EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

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

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General comments

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	58-59	23-24	Clarification	With regard to the homogeneity within rating grades and the differentiation across rating grades or pool tests, we expect additional clarifications about the analysis to be performed in case of Low Default Portfolios (LDPs). Indeed, if the number of observed defaults is too low, the results could lead to counterintuitive outcomes. Moreover, in order to obtain more robust results, one could decide to aggregate adjacent rating grades with potential problems arising in terms of excessive concentration or in terms of stability across the years.	For LDP, a low number of observations on defaults could lead to counterintuitive outcomes. We need more clarifications on the kind of analysis to be performed, in order to avoid adopting solutions that could lead to the potential problems listed in the comment.
2	Credit Risk	4.2 PD risk quantification	85-86	32	Clarification	Some clarifications should be provived about the mapping between internal and external ratings. Indeed, the following aspects should be considered: - no full disclousure is available about the criteria used by the external organizations; - the set of "common obligors" could be very small: the rated counterparties by an external organization (e.g. rating agency) are usually a small share of the specific Institutions' portfolio (e.g. Large Corporate or Institutions); - the sample of common obligors could be non representative of the application portfolio (for example, for the reason described at the previous point); Moreover, it is not clear if the mapping should be based on a comparison between the observed default rates for the internal and the external rating grades or according to a general coherence between the two evaluations (e.g. determine which is the prevailing internal rating grade for each external rating grade). Hovewer, in such analysis, a certain degree of human judgment (expert-based approach) should be allowed, in particular if the sample under evaluation is small or with few defaults. Finally, ECB should clarify if this section (e.g. article 85-86) should also be applied if the mapping between internal and external rating classes is used by the Institutions not for the PD quantification but for managerial purposes or process-related phase (e.g. override process).	The detailed comment is self-explaining in highlighting the motivations of the request of clarification.
3	Credit Risk	5.1 Realised LGD	96	37-38	Amendment	The LGD computation at facility level is a general principle that can be shared. Neverthelss, there can be some cases where a more aggregated computation is necessary not only due to a legally enforceable recovery process but also for the mix effects of the cash flows recorded. This is in particular the case of Short-Term products where often the effects recorded on the current account are also the result of the combination of other short term facilites (i.e. self-liquidating invoices where the effects are reflected in the current account) and is not an exceptional deviation but a "structural" practice. For this reason a separate computation for those cases would result in an incorrect economic loss. An amendement to the Article proposed could include among the cases where a more aggregated computation is allowed also the cases where the bank can demonstrate that LGD by facility would not correctly reflect the real economic loss observed and therefore illustrate that it is not an "exceptional deviation" but a "structural" practice. It is suggested to replace the term "exceptional deviation" with "justified deviation" and to add to the subsequent bullet point the following option: "provide evidence that recovery at facility level would be biased due to the mixed effects recorded from different facilites."	There are some specific cases where LGD computation at facility level would not correctly reflect the real economic loss, therefore a more aggregated computation is necessary. The statement should therefore allow to demonstrate and support these "structural" practices.
4	Credit Risk	5.1 Realised LGD	97 - a	38	Amendment	It should be clearly underlined that a coherent approach has to be adopted between LGD and CCF on the additional drawings. Threfore if it is requested to discount additional drawings in the LGD, the same approach has to be applied for CCF. The following paragraph: "Where institutions include additional drawings after the moment of default to estimate CCFs, these additional drawings discounted to the moment of default are added to the outstanding amount at default in the denominator (paragraphs 139-142 of the EBA GL on PD and LGD). In other words, institutions should ensure that the exposure used for CCF estimation is consistent with the denominator of the LGD." with "Where institutions include additional drawings after the moment of default to estimate CCFs, these additional drawings discounted to the moment of default are added to the outstanding amount at default in the denominator (paragraphs 139-142 of the EBA GL on PD and LGD). The discounted additional drawings have to be included as well in the CCF calculation. In other words, institutions should ensure that the exposure used for CCF estimation is consistent with the denominator of the LGD."	We think the proposed integration of paragraph 97-a might better ensure consistency between the exposure used for CCF estimation and the denominator of LGD.

5	Credit Risk	5.1 Realised LGD	98	39	Amendment	It should be clarified that the restructuring involves only previously defaulted facilities or cases where the measures granted determine the default of the customer and not commercial practices where the bank modifies the contractual conditions without classifying the client as a default. For example the renegotiation of the interest rate with a Performing customer does not determine automatically the default and therefore must be out of the scope of this Article. Given this premise, the following section "where institutions open new facilities to replace previously defaulted facilities as part of restructuring or for technical reasons, the realised loss should reflect the decrease in the degree of financial obligation arising from changes in the contractual conditions (i.e. material forgiveness or postponement of payment of principal, interest, or fees). The amount by which the financial obligation has diminished should be calculated under paragraph 51 of the EBA GL on the definition of default." seems to contradict the principle of economic loss. In fact, the changes in contractual conditions are not reflected in a cash flow but are related to a financial concept which is in general out of the LGD scope; let's suppose, for example, that the bank grants to the client a longer contractual term to repay the debt, this modification of NPV has no direct and immediate impact on the LGD but will be reflected only through the different future realisation of cash flows. It is therefore requested to amend this Article to be compliant with the economic loss definition.	Restructuring procedures with performing customers should be clearly put out of the scope of this article. The second part of the amendment aims at ensuring compliance with the economic loss definition.
6	Credit Risk	5.1 Realised LGD	100 - a	39-40	Amendment	The analyses required on independence period appropriateness, based on analysis related to the curing process, are basically overlapped with the same analysis and monitoring foreseen for probation period, on top of which the independence period should be applied, within the EBA GL on Definition of Default (EBA/GL/2016/07 - par. 76). Therefore requiring a further analysis and demonstration on this, considering also the critical and highly questionable asymmetric treatment introduced by independence period (i.e. relevant for LGD but not for PD, with requirements introduced by EBA Draft RTS on Assessment methodology for IRB approach and EBA GL on PD estimation, LGD estimation and the treatment of defaulted exposures), would result in a low value added effort required to the Banks as well as in further discretionary measures subject to supervisory challenge and difficult harmonization among banks.	Overlap of independence period appropriateness with probation period one and elimination of a further asymmetry between LGD and PD.
7	Credit Risk	5.1 Realised LGD	100 - b	39-40	Amendment	For historical data where institutions have not adopted the minimum 12-month probation period on distressed restructured facilities under paragraph 72 of the EBA GL on the definition of default, they should consider a 21-month period for the application of paragraph 101 of the EBA GL on PD and LGD. The 12-month probation period is a peculiar approach applied for Unlikely to pay Forborne positons; neverthless the identification of Forborne positions is quite recent in the IT systems (from 2015 onwards) as a consequence of regulatory principles and does not coincide with the former distressed restructured facilities. It is therefore requested to clarify how the pro-forma correction has to be applied on the historical series: has the 21-month period for the default windows grouping to be applied for all the customers classified as "Restructured" even if they are a larger sample compared to currently Forborne rules? If the answer is affirmative we deem it is necessary to consider that former "Restructured" credits were already subject to a long probation period of 24 months and subsequently the new rule would create a disproportional overlapping period before considering the client as cured; we ask therefore to amend this article and to apply the pro-forma correction only to Past Due and to the Forborne clients from the moment of the introduction of this risk category.	Pro-forma 21 month period for former "Restructured" default windows grouping would be incorrect given the previously applied rules on probation period.
8	Credit Risk	5.2 LGD structure	105 - b	42-43	Deletion	The model component approach is designed to capture different aspects of the recovery process and allows to obtain a LGD estimate which is the result of both losses observed and dynamics of cure/migrations within default statuses and between default and non-default. The request to demonstrate independence among the components is not clear and not coherent with other regulatory prescriptions. The goal of the model components is different and also the drivers tested are, in general, different; the burden of proof for institutions to provide empirical evidence of their independence has to be deleted from the document.	We deem the required demonstration of indipendence not coherent with other regulatory prescriptions and therefore not justified.
9	Credit Risk	5.3 Risk quantification	108	44	Amendment	Since for recent defaults only limited information is available regarding the full recovery process, the treatment of incomplete recovery processes envisaged in paragraph 158 of the EBA GL on PD and LGD is more complex and could add uncertainty to the LGD estimates; to mitigate this risk, institutions may establish a minimum period of time during which the default should be observed in order for it to be considered in the calculation of the observed average LGD (with a maximum period equal to 12 months). This principle is correct but should be specified as well for institutions applying a model component approach: in this case the analysis should be replicated not only from the entrance in default but as well from the entrance in the litigation process. In fact, in a standard approach where the LGD is equal to Pcure*LGDcured + (1-Pcure)*LGDnoncured, the LGD of non cured facilities (litigation process) includes as well open facilities and the open inferenced cases are estimated on the sample of non cured cases. Therefore even in these cases it should be allowed to exclude positions with limited information from the beginning of the litigation phase, for example for secured facilities where the most relevant information is relative to the end of the recovery process with the collateral realisation. Finally the 12-month period should be extended, with adequate justification, for the secured facilities where, as stated above, the realisation of the collateral at the end of the recovery process determines an even less significant contribution of young positions.	Since for recent defaults only limited information is available regarding the full recovery process, the treatment of incomplete recovery processes could add uncertainty to the LGD estimates.
10	Credit Risk	5.3 Risk quantification	113 - a	46	Clarification	For the cases where two or more facilities (for example mortgages) of the same obligor are assigned to the same facility grade or pool we deem appropriate to have two options as compliant for calculating the average. The first is to compute the average weighted by the total number of facilities within that facility grade. The second is to first take the exposure-weighted average realised LGD at the obligor level and then take the arithmetic average LGD weighted by the number of defaulted obligors within the LGD grade. Institutions should demonstrate that the approach they use does not distort the actual observed loss.	The detailed comment is self-explaining in highlighting the motivations of the request of clarification.
11	Credit Risk	5.3 Risk quantification	113 - c	47	Amendment	The proposed treatment of outliers is not symmetrical between the two tails. On one hand paragraph 113 (b) requires to floor the left tail to 0, on the other hand this paragraph requires the right tail to be treated with an appropriate treatment (data quality, risk drivers, assignment to grades or pools or assignment to calibration segments) without capping realised LGD values. The practice widespread among institutions to replace the observed value by a pre-defined value when the observed value is above the pre-defined one already partially safeguards the symmetrical approach between the two tails and definitely allows to avoid further biases in the estimated LGDs. It is not always possible to assign these outliers to one bucket or grade because they can pertain to different combinations of the risk drivers used to model the loss rates. The unintended consequence of the proposed practice could be an increase of the facilities excluded in the sample definition. We suggest to replace the proposal of the inclusion of raw data with a percentile treatment of the right tail which guarantees, in addition to the bucketization, a minimum level of symmetry between the two tails of the distribution.	Our suggestion aims at ensuring a minimum level of simmetry between the two tails of the distribution, when treating outliers and preserving at the same time the prudence in the estimates.

12	Credit Risk	5.3 Risk quantification	115 - b/c	47- 48	Amendment	Same amendement and comment as for paragraph 105-b. The model component approach is designed to capture different aspects of the recovery process and allows to obtain a LGD estimate which is the result of both losses observed and dynamics of cure/migrations within default statuses and between default and non-default. The request to demonstrate independence among the components is not clear and not coherent with other regulatory prescriptions. The goal of the model components is different and also the drivers tested are, in general, different; the burden of proof for institutions to provide empirical evidence of their independence has to be deleted from the document.	See paragraph 105-b
13	Credit Risk	5.3 Risk quantification	119 - 124	49 - 51	Amendment	Since the paragraph on Downturn LGD is strictly related to both RTS and GL currently under consultation we do not provide any comment here. The comments of the institution are reported in the response submitted to EBA. Given the broad discussion on this topic and the changes still to be introduced with the final versions of the two EBA documents, we ask to amend the text by underlying that such articles won't be applied for finding purposes until the final publication of the RTS/GL and the subsequent incorporation within TRIM Guide.	Statement to avoid ECB findings based on a regulation still not approved in the final version and still subject to discussion.
14	Credit Risk	5.4 Estimation of ELBE and LGD in-default	126	52	Clarification	The possibility to reflect downturn conditions in the ELBE, if and only if current economic conditions are in a downturn or a downturn is expected over the period of the recovery process, is shared by the institution. Nevertheless, we do not perceive this approach in the inspection practices; indeed it's a quite common feeling that, until now, ECB preference has been towards an ELBE associated with long-run average or, at most, long run average corrected to take into account positive economic outlook and an entire downturn assigned to LGD in-default not to lower RWA on defaulted facilities. Othwerwise we deem appropriate to reduce RWA (at least for the Downturn share, the MoC is the other one) in case of current economic conditions already embedded in the Expected Loss Best Estimate. We therefore ask for a clarification on how to interpret this issue and for more details on the approach to be applied: the current conditions issue was already included within EBA GL on PD estimation, LGD estimation and the treatment of defaulted exposures but the topic related to a downturn expected over the period of the recovery process is quite new and somehow subject to challenge. The latter, in fact, introduces a sort of forward-looking aspect whitin the ELBE which is coherent with IFRS9 ECL but should be better explained in the Guide to allow the banks a proper interpretation of this requirement. We highlight that an important issues is to avoid as much as possible the excessive volatility in the RWAs and therefore the correction to ELBE should not be based on an excessively PIT logic.	A clarification on the inclusion of a downturn expected over the period of the recovery process in the ELBE is necessary since it is a new issue with respect to EBA GL. We highlight that an important issues is to avoid as much as possible the excessive volatility in the RWAs and therefore the correction to ELBE should not be based on an excessively PIT logic.
15	Credit Risk	6.2 Realised CCFs	132	55 - 56	Amendment	Bearing in mind what underlined for LGD computation about paragraph 96, we think that an amendment is necessary for CCF calculation: the CCF computation approach is not always coherent with the LGD one since the analysis of the effects has to be performed according to a logic coherent with the dynamics of the drawn and undrawn amounts. First of all a separation is necessary between prodcut types with and without undrawn amount at performing date. Then, a macro-aggregation is necessary since some joint product types need to be evaluated in order to properly catch the combined effects: for example, within Corporate segment, the joint behaviour of current accounts and self-liquidating products is very relevant and has to be properly observed (self-liquidating effects are reversed into current accounts and their combined relationship has to be analyzed in this way). We think that these aspects have to be properly specified with respect to the current version of the document where is the LGD having, at most, a more aggregated level than CCF. As underlined for LGD, banks should be allowed to properly demonstrate why and how the computation logic coincides or differs.	Facility aggregation rule for CCF not necessarily similar to LGD one. Banks should be allowed to properly demonstrate why and how the computation logic coincides or differs.
16	Credit Risk	6.2 Realised CCFs	133 - b	56	Amendment	Refer to amendment to paragraph 97-a on LGD.	We think the proposed integration of paragraph 97-a might better ensure consistency between the exposure used for CCF estimation and the denominator of LGD.
17	Credit Risk	6.3 CCF structure	134 - b	57	Clarification	Clarification is requested between fixed horizon approach and cohort approach: Basel Committee on Banking Supervision has indicated the 12 months fixed horizon approach as the preferred one, while, both in inspections and in this Guide, the cohort approach is requested as well. More details should be provided on this topic.	Coherence with Basel requirements on CCF estimation.
18	Credit Risk	6.4 CCF risk quantification	136 - b	58 - 59	Amendment	As for paragraph 113 - c about LGD, we deem not appropriate the proposal not to cap the right tail of the distribution. An appropriate treatment (i.e. interquartile range) has to be performed in order to avoid biases coming from raw CCF.	Our suggestion aims at ensuring a minimum level of simmetry between the two tails of the distribution, when treating outliers and preserving at the same time the prudence in the estimates.
19	Credit Risk	6.4 CCF risk quantification	136 - c	59	Clarification	A clarification is requested about the following issue: "When the historical observation period is considered to be 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." Why should the approach be different from the default weighted approach adopted for LGD? The CRR explicitly says (Article 182, par. 1, letter a): "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)."	Calculation of realized LRA CCF seems not fully in line with CRR Article 182, par 1, letter a).
20	Credit Risk	6.4 CCF risk quantification	138	60	Clarification	Since this paragraph refers to the Downturn LGD comments are reported above for paragraphs 119-124. In particular we underline that CCF are out of the scope of EBA works on Downturn topic and thus we deem appropriate not to derive peculiar requirements for LGD on CCF.	See paragraph 119-124

21	Credit Risk	7 Model-related MoC	142 - a	61	Amendment	The request to reflect the dispersion of the statistical estimator at grade level might produce the following effects (in particular for LDP): - inversion of PD ordering for adjacent classes - incentive to use totally PIT rating systems in order to minimize variability of default rates for each class. On the other hand, this would increase RWA volatility - incentive to use less granular Master Scale, penalizing the models risk differentiation Some of the described effects are illustrated on a practical example in the attached document. Furthermore, the request to consider each year's variability might produce the following effects (in particular for LDP): - incentive to use shorter LRA, in order to avoid variability of DR due to full covering of economic cycles - potential contradiction with the necessity to cover "likely variability of the default rates". It is suggested to replace: " to account for statistical uncertainty/sampling error affecting the LRA estimate at grade level stemming from the variability of each year's default rate and from the period considered. This MoC should be defined on the basis of the distribution of the estimator, i.e. the average default rate across time, and therefore reflect sensitivity to the period considered" with: "to account for statistical uncertainty/sampling error potentially affecting the model estimation at least at the level of calibration segment. The MOC should account for the potential variability of default rates and the number of observations available for model estimation and should subsequently be applied at grade level" Please refer to the attached document.	Please refer to the attached document. MoC C should be independent from the yearly default rate volatility and should be computed at calibration segment level and subsequently applied at grade level. The statement should be included because the current proposal might produce the inversion of PD ordering for adjacent classes as well as incentivize the usage of a less granular Master Scale and a shorter historical series.
22	Credit Risk	7 Model-related MoC	142 - b	61-62	Clarification	It is unclear if the "other estimates" refers to parts of the model that due to the estimation complexity might be considered self-standing models or to any parameter which represent an input to the model (i.e. Downturn component, indirect costs). In particular, it is unclear what should measure the materiality of the uncertainty (quality of parameter estimation, relevance of the parameter in the model, marginal changes that a MOC might produce). Due to the complexity of the correlated effects and the undesidred possibility to disproportionately increase the MoC C, it is requested to specify that "one for all" MoC C should be computed and the latter should encompass all the model's estimation errors.	It has to be clarified which parts or inputs of the models should be subject to MoC C and it should be considered that "one for all" MoC C should be computed to avoid a really complicated analysis of the correlation effects among various components of the final estimates.
23	Market Risk	5.7 Pricing functions and methods in the model	134	109	Clarification	In case the institution have a validation unit, within the Risk Management Department, that is dedicated to the validation of pricing functions used for economic P&L and for their implementation in the VaR and sVaR engine, it is reasonable to let this unit perform a portion of the activities cited in article 134 even if it is not part of the Internal Validation function (similarly to what reported in art.68 in Counterparty Risk section)? In this context, in order to assure an adequate level of control, it is reasonable to focus the activities of the Internal Validation function on the behaviour of pricing functions within risk scenarios and on independent reviews of the activities performed by the Risk Management's unit that validated the pricing functions?	Cooperation between Risk Management Dept and Internal Validation function (assuming the existence of an adequate level of control) could prove very important in terms of cost-benefit's trade off.
24	Market Risk	7.2 The framework for risks not in the model engines	170	122-123	Clarification	RNIMEs are now considered to be a component of the IMA for market risk (whereas the current version of TRIM sees RNIMs as outside of the model). The paragraph suggests that Article 367 of the CRR rules all general risk engines and that RNIME can be included in such category becoming an integrating part of the IMA. On the contrary, CRR explicitly mentions VaR, SVAR, IRC and CRM as IMA engines, not mentioning anything about Risks Not in the Model.	Does the Guide add a new component to IMA engines?
25	Market Risk	7.2 The framework for risks not in the model engines	171	123-124	Amendment	RNIME is not included in back-testing. The Bank would propose that if institutions can demonstrate that VaR outlier is due to a risk factor already covered by RNIME, then it should be disregarded. This could be specifically relevant for incremental RNIME. We found some contradiction in including the RNIME in the risk engine and the RNIME exclusion from regulatory back-testing. RNIME should be considered in risk metric for back-testing if they are capitalized according to §171(b) in line with FRTB NMRF. Point is repeated under §189.	VaR vs back-testing management should be coherent
26	Market Risk	7.3 Identification of RNIME	174	125-126	Clarification	No reference to proxies. All proxies are then candidates for RNIME capitalization? The list of phenomena that should fall under the concept of RNIME is too broad and includes items that are well beyond the input of the end of day PV of the books (e.g. IRC factor model).	RNIME identification should be properly addressed and take into account if the proxy results in a prudential assessment of the risk.
27	Market Risk	7.3 Identification of RNIME	175	126	Amendment	"Unless the institution can provide justification that the effect of an RNIME is negligible in the current portfolio and will remain negligible taking into account the trading strategy, it should take the RNIME in its RNIME framework." We think that, at least for VaR, the assessment on the model adequacy is clearly identified in the back-testing.	Actual P&L overshootings (also) clearly identify failures for RNIME.

28	Market Risk	7.4 Quantification of RNIME	178-179	127-128	Clarification	Art. 179: if the factor is not in the model the incremental risk number might not be directly observable. Clarification in the formula of the incremental approach is required - The formula implies (via the term "incorporated") that an institution has to incorporate the risk into (e.g.) VaR and then considers the difference. We need that a note is added in order to clarify that appropriate estimations are allowable in this regard. The ECB requires a quantification of the impact of the identified RNIME to assess the inclusion of the risk factor in the engine. It is suggested to estimate this RNIME impact as an incremental risk number, that is the additional risk generated by the RNIME if considered in the model with respect to that derived from the current portfolio. This may seem contrary to the RNIME definition itself. If the risk generated by a position is already included in the model, then it would not be classified as risk not in the model. Due to the nature of RNIME, it might not always be feasible to compute a VaR (SVaR) measure for those risks with the current engine, nor their impact on the Bank VaR (SVaR). For instance, if the factor is not directly observable or it is an illiquid position the incremental risk number might not be easily measured. Furthermore, in some cases, data availability can be limited. Incremental assessment can be only obtained by including the RNIM in the Model. The requirement is impractical and the standard assessment will be on a stand-alone basis, which is bound to be too conservative. Additionally, capital add-on are not part of the CRR mechanism to compensate for poor model performance, which is instead driven by back-testing and multiplier increases. The assumption under the ECB Guide is that all RNIME factors fit into a VaR framework, though real practice shows that daily observable data, which can be used to compute a risk measure impact at the same confidence level than the VaR (SVaR) is not always available for all risk factors. This could force banks to use unrealistic model assumptions, and for PRA firms currently using "Type II" RNiV, would necessitate re-engineering of RNiV models, and lead to divergence between risk frameworks in different jurisdictions.	It could be useful to understand how institutions should calculate incremental risk numbers in case of illiquid/not observable risk factors.
29	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129-131	Clarification	Art. 183(b): if the factor is not in the model thresholds might not be identifiable. Contribution to actual P&L would be more relevant. It is not clear if the threshold (5%) has to be applied to the sum of risk figures or to a single one. Further, consider that risk figures contributions might offset. The lack of diversification creates a great divergence between the RFs included in the models that benefit from diversification and cumulative effect of all RNIME. If ECB goal is to include most risk factors in model engines, we propose further wording that requires periodic reviews to identify any risk factors that could be included in VaR, and reporting this to the Regulator. The new version of the guide does not allow for diversification benefit between RNIME. The previous version of the guide allowed two options with regards to RNIME calculation: "the setup of an action plan by the Bank to include one or more RNIMEs or the demonstration that the effect of the RNIME is not material while taking into account the diversification benefit". Lack of diversification benefit and stand-alone calculation of RNIM impacts will lead to over-estimation of the relevance of such risks. A test based on the PL explain capability looks more adequate to the task and more in line with the evolution of the regulation in the FRTB context.	It may be useful to have further clarifications on how to effectively manage thresholds, especially when not directly observable risk factors are to be measured.
30	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183-188	129-132	Amendment	From Art 183(c) to 188: model change policies should not apply to such a framework given the timeliness of a model change approval. A simplified approach should be in place. Model change for RNIME might lead to significant additional governance requirements, arising the incentive not to include the RNIME in the model until strictly necessary.	A simplified approach, that would not encompass the model change procedure, should be in place.
31	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183-188	129-132	Amendment	Art 183 (c) to 188: The set up of an efficient procedure to validate and quantify the impacts of RNIME is crucial to keep the overall process sustainable. Model change processes should not be triggered every time a RNIME is created or modified: instead, a regular reporting (e.g. quarterly) of the status of the RNIME framework (new RNIMEs, ceased RNIMEs, modification of the methodology for the calculation of existing RNIMEs), performed by risk control unit and validated by the Internal Validation function, is suggested as an alternative. Model change process should be triggered only to initially validate the overall framework (policy, roles and responsibilities, triggers, internal thresholds, reporting) or in case of major organizational changes to the validated framework.	The RNIME should not be a component of IMA, since it is not prescribed by the CRR regulation. Additionally, having it subject to the EBA RTS on model change will congest even further the model change mechanism. This would mean a wave of model approvals for the RNIME set up that might not even reach the approval phase if FRTB timeline to 01.01.2022 is confirmed.
32	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	The art. 189 quotes. "Because the RNIME add-ons are not included in the VaR number, they should not be taken into account when performing regulatory back-testing". We agree that back-testing outliers explained by RNIME should be monitored.However, if the institution can prove that losses impact due to a back-testing breach explained by the RNIME is fully covered by an add-on, this overshooting should not be accounted for the multiplier calculation but rather it should be considered as technical. Else, the breach should impact the addend as the capital for the RNIME is not sufficient. Therefore, we propose the following amendment: Art 189: if a capital add-on derives from a RNIM it should be added to regulatory VaR in order to assess backtesting.	Capital add-on deriving from a RNIM should be added to regulatory VaR in order to assess backtesting.
33	Counterparty Credit Risk	2.1 Relevant regulatory references	6 (f)	135	Clarification	Is ECB thinking to further clarify and detail the core aspects on which performances should be calculated? A performance can be described "unacceptable" following internal rules and thresholds or will have to follow specific ones defined by the ECB?	
34	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	15	137	Clarification	Can you confirm that the identification process described at paragraph 15 has to be interpreted as follows: 1) at the date of the regulatory reporting, transactions that meet all the conditions expressed in paragraph 15 are selected; 2) the pricing discrepancies (IMM vs benchmarking value) of such transactions are further analysed in each business day of the quarter; 3) the effective carve-out of the transaction is put in place only if thresholds are exceeded for more than 10 days.	We need to be sure of the correct interpretation of the identification process. See attached document.

35	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	142-143	Amendment	The CRR defines the exposure in term of market value of the derivatives and availability of eligible financial collateral. The request to take into account the unpaid cashflow during the MPOR would imply an additive impact on the exposure equal to the total value of the cash flows that would have been paid by the counterparty. The CRR does not contain any reference to the need that the exposure should encompass also such cashflows. The requirements of the TRIM Guide regarding the consideration of unpaid trade-related cashflows as part of the exposure seem to be an extensive interpretation of the current regulation which, in addition to the effectivization of the regulatory risk figure would create a punitive capital charge not justified by the real riskiness of collateralized netting set. In addition, for transaction types with no enforceable settlement netting rules, the modelling of CFs within the MPOR as proposed may arise modelled spikes of exposure (proportional to the notional of the transactions) that would lead to an overestimation of the effective risk due to the non decreasing feature of the regulatory measure.	The CRR does not contain any reference to the need that the exposure should encompass also the unpaid trade-related cashflow during the MPOR. See attached document.
36	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	34	149	Clarification	Please better explain what ECB admits in terms of management of future collateral composition when the non-cash collateral expiries before the maturity of the netting set. It is reasonable to assume a pure replacement of non-cash collateral having the same characteristics of the expired one?	Clarification about the expectation of ECB regarding physical collateral simulation
37	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	71	164	Clarification	The "or" in article 294(1) of the CRR implies that the use of hypothetical portfolios is sufficient to fulfill the article. It is correct to intend that paragraph 71 amends such article of the CRR?	See attached document
38	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	75	165	Clarification	It is reasonable to assume a validation cycle of the pricing functions that relies not only on the analyes directly performed by the Internal Validation but also on activities performed by members of the Risk Management unit and supervised by Internal Validation, as reported in art. 68?	See concise statement on Market Risk, Section 5.7, para 134.
39	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	76	165	Clarification	As cited in previous comments, the inclusion of back-testing of actual portfolios seems not to be mandatory (CRR art 294(1)). Anyway, it would be useful to better explain what is intended for consistency: it may refer to portfolio consistency (easier for new transaction but harder for closed-out transactions) but also to model consistency, pricing function consistency, instrument mapping consistency and/or market data consistency. With regardo to portfolio consistency, a lot of technical issues may arise in case of close-out transactions: all the predictions for the horizons after the close-out transaction date must be reperformed based on the new netting set with out those close-out transactions. It is Bank view that this may lead to storage limitations: it is not feasible to store all the MC scenarios at transaction level, for each actual netting set, for each prediction date. In addition, it is not possible to quantify the amount of collateral to be exchanged in case of portfolios made of rolling instruments. It is Bank view that too much effort is requested in order to keep consistency (any of the previous) between predictions and realisations withtin the actual back-testing.	It is Bank view that too much effort is requested in order to keep consistency (any of the previous) between predictions and realisations withtin the actual back-testing.
40	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	77	165	Clarification	Please explain how the exposure measure is defined. In case of the exposure defined as in Article 272(4), please better explain how to treat possibile forecast distributions all equal to zero, i.e. when the expected values (collateralized or not) are all negatives. This also applies to the PFE or EPE risk measures. It is Bank view that the best way to test the prediction model is to use the whole distribution of (positive and negative) Exposure, defined as the difference between the MtM and Collateral. In the case of unmargined netting sets, the collateral is zero. It is possible to better define what is intended for "separate validation" of the margining process?	We believe the best way to test the prediction model is to use the whole distribution of positive and negative exposure, defined as the difference between the MtM and Collateral (in cases of unmargined netting sets, the collateral is zero).
41	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	79	166-167	Clarification	In our understanding, the exercises requested in paragraph 79 should be performed at hypothetical level only, e.g. isolating sample trades and backtesting their behaviour. Is this interpretation acceptable?	Clarification about the assessment of the behavior of approximated pricing functions