Principles for ECB banking supervision	55	157	Clarification	Specify that the EEPE calculated with "a very dense time grid" should be calculated using the same model as the one used in production.	This is to avoid cumulating the impacts (cash flows in particular) which are being calculated via separate process.
50	Counterparty Credit Risk	7.3 Principles for ECB banking supervision	56	157	Amendment	Increase threshold to 10% as suggested in initial version of TRIM	If a Monte carol error of 5% is tolerated (paragraph 56) then when changing the density of the grid an impact of 5% to EEPE could simply be due to the MC error associated with the rerun. The 10% threshold is seen as more appropriate to ensure that increasing the granularity of the grid genuinely improves the accuracy of the profile. Note that a MC error threshold of 5% is already conservative given the alpha floor, combined with very low observed WWR at overall portfolio level.
51	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	68	163	Amendment	We propose to delete item (a) and modify item (c) as follows: (c) the assessment of the outcomes of the analysis (e.g. the evaluation of back-testing traffic lights or pricing deficiencies detected in the benchmarking) and the judgement regarding respective remediation measures are reviewed by the responsibility of the validation function and the validation function may require change of KPIs and/or entailed actions only."	We fully support the required independence of validation and development. For back-testing, we believe that independence is best achieved with a review of the back-testing activities by the independent validation team. This also means that back-testing is owned by model developer or model owner and both, the applied back-testing methodologies as well as the KPIs/traffic lights including entailed actions, are independently challenged
52	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	30	148	Amendment	We propose to delete the sub point ii) regarding the materiality of quantitative impact of differences	CRR allows for both approaches and the materiality of difference in approach is not relevant in the case that the choice of approach is shown to be conservative.