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
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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	Name of commenter	Institution	Personal data
1	Credit Risk	2.4 Data quality management framework	18	10	Clarification	This paragraph requires a dedicated independent unit responsible for data quality- independent from where- e.g. model development? Is this intended to be a daily process or periodic?		Jones, Gregg	ISDA and AFME	Publish
2	Credit Risk	2.4 Data quality management framework	21	11	Clarification	This section emphasises traceability. We fully support the objective but the ECB should acknowledge documenting history, processing and location of data will be a large and detailed operation for many firms and it will take a significant amount of time to achieve.		Jones, Gregg	ISDA and AFME	Publish
3	Credit Risk	2.4 Data quality management framework	26	12	Clarification	What is meant by prudent approach, as opposed to mitigating data incidents. Achieving a completely independent unit for data quality assessments versus data handling may be difficult in practice. Data traceability requirements are challenging.		Jones, Gregg	ISDA and AFME	Publish
4	Credit Risk	3.2 Use of external data	34, 35	15	Clarification	Generally speaking, we consider the analysis requested in section 3.2 for the use of external data might be likely not sustainable, since it entails a level of disclosure closed to the one available for internal data (for example representativeness analysis of paragraph 35). This disclosure level is usually not possible for data providers. In practice, these requirements, if read as for the current formulation reported in the draft ECB guide, might lead to the impossibility of adopting external data (unless with the systematic introduction of a material Margin of Conservativism not linked to a model deficiency, but only to the limited disclosure of external providers). In particular, for shadow rating models, the external data, which are the target of the estimation, are expected to be structurally not perfectly representative of the application portfolio (because rating agencies cover more US companies than EU ones). Moreover, inconsistency arises with the top down approach foreseen in EBA/CP/2018/10 (on the conditions to allow institutions to calculate KIRB in accordance with the purchased receivables approach under Article 255 of CRR), in which the methodological approach will rely predominantly on external data, given the impossibility to leverage on internal ones being not representative of the scope of this model. Therefore, the analysis required by ECB guidance might limit the workability of the new securitization framework aimed at reinvigorating the securitization business.		Jones, Gregg	ISDA and AFME	Publish
5	Credit Risk	3.3 Use of external bureau scores or external ratings as input variables in the rating process	37	16	Clarification	The previous comments regarding the level of disclosure required for external data apply, in particular in the case of external credit bureau scores. In addition, information on the structure and nature of external scores and their key drivers are required by paragraph 37(b)-(e) but are usually not reported by credit bureau. This would hinder the recourse to a typically powerful data source for risk differentiation purposes, limiting, and contrary to regulatory requirements, both accuracy of the estimates and the information completeness of the rating system (the Credit Bureau are usually relevant information for rating assignment especially in the "through-the-door" evaluation for new clients/new applications on Retail segment). Therefore, we suggest setting out in the detail a minimum set of information that's necessary to be disclosed, eventually foreseeing on this a dedicated Guidelines subject to a consultation process target to both banking system and Credit Bureaus itself.		Jones, Gregg	ISDA and AFME	Publish
6	Credit Risk	3.3 Use of external bureau scores or external ratings as input variables in the rating process	entire section (also relevant for 3.2)	16	Clarification	We consider the type of analysis requested under section 3.2-3.3 for the use of data/scores/ratings may not be manageable given it entails a level of disclosure on a par with that required for internal data (e.g. para 35representativeness analysis). This level of disclosure is not usually possible for data providers. In practice if these requirements were implemented as per the current draft, it could result in it being impossible to adopt external data (unless alongside the introduction of a disproportionate MoC - which is not linked to a model deficiency, rather just to the limited disclosure of external parties). This would hinder recourse to very substantia and powerful data source for risk differentiation purposes, limiting both accuracy of the estimates and completeness of the information of the rating system (the credit bureaus are usually relevant information for rating assignment especially 'through the door' evaluation of new clients/applications in retail). This would be contrary to regulatory intentions. We therefore suggest clarifying and setting out in detail a minimum set of information necessary to be disclosed, ideally this would eventually be done through GLs subject to consultation and aimed at both credit bureaus and banks.		Jones, Gregg	ISDA and AFME	Publish
7	Credit Risk	3.4 Use of pooled data	Entire section	17	Clarification	The requirements in this paragraph could be particularly problematic for banks relying on pooled data sources It will be very difficult for pooled data sources to provide assurances that banks have the same/common processes – it should be the case that if the bank is compliant with Basel then their data should be acceptable to be pooled. Consequently, banks will not be able to use pooled data sources such as GCD.		Jones, Gregg	ISDA and AFME	Publish
8	Credit Risk	3.5 Use of purchased rating systems or models (pool models)	42(d)	18	Amendment	In our opinion the extract "*(…) Validation of the pool model, including testing of discriminatory power and predictive power, should be applied by each institution on its own portfolio.*" if read in connection with footnote 21 should be removed. Indeed, in the case of pooled model across legal entities of the same banking group (i.e. groupwide models) the perimeter of application is related to the entire group/group of entities. As such it should be estimated (and consequently validated) on a groupwide perimeter. Thus, the measurement of rank ordering and predictive power at single legal entity level would provide a partial (and potentially biased) view.		Jones, Gregg	ISDA and AFME	Publish
9	Credit Risk	3.6 Consistency in the definition of default	44	18	Amendment	Achieving equivalence requirements for external data with the DoD is onerous. Introduction of a MoC is disproportionate. The section on definition of default should be aligned with ongoing EBA work.		Jones, Gregg	ISDA and AFME	Publish
10	Credit Risk	3.7 Use of human judgement	48	19	Amendment	We suggest deleting the end of the paragraph "*To this end, where human judgement is used to greater extent because of the low number of available internal observations, institutions should apply a higher MoC to their estimates to account for additional uncertainty*". The application of MoC is fully detailed in the EBA guidelines on PD-LGD estimation and the treatment of defaulted exposures. The chapter 4.4.1 of these guidelines especially paragraph 37 does not mention "human judgement used to a greater extent" in the identified deficiencies. Also, institutions do not consider the use of human judgement as a deficiency but an additional input to complement modelling effort. Therefore, we consider the ECB's proposition as unduly justified, not in respect of the Single Rulebook.		Jones, Gregg	ISDA and AFME	Publish
11	Credit Risk	4.1 Structure of PD models	52	21	Deletion	We suggest deleting this paragraph. The performance of models should be assessed on the full range of application of rating systems. Assessing the performance on sub-ranges of application could lead to hasty conclusions as the portfolio used in the calibration will not be replicated on the back-testing exercises. Also, for modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from low volume of defaults. What is more, the very detailed list provided in paragraph 52 will also imply such undesirable situations. Furthermore, (a), (b), (c) are not mutually exclusive. This might lead to confusion.		Jones, Gregg	ISDA and AFME	Publish
12	Credit Risk	4.1 Structure of PD models	53(a)	22	Clarification	How is the second part of the sentence "*(…) and also include an explanation of the risk drivers which the institution has considered, but decided not to use* ;" related to the topic of this paragraph: assigning obligors or transactions to a rating system?		Jones, Gregg	ISDA and AFME	Publish
13	Credit Risk	4.1 Structure of PD models	54	22	Clarification	According to this paragraph, institutions should ensure a meaningful differentiation of risk taking into account in particular the distribution of obligors or facilities, the homogeneity of obligors or facilities assigned to the same grade or pool and the different levels of risk across obligors or facilities. However, it is not clear which sample to consider in order to perform this assessment. In particular, when the risk differentiation function is built with a recent sample representative of the application portfolio, it is unclear whether the meaningful differentiation should be performed using an equivalent sample to that used for the risk differentiation (i.e. a recent sample) or if it is required to assess the appropriateness of the risk differentiation in terms of homogeneity within each grade or pool and heterogeneity between grades or pools through the whole calibration sample used for the risk quantification. In other words, is it enough to test, for instance, the homogeneity at each date or is it necessary to test the homogeneity among different dates? If it were the latter case, how should we perform the comparison taking into account that the rating philosophy may affect the composition of each grade due to grade migration associated to economic circumstances?		Jones, Gregg	ISDA and AFME	Publish
14	Credit Risk	4.1 Structure of PD models	55	22	Clarification	Clarification of the requirement "*evidenced by records of the time series of realized default rates or loss rates for grades or pools under different economic conditions* " should be done. We also do not understand why reference to loss rates for grades is introduced for requirements which tackle PD estimation.		Jones, Gregg	ISDA and AFME	Publish
15	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.		Jones, Gregg	ISDA and AFME	Publish
16	Credit Risk	4.1 Structure of PD models	61	24	Clarification	It is not clear the meaning of including "*drivers that are predictive over a longer time horizon* " as requested by paragraph 61(a) and how the 2/3 year horizon indicated in paragraph 61(b) should be embedded in the modelling framework. In any case, a horizon of 2-3 years is in excess of the regulatory specified PD horizon of one year. Moreover, if this paragraph has to be interpreted as requirement to set as development target a multi-year default status, the interactions of this requirement with model validation and with IFRS 9 models (in which regulatory PDs are used as input) are not clear. Given this interpretation, a significant increase in the model development complexity with respect to the requirements stated in EBA/GL/2017/16 is expected.		Jones, Gregg	ISDA and AFME	Publish
17	Credit Risk	4.1 Structure of PD models	61	24	Clarification	Greater clarification should be provided on the paragraph *'As a consequence of the above, institutions' grade assignment dynamics should also adequately anticipate and reflect in the assignment of grades the potential realisation of the risk during the longer time horizon. For clarity, this does not mean that grades remain stable during the longer time horizon in the event of changes in idiosyncratic risk'*. By mentioning that grades do not need to remain stable under changes in idiosyncratic risk, should we assume that they should under changes in macroeconomic circumstances (i.e. that there should not be any trend in the direction of migrations across risk buckets)? It must be noted that in the event of following a point in time rating philosophy it is expected that systematic grade migrations will occur when economic circumstances change. In order to avoid an undue effect on the cyclicality of capital requirements such rating philosophy can be complemented with a calibration philosophy aiming at calculating long-run averages at the level of calibration segment. The expected outcome of the whole procedure is that the grade migration, for instance to worse credit quality grades during a downturn, is somehow counteracted by better PDs at grade level (the opposite would happen in an upturn). In such a way the use of point in time risk ranking models is reconciled with the expected long-run nature of regulatory PDs and the avoidance of extensive cyclicality of capital requirements. Whether such an approach is acceptable in light of the ECB expectations should be clarified, as typically rating and scoring models used for risk differentiation purposes follow a point in time philosophy.		Jones, Gregg	ISDA and AFME	Publish
18	Credit Risk	4.1 Structure of PD models	62	24-25	Clarification	More clarity is needed in this paragraph. Could ECB provide examples? In addition, greater clarification should be provided to explain the main drivers to perform a consistent comparison between external and internal grade assignment dynamics to evaluate their differences. In addition more details would be welcome on how to propose 'the necessary adjustments to compensate for any differences' between grade assignment dynamics of internal and external ratings. Is it the expectation that the internal grade dynamics should prevail?		Jones, Gregg	ISDA and AFME	Publish
19	Credit Risk	4.2 PD risk quantification	79(b), (c.)	30	Clarification	If you need to compare the several methods (overlapping and non-overlapping with different reference dates), this means that you always need to perform all analysis for all methods. What is the minimum amount of comparisons to be made? What is meant by different reference dates, e.g. semi-annual, quarterly, monthly etc.?		Jones, Gregg	ISDA and AFME	Publish

20	Credit Risk	4.2 PD risk quantification	81	30	Clarification	What is meant by *"(…) on other observed indicators relevant for the type of exposures considered"*? Can this be a macro-economic index?		Jones, Gregg	ISDA and AFME	Publish
21	Credit Risk	4.2 PD risk quantification	82(b)	31	Clarification	*"(…) referred to in section 4.1"*. Is this a reference to paragraph 52? If yes, please make this explicit, section 4.1 is a long section. □		Jones, Gregg	ISDA and AFME	Publish
22	Credit Risk	4.2 PD risk quantification	83	31	Clarification	It should be clarified if the ECB's expectation is that the PD estimates at grade level should be roughly the same whether following a 'grade level' or a 'calibration segment level' technique, following the terminology used in the EBA PD and LGD Guidelines. It must be noted that if risk grades are created by applying a banding procedure over a point in time risk ranking model, taking long-run averages at risk grade level will result in stable PDs at grade level but in cyclical capital requirements at portfolio level given grade migration. The PDs at grade level obtained in such a way will not be similar to those obtained when applying a calibration segment level approach in which it is ensured that the long-run average is attained at the level of calibration segment. Typically, in the presence of grade migration, a calibration level approach might result in varying long-run PDs at grade level across the cycle, thus they will not be similar to those obtained under a grade level approach if the banding is the same. In general, it would be most welcome that comments related to PD risk quantification were put in the context of the terminology and the range of calibration techniques considered acceptable by the EBA PD and LGD guidelines.		Jones, Gregg	ISDA and AFME	Publish
23	Credit Risk	4.2 PD risk quantification	84	31-32	Amendment	It would be most welcome to clarify whether applying this provision is necessary given that no mention of it is made in the BCBS "Basel III: Finalising post crisis reforms'.		Jones, Gregg	ISDA and AFME	Publish
24	Credit Risk	4.2 PD risk quantification	85-86	32	Clarification	Some clarifications should be provided about the mapping between internal and external ratings. Indeed, the following aspects should be considered: - no full disclosure 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). However, 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). □		Jones, Gregg	ISDA and AFME	Publish
25	Credit Risk	4.2 PD risk quantification	86(a)	32	Clarification	Greater clarification should be provided about the expectation that the mapping between internal and external rating scales at a given date and over time is consistent. In the event that the grade assignment dynamics of internal and external ratings are different, the mapping is likely to evolve over time. Is this considered consistent or, on the other hand, a stable mapping would be expected across time?		Jones, Gregg	ISDA and AFME	Publish
26	Credit Risk	4.2 PD risk quantification	87	33-34	Amendment	Overall, the requirements are deemed overly conservative. In particular, bullet point (f) should be deleted. The calculation of default rates on sub-ranges of application is not justified for several reasons. For modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from low volume of defaults.		Jones, Gregg	ISDA and AFME	Publish
27	Credit Risk	5.1 Realised LGD	96	37-38	Amendment	The LGD computation at facility level is a general principle that can be shared. Nevertheless, 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 facilities (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 amendment 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 facilities."		Jones, Gregg	ISDA and AFME	Publish
28	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. Therefore, 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 (addition in **bold**) "*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.*"		Jones, Gregg	ISDA and AFME	Publish
29	Credit Risk	5.1 Realised LGD	97(b)	38-39	Amendment	It should be clarified how economic loss should be calculated in the case of facilities that return to a non-default status. To the extent that the bank can demonstrate that, whenever a facility returns to non-default status after having missed some payments, the customer pays the interest agreed in the contract origination and interests accrued due to payment delay (plus, potentially, penalty fees) it should be possible to assign a zero realised LGD to that default event (assuming any cost incurred during the recovery period is also covered or is negligible). The same argument applies to the so-called subjective defaults in which the customer keeps repaying the debt and subsequently the entity decides to move the customer to a non-default situation. Recognizing a loss in any of these circumstances would not be aligned with the Bank's procedures and the purpose of capital calculation.		Jones, Gregg	ISDA and AFME	Publish
30	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.		Jones, Gregg	ISDA and AFME	Publish
31	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, overlap 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 - paragraph 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.		Jones, Gregg	ISDA and AFME	Publish
32	Credit Risk	5.1 Realised LGD	100(b)	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 positions; nevertheless, 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 disproportionate 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.		Jones, Gregg	ISDA and AFME	Publish
33	Credit Risk	5.2 LGD structure	103	41	Deletion	We suggest deleting this paragraph. The performance of models should be assessed on the full range of application of rating systems. Assessing the performance on sub-ranges of application could lead to hasty conclusions as the portfolio used in the calibration will not be replicated on the back-testing exercises. Also, for modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from low volume of defaults.		Jones, Gregg	ISDA and AFME	Publish
34	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.		Jones, Gregg	ISDA and AFME	Publish
35	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 realization of the collateral at the end of the recovery process determines an even less significant contribution of young positions. We agree with the ECB's vision of the complexity of including facilities not sufficiently observed and that the establishment of a minimum observation period for recent defaults is essential to ensure the robustness of the results. However, the maximum period of 12 months established in this paragraph is deemed insufficient to permit to facilities that shortly return to non-default status to complete the recovery cycle (it is important to bear in mind that the facilities must overcome a probation period of at least 3 months plus at least 9 additional months to not be classified as a single default), adding uncertainty in the projection of incomplete files. This would result either in undue conservatism or in the need to apply complex projection techniques that could be associated to substantial MoC. Furthermore, the EBA Guidelines PD-LGD estimation and the treatment of defaulted assets do not specify a maximum for the 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. At the very least we suggest deleting the last sentence of the paragraph "*~~In any case this period should not be longer than 12 months~~*". Alternatively, with the aim of mitigating the risk in the LGD estimates due to facilities with short observation periods, we propose amending the maximum of 12 months period to establish a maximum period of 18 months of observation when this period is adequately justified."		Jones, Gregg	ISDA and AFME	Publish

36	Credit Risk	5.3 Risk quantification	111	46	Deletion	The introduction of a concept of MRP and the adoption of 100% haircut for repossessed assets not yet sold is deemed overly-conservative. Indeed, the repossession, as defined also within the EBA GL on PD-LGD, would entail a reduction of the credit exposure in force of the value of the assets. Although a haircut should be applied on repossessed asset value in order to factor in uncertainty of the collateral value and level of liquidity, it should be kept in mind that the repossessed assets will be booked on a bank's balance sheet and risk weighted accordingly. Thus, in case of repossession of assets falling under "other non-credit obligation assets" category pursuant to CRR Article 156 would be 100% risk-weighted in most of the cases. In case of repossession of equity assets (e.g. due to debt to equity swap, not infrequent in context of restructuring measure) the risk weight would be even higher (especially in view of the future Basel 4 context where only Standardized Approach would be admitted). Therefore, envisaging a treatment like substantially realized incomplete workout for the repossessed assets that can take time for realization as similarly to ordinary cases of collateral execution would introduce a double counting conservative effect limiting therefore the rationale and the recourse of the repossession technique. Indeed, the more time a repossessed asset remains on the balance sheet of the Bank, instead of having cash in-flows, the more time the Bank should hold RWA for it. Thus, the adoption of haircut equal to 100% for repossessed assets not yet sold would end up in an increase of LGD (and RWA) on the credit obligations reference portfolio as well, doubling the penalization.		Jones, Gregg	ISDA and AFME	Publish
37	Credit Risk	5.3 Risk quantification	111(b)	46	Deletion	We understand the ECB's concern about the uncertainty in the estimation of the haircut to the value of the collateral and the necessity to understand the effect of this haircut. Nevertheless, this risk should be mitigated through the comparison with the estimated haircuts obtained from the observed sales of collaterals with similar characteristics (111 (a)) and with a detailed documentation about the process to estimate the haircut. In regards to the assessment proposed in paragraph 111 (b), the introduction of a 100% haircut for repossessed assets not yet sold is deemed overly-conservative so we consider the assessment useless in terms of identifying possible biases in the estimation of the haircut, therefore we suggest deleting this requirement.		Jones, Gregg	ISDA and AFME	Publish
38	Credit Risk	5.3 Risk quantification	113	46-47	Clarification	Under the assumption that the distribution of facilitates per obligor is quite homogeneous, leading to similar results following both approaches, it is desirable to perform the LRA LGD as a weighted average by the total number of facilities of each grade, following the first approach described on the ECB guidelines, as this provides a more intuitive method. Only in the case where the parameter can be biased due to a significant concentration of facilities in few obligors, the second approach, weighting first at obligor level, would be more appropriate. For the sake of simplicity, it is preferred to prioritize the first approach, but it would be desired to have some flexibility to incorporate the second approach when needed.		Jones, Gregg	ISDA and AFME	Publish
39	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 it appropriate to have two options as compliant for calculating the average. The first to compute the average weighted by the total number of facilities within that facility grade. The second 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.		Jones, Gregg	ISDA and AFME	Publish
40	Credit Risk	5.3 Risk quantification	113	46-47	Clarification	We suggest to keep bullet point (a). Keeping the two options is relevant.		Jones, Gregg	ISDA and AFME	Publish
41	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 replacing 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		Jones, Gregg	ISDA and AFME	Publish
42	Credit Risk	5.3 Risk quantification	114	47	Clarification	Under the assumption that the distribution of facilitates per obligor is quite homogeneous, leading to similar results following both approaches, it is desirable to perform the LRA LGD as a weighted average by the total number of facilities of each grade, following the first approach described on the ECB guidelines, as this provides a more intuitive method. Only in the case where the parameter can be biased due to a significant concentration of facilities in few obligors, the second approach, weighting first at obligor level, would be more appropriate. For the sake of simplicity, it is preferred to prioritize the first approach, but it would be desired to have some flexibility to incorporate the second approach when needed.		Jones, Gregg	ISDA and AFME	Publish
43	Credit Risk	5.3 Risk quantification	115(b), (c.)	47-48	Amendment	Same amendment 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.		Jones, Gregg	ISDA and AFME	Publish
44	Credit Risk	5.3 Risk quantification	116	48	Amendment	It would be most welcome to clarify whether applying this provision is adequate given that no mention to it is included in the BCBS "Basel III: Finalising post crisis reforms'.		Jones, Gregg	ISDA and AFME	Publish
45	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 on which we have commented extensively to the EBA. The views of AFME are reported in the response (https://www.afme.eu/globalassets/downloads/consultation-responses/afme-prd-eba-consultation-on-standards-on-economic-downturn-in-irb-modelling.pdf) submitted to EBA consultation on these GLs. 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.		Jones, Gregg	ISDA and AFME	Publish
46	Credit Risk	5.3 Risk quantification	120(b)	49-50	Deletion	If the ECB does continue to retain this section of the guide, irrespective of the non-final GLs and RTS then regarding the minimum indicators to characterize the economic downturn, we suggest deleting the interest rates and inflation rates due to the difficulty to justify the relationship of these economic factors with the internal series. In particular, the movements in the interest rates and inflation are not purely due to the economic environment, but also due to changes in external policies or legislation applied in the different geographies. Furthermore, the CP Draft on the nature, severity and duration of an economic downturn does not take interest rates or inflation rate into account as a minimum economic factor to consider.		Jones, Gregg	ISDA and AFME	Publish
47	Credit Risk	5.3 Risk quantification	124	51-52	Amendment	We suggest deleting the last sentence of the paragraph "*~~In doing this, the institution should take into consideration the economic environment observed for the data available. In other words, the better the observed economic environment, the higher the add-on or MoC should be~~*". The ECB should modify this paragraph with regards to the final version of the "EBA Guidelines for the estimation of LGD appropriate for an "*economic downturn*".		Jones, Gregg	ISDA and AFME	Publish
48	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 quite a common perception 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. Otherwise 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 ELBE. 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 within 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 issue 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. We also suggest to replacing "*the ELBE must*" *by "the ELBE / LGD-in-default must"*. The RTS on IRB assessment methodology leaves the possibility to model LGD-in-default or UL. We consider that any downturn conditions should be taken into account in the LGD-in-default or as a UL component and not in the direct estimation of ELBE. The wording is ambivalent and would need slight rewording. Some institutions may define provisions as their EL best estimate which is different of incorporating economic conditions in LGD-in-default or UL estimates.		Jones, Gregg	ISDA and AFME	Publish
49	Credit Risk	6.1 Commitments, unadvised limits and scope of application	129(d)	54	Clarification	The paragraph states that products such as guarantees are not included in the concept of credit lines. Does this apply to issued guarantees only or also include an unutilised facility limit from which a guarantee could be issued in future but has not as present?		Jones, Gregg	ISDA and AFME	Publish
50	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 product 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 behavior 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 coincide or differ.		Jones, Gregg	ISDA and AFME	Publish
51	Credit Risk	6.2 Realised CCFs	133(b)	56	Amendment	Refer to amendment to paragraph 97(a) on LGD.		Jones, Gregg	ISDA and AFME	Publish
52	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-month fixed horizon approach is 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.		Jones, Gregg	ISDA and AFME	Publish
53	Credit Risk	6 Conversion factors	134	57	Deletion	We suggest to delete items (a) and (b). For item (a): the consideration of customer product mix is not mentioned in the level 1 text which is CRR. For item (b): the analysis of drivers not at a determined horizon but within the year before default could bias the correlation analysis. Furthermore, we would welcome to clarification as to whether applying this provision in 134 (b) is the intended approach, given that the BCBS seems to favour a cohort approach in the document "Basel III: Finalising post crisis reforms'.		Jones, Gregg	ISDA and AFME	Publish
54	Credit Risk	6.4 CCF risk quantification	136(b)	58-59	Amendment	While we understand the ECB's reasoning for not expecting firms to cap realised CCF values there should remain scope to be able to use a cap when the reason for extremely high values have been investigated, understood, and the firm can demonstrate applying a cap is a more appropriate alternative than the uncapped realised CCF value. As per paragraph 113 - c about LGD, we deem the proposal not to cap the right tail of the distribution inappropriate. An appropriate treatment (i.e. interquartile range) has to be performed in order to avoid biases coming from raw CCF. □		Jones, Gregg	ISDA and AFME	Publish
55	Credit Risk	6.4 CCF risk quantification	136(c.)	59	Clarification	A clarification is requested on 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, paragraph 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).*"		Jones, Gregg	ISDA and AFME	Publish

56	Credit Risk	6.4 CCF risk quantification	136(d)	59	Amendment	We deem that this paragraph is a replication of the criteria valid for LRA default rate quantification on PD side. However CCF, as for LGD, should be calibrated at downturn level (if higher than the long run) thus the availability of a long enough LRA CCF covering both good and bad years is more relevant for a sound downturn estimation leveraging on the availability of downturn period within the time series of internal data (i.e. adopting the approach based on observed impact as for the draft of EBA GL on downturn) rather than for a calibration at LRA representative of the likely range of variability of default which is relevant for PD. Therefore, this paragraph appears redundant and might create confusion in the operationalization of the CCF risk quantification.		Jones, Gregg	ISDA and AFME	Publish
57	Credit Risk	6.4 CCF risk quantification	138	60	Deletion	Given that the EBA RTS and GL on downturn are still under discussion with a wide debate over several critical points (e.g. adoption of the Reference Value), all the references to this topic, extended also to CCF, should be removed from the current version of the Guide, until the EBA finalises its work. See relevant comments above for the Downturn LGD comments on paras 119-124 as they are referred to here for CCFs. In particular, we wish to underline that CCF are out of the scope of EBA works on Downturn topic, given the forthcoming changes to the Basel III framework, and thus we deem it inappropriate to deive specific requirements for LGD on CCF.		Jones, Gregg	ISDA and AFME	Publish
58	Credit Risk	6.4 CCF risk quantification	139	60	Amendment	If this section is not dropped we suggest amending as follows: "Institutions should insure that they have principles for the application of CCFs by default" or to modify the wording to make it clearer. The wording is not clear and suggests in the specific cases such as scarcity of data and low materiality of the scope of application, they should receive a fixed yet conservatively specified CCF of 100%.		Jones, Gregg	ISDA and AFME	Publish
59	Credit Risk	7.1 Relevant regulatory references	140,141	61	Clarification	In the foreword, it is stated that this guide provides transparency and explanation on existing regulation. Paragraphs 140 and 141 do not add anything to that goal.		Jones, Gregg	ISDA and AFME	Publish
60	Credit Risk	7.1 Relevant regulatory references	142	61-62	Clarification	Consider the wording *"(…) estimate a MoC to account for statistical uncertainty/sampling error affecting the LRA estimate at grade level (…)"* needs clarification. For instance, in the case of adoption of a calibration by grade or pools, the calculation of a MoC for each grade (which appears to be the requirement of this paragraph) would not be sustainable as it could end up in a potentially high MoC the more risk sensitive the estimation is (and therefore the more granular the grading is). Furthermore, it should be clarified what intended for LGD and CCF in the following the statement *"(…) and, when material, for the statistical uncertainty that can arise from the estimates used in the LGD LRA and CCF LRA estimation process"*.		Jones, Gregg	ISDA and AFME	Publish
61	Credit Risk	7 Model-related MoC	142(a)	61	Amendment	The requirement to estimate the statistical uncertainty/sampling error stemming from the variability of each year's default rate and from the period considered is deemed not adequate to measure the statistical dispersion of the estimator, as the default rates variability is motivated not only for statistical errors but also for changes in the economic environment and changes in credit policies among others. This aspect is already covered in other steps of the modelling process, such as the definition of the likely range of variability or the representativeness analyses in terms of lending policies. For that reason, applying a MoC stemming from this variability would lead to a double-counting effect and would not reflect appropriately the statistical uncertainty of the estimator. Indeed, 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". If this provision is maintained, 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.		Jones, Gregg	ISDA and AFME	Publish
62	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 undesired 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.		Jones, Gregg	ISDA and AFME	Publish
63	Credit Risk	7 Model-related MoC	142(c.)	62	Clarification	It is unclear the rationale and purpose for measuring the statistical uncertainty stemmed from the estimation of the risk differentiation function, and also the way to include it in the model. Furthermore, there is no reference in the EBA Guidelines to the requirement to measure the statistical uncertainty associated the risk differentiation function, and only the statistical uncertainty of the risk quantification should be measured and included through the correspondent MoC in the final estimates.		Jones, Gregg	ISDA and AFME	Publish
64	Credit Risk	8 Review of estimates	143	62	Clarification	It would be most welcome to clarify the expectations as regards the annual review of estimates. Is the intended outcome of this process to update risk estimates (i.e. modify risk parameters) so as to ensure that new information is explicitly incorporated into the estimates?		Jones, Gregg	ISDA and AFME	Publish
65	Credit Risk	8 Review of estimates	146	63	Clarification	The requirements of full model review seem to be independent from the deterioration evidence in terms of model performance, that are already covered within the regular annual review of estimates, since additional analysis is required in order to evaluate if the inclusion of the most recent data would lead to different material model outcomes. However, few details are provided regarding the additional analysis to be performed in order to evaluate if a model has to be re-estimated, not fully clarifying the requirements of articles of EBA Guidelines related to full review (i.e. article 220 that asks for review of existing and potential risk drivers and modelling overall framework). The lack of clear guidelines on this could lead to mis-interpretation and consequent operationalization with potential increase of the operative effort in Model maintenance phase. The risk of an excessive operational burden is also linked to the request of model review every three years (or more often depending on the materiality), considering that paragraph 218 of EBA/GL/2017/16 already requires an (at least) annually regular cycle of review of estimates.		Jones, Gregg	ISDA and AFME	Publish
66	Credit Risk	8 Review of estimates	147	64	Amendment	The table with relevant regulatory references of section 9.1 is misplaced in paragraph 147.		Jones, Gregg	ISDA and AFME	Publish
67	Market Risk	2.2 Delimitation of the regulatory trading book	6	68	Deletion	The list of instruments that are presumed to be held for trading purposes and that should be classified within the prudential trading book includes (b) instruments resulting from securities underwriting commitments and (g) instruments that would give rise to net short risk positions for equity or credit risk in the banking book. The industry has provided feedback to the Basel Committee regarding the operational complexities arising from inclusion of these instruments in the trading book and recommends that the ECB considers removing them from the list of expected instruments in the trading book in order to avoid implementation of requirements ahead of the FRTB timeline or that might contradict the final FRTB rules that are yet to be published.	Consistency is required for the classification of instruments expected in the trading book from the BCBS standpoint and ECB guide.	Jones, Gregg	ISDA and AFME	Publish
68	Market Risk	2.2 Delimitation of the regulatory trading book	7	69	Amendment	For the sake of clarity, the industry suggests to slightly reword the beginning of paragraph 7 *"In view of their nature in terms of trading intent, the ECB considers (…)"* by: "Notwithstanding the ability to demonstrate trading intent, the ECB considers (…)", the trading intent remaining an overriding criterion.	Trading intent should remain an overriding criteria to decide of the allocation of an instrument in the regulatory trading book.	Jones, Gregg	ISDA and AFME	Publish
69	Market Risk	2.2 Delimitation of the regulatory trading book	7	69	Clarification	The list of instruments that are presumed to be held for trading purposes and that should be classified within the prudential trading book has been slightly amended regarding the equity investment in funds. There is no mention of the equity investment in funds in the trading book list. Conversely the banking book list includes the "*equity investments in a fund for which the institution cannot obtain liquid prices*". The reference to a daily frequency has been removed. The industry understands that this means that the ECB considers that funds with weekly or monthly net asset value (NAV) can be classified within the trading book. A footnote has been added stating that "Where an institution is aware of the underlying investments of the fund on a daily basis, the underlying investments might be assigned to the trading or banking book depending on their characteristics". The industry understands that this means the look-through negates the need to demonstrate liquid prices (i.e. that a fund with no liquid prices can be classified within the trading book provided that the look-through is achievable).	The equity investment in funds could be classified within the trading book provided a look-through is achievable. This means the look-through negates the need to demonstrate liquid price.	Jones, Gregg	ISDA and AFME	Publish
70	Market Risk	2.3 Treatment of banking book positions	15	71-72	Clarification	According to paragraph 15 an institution should have policies in place describing "the intermediate steps followed for calculating the FX *positions, beginning with each individual subsidiary and proceeding to the group level*". When discussing exclusions reference is made to "*consolidated and sub-consolidated levels to balance sheet items in foreign currencies that stem from consolidated subsidiaries and is without prejudice to the extent and manner of prudential consolidation prescribed in Article 18 of the CRR*". Consolidation practices of FX exposure are however not homogeneous in the industry ranging at a minimum from a building block approach in which local-view exposures and related own fund requirement (OFR) are added up to form a "consolidated" amounts to the full consolidation of assets and liabilities in local currencies of the subsidiary in the (e.g.) EUR-based balance sheet of the holding company. The latter then poses several choices on: • whether to consider the resulting Asset /Liability imbalance (net equity of the (e.g.) CZK legal entity (LE), corresponding to the equity participation) as source of FX risk, • on how to reconcile such consolidated view of FX risk (in which CZK assets attract OFR) with the local FX risk management (in which CZK assets are not risky) • and how to bring together in the overall OFR measurement Legal Entities with FX covered under IMA and LE entities without approval. An harmonization of the standard on policies should only follow a clear set of indications on how such consolidation of FX positions should be taking place, covering all of its implications: from P&L-RWA consistency to IMA-SA inter-relations.	The paragraph expects to harmonise the standards of the internal policies describing the FX position consolidation process, in the absence of a sufficiently detailed regulation on how the consolidation should be carried out. Harmonization should begin from the consolidation principles in the first place.	Jones, Gregg	ISDA and AFME	Publish
71	Market Risk	2.4 Partial use models	19	73	Amendment	This paragraph states "*The ECB considers it best practice to carve out such portfolios only if the overall own funds requirements for market risk after the carve-out are higher than they would have been if the carve-out had not been performed*". There may be other reasons why a carve-out is appropriate - for example, where IMA implementation cost and complexity is disproportionate to the scale of the business for the particular desk.	There are other reasons to carve out a portfolio than the own fund requirements for market risk post carve out of the portfolio.	Jones, Gregg	ISDA and AFME	Publish
72	Market Risk	2.5 Exclusion of positions in the regulatory trading book from the scope of application of the IMA	23	74	Deletion	In paragraph 23, institutions are asked to demonstrate that the level of own fund requirements under the standardised approach is commensurate with the risk of those positions. It is difficult to see what such demonstration should consist of and what it should imply. Correct application of the regulatory requirement should be a sufficient requirement. Knowing that institutions have no choice but to calculate own fund requirements using the standardised approach in case where the internal model cannot be used, we propose to remove the last sentence of the paragraph.	Correct and complete application of the regulatory requirement should be the only requirement.	Jones, Gregg	ISDA and AFME	Publish
73	Market Risk	2.6 Treatment of specific positions	32	78	Amendment	Inclusion of defaulted debt in VaR and sVaR appears unnecessary and not always appropriate in that market factor volatility should no longer be relevant for the security.	The treatment of defaulted assets under VaR and sVaR appears unnecessary and not always appropriate.	Jones, Gregg	ISDA and AFME	Publish
74	Market Risk	3.2 Scope of application of regulatory back-testing	49	83	Amendment	Whilst we understand that there is a CRR requirement to include FX P&L from the banking book in back-testing P&L, we would 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 back-testing P&L, but would avoid creation of artificial valuation methodologies or highly volatile periodic (typically monthly) P&L equivalent numbers distorting the back-testing processes.	Instruments that are not subject to fair market value typically do not have a daily P&L and as such cannot be incorporated into back-testing P&L.	Jones, Gregg	ISDA and AFME	Publish
75	Market Risk	3.4 Calculation of actual P&L	67	87	Clarification	Paragraph 67 suggests that any adjustment "in scope" of market risk should be included in the actual P&L. If "in scope" of market risk refers to adjustments that help capturing the actual dynamics of market variables, then several fair value adjustments referred to XVAs (FVA, MVA, KVA) should not be seen as part of actual P&L. FVA is indeed designed to capture the funding costs throughout the life of a derivative, MVA the costs/benefits of pledging/collecting initial margin, KVA their RWA-related costs.	It would be important to clarify which adjustments can be considered out of the scope of market risk, especially with respect to XVAs.	Jones, Gregg	ISDA and AFME	Publish

76	Market Risk	3.6 Counting of overshootings	81,82	90-91	Amendment	Although paragraph 82 describes reasons why withdrawal of a back-testing overshooting would not be acceptable, industry considers there are acceptable grounds for withdrawal of a back-testing overshooting in the following two cases which should therefore be promoted to paragraph 81: (a) *Differences in pricing functions between the VaR engine and the actual and hypothetical P&L calculation (the front-office pricing functions)*. RNIMEs would typically be held to capitalise risk factors due to such differences (as noted in paragraph 174).The ECB should allow withdrawal of exceptions if the risk factor driving the exception is capitalised via an RNIME. (d) *Unexpected market movements.* VaR is not expected to capture market movements beyond the confidence interval of 99% and time horizon of 10 days, including idiosyncratic events, rating migration and jump to default. However, these risks may be captured in market risk capital via alternative means for example the IRC model or RNIMEs. We recommend that the ECB allow withdrawal of back-testing overshootings related to market movements driven by event risks that are alternatively captured in the own funds requirements.	In paragraph 82, the list of reasons deemed not acceptable for withdrawing a back-testing overshooting should be amended to exclude (a) and (d). There are acceptable grounds for back-testing overshootings for these two cases.	Jones, Gregg	ISDA and AFME	Publish
77	Market Risk	3.7 Analysis of overshootings	85	92	Amendment	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. As such the language in the article should be amended to require analysis on the elements which are caused solely by the actual P&L – i.e. the difference between actual and hypothetical P&Ls.	Assumption that actual overshootings are always based on intraday changes is not correct.	Jones, Gregg	ISDA and AFME	Publish
78	Market Risk	3 Regulatory back-testing of VaR models	48,75,88	83;89;92	Amendment	The ECB guide states that the change in value of all (and only) the instruments entailing positions included in the scope of the VaR model should be included in P&L and, equally, for partial use models only changes in risk factors within approved risk categories should be included in the hypothetical P&L while risk factors outside the scope of the model ' are held fixed'. This requirement extends to the detailed analysis of the overshooting which should distinguish the part of the hypothetical P&L that can be explained by modelled risk factors from the part which cannot be explained by modelled risk factors. While many firms are in the process of enhancing their analytical infrastructure to be able to explain and attribute P&L movements at risk factor level as part of their FRTB implementation, industry considers that these requirements are likely to be challenging for most firms in the interim. We therefore recommend deferring the requirements around the granularity of P&L explain functionality and align with the FRTB timeline.	Requirements related to the granularity of P&L explain should be deferred to align with the FRTB timeline.	Jones, Gregg	ISDA and AFME	Publish
79	Market Risk	4.3 Internal back-testing of VaR models	92	94-95	Clarification	This section specifies a number of tests to be performed in internal back-testing such as the one described in paragraphs 92(a) and (b), and 93 (d) and (e). This section goes further than the CRR requirements. Paragraph 366 does not specify such tests. General provisions around information sharing are included in Article 10 of the SSM regulation but not this specific test.	Requirement beyond CRR scope.	Jones, Gregg	ISDA and AFME	Publish
80	Market Risk	4.4 Validation on hypothetical portfolios	94	96	Clarification	The industry requests clarification on the requirement to use hypothetical portfolios in the internal model validation for sVaR and IRC models, given that back-testing against realised P&L only makes sense for VaR.	Requirement beyond CRR scope.	Jones, Gregg	ISDA and AFME	Publish
81	Market Risk	5.2 General requirements	102	98	Clarification	A criterion for observability of data is not clearly defined. The infrastructure to perform an observability assessment in line with the FRTB requirements should not be brought forward for all risk factors in the VaR model prior to the FRTB requirement.	FRTB front running requirement.	Jones, Gregg	ISDA and AFME	Publish
82	Market Risk	5.5 Proxies, beta approximation and regressions	128	106-107	Deletion	The article's (paragraph 128) requirements seem to front run elements of the FRTB, specifically the P&L attribution tests. We do not believe that it is appropriate to front run these elements through the draft ECB text, in advance of the FRTB finalization. This will impose new requirements on banks and bring forward draft requirements. In particular, the paragraph requires a test where two types of P&L non included in the CRR are to be computed: (b) *the hypothetical P&L calculated on the same unchanged positions but replacing, for the positions for which proxies are used in the VaR, the market data with the market data of their proxies;* *(c) the hypothetical P&L calculated on the same unchanged positions but replacing, for the positions for which proxies are used in the sVaR, the market data with the market data of their proxies.* Both P&Ls are not foreseen by the existing regulation and will mandate development efforts that are not fully shared with the forthcoming FRTB standard.	The test is based on an hybrid P&L that lies between hypothetical P&L and risk theoretical P&L. Since its engineering would be certainly demanding, we question the necessity of such test ahead of FRTB implementation.	Jones, Gregg	ISDA and AFME	Publish
83	Market Risk	5.7 Pricing functions and methods in the model	132(c.)	108	Deletion	Defining notionals for derivatives is often non-trivial and somewhat ambiguous. Defining and calculating these notionals across asset classes is operationally complex while not providing a significant amount of additional information.	Requirement operationally complex which may not add significant value.	Jones, Gregg	ISDA and AFME	Publish
84	Market Risk	5 Methodology for VaR and stressed VaR	131, 135	107-108;109	Deletion	As mentioned in comments related to paragraph 128, these requirements prioritize elements of the FRTB, specifically the P&L Attribution tests. The industry does not believe that it is appropriate to front run these elements through the draft ECB text, in advance of the FRTB finalization. This will impose new requirements on banks and bring forward draft requirements.	FRTB front running requirement.	Jones, Gregg	ISDA and AFME	Publish
85	Market Risk	6.2 General requirements	138	110-111	Amendment	The paragraph requires an institution that uses "*the assumption of a one-year constant position" to "be able to demonstrate that the chosen assumption appropriately captures the risk of its portfolio*." Instead, institutions choosing the one-year constant position assumption should not be required to prove adequacy of such choice to reflect the risk of their portfolio. Such assumption indeed can be considered as conservative, assigning to all positions in the portfolio the poorest possible liquidity and removing the decorrelation effects potentially arising from replacement of defaulted issuers within the capital horizon. This also seems to be reflected in the formulation of CRR Article 374(4), where one-year constant position is presented as a fallback case, alternative to the liquidity horizon assessment required for the constant level of risk assumption. We would suggest to amend the paragraph as follow (addition in **bold**): "*~~As with any other modelling assumption~~* **In case of constant level of risk over the one year time horizon choice**, *an institution should be able to demonstrate that the chosen assumption appropriately captures the risk of its portfolio*".	Requirement to prove the adequacy does not seem to be required by CRR that elects this approach as the fallback in case liquidity horizon assessment is not possible.	Jones, Gregg	ISDA and AFME	Publish
86	Market Risk	6.2 General requirements	139	111	Deletion	The paragraph requires to assess quantitatively how maturity mismatches – that may lead to imbalanced positions within the modelling horizon – impact the IRC and the default risk in the IRC amounts. If migration risk should be already captured via the difference in CS01 of instruments of different maturities so there should be no need for additional quantifications. As for the default risk, beyond the computation itself, maturity mismatch could be due to rolling strategies, and hence embedded into the business model. As a consequence, the results of test should be assessed on a case-by-case basis, also factoring in considerations on business models beyond pure quantitative impacts, and not be a trigger for capital increase / model review.	The relevance of maturity mismatches should be considered in light of the fact that the portfolio is static by definition and there is no requirement in the CRR to introduce the concept of default time within the capital horizon.	Jones, Gregg	ISDA and AFME	Publish
87	Market Risk	6.4 Distribution and correlation assumptions	151	114	Amendment	The 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 less 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. Finally the granularity of the cases for which correlation effects are explored is too high and goes further than what is required in the CRR. Half of the cases would suffice.	FRTB front running requirement. Excessive number of correlation scenarios, would not bring meaningful additional information.	Jones, Gregg	ISDA and AFME	Publish
88	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	156	116-117	Amendment	This requirement goes further than what is required in the CRR (requiring a 99.9% confidence interval per Article 374) We would appreciate more feedback to understand the rationale for running both 0.01 and 0.03 for all PDs? This could be seen as front running the FRTB standards. □	Requirement beyond CRR scope.	Jones, Gregg	ISDA and AFME	Publish
89	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	161	118-119	Amendment	Institutions should be allowed to exclude defaulted issuers from average PD calculation if this leads to more adequate modelling. Defaulted positions are not relevant for further migration and default risk but rather their price risk is modelled. Banks have established process to ensure, that unrated positions do not contain defaulted issuers, i.e. in such case fallback 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 paragraph requires an equally weighted average PD of those issuers not subject to an unweighted approach. An unweighted average could not be representative of the portfolio, and in addition, given the typical exponential scale, high PD will dominate. We suggest to maintain the unweighted average as a default approach unless it is demonstrated that another treatment is more appropriate; such as a weighting mechanism (JID or incremental / standalone IRC based) that is more risk sensitive.	Maintain unweighted approach as a default approach for PD, allowing a weighted approach when appropriate.	Jones, Gregg	ISDA and AFME	Publish
90	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	163	119-120	Amendment	We believe that the requirement related to the percentage of issuers subject to the fallback PD assignment goes further than what is required in the CRR Article 372(a). We fully support the concept of good data quality but this should incentivise appropriate behaviour. More appropriate measures may be based on exposure measure or the number of unrated versus rated counterparties.	Requirement beyond CRR scope.	Jones, Gregg	ISDA and AFME	Publish
91	Market Risk	6.6 Treatment of groups of connected issuers	167-169	121	Amendment	The industry has concerns with this section- especially paragraph 169 relating to modelling groups of connected clients and issuer concentrations which exceeds Article 376.3b: *3. As part of the independent review and validation of their internal models used for purposes of this Chapter, inclusively for purposes of the risk measurement system, an institution shall in particular do all of the following:* *(…)* *(b) perform a variety of stress tests, including sensitivity analysis and scenario analysis, to assess the qualitative and quantitative reasonableness of the internal model, particularly with regard to the treatment of concentrations. Such tests shall not be limited to the range of events experienced historically;* The industry notes EBA final guidance on connected clients, but this guidance primarily relates to large exposures and credit risk. As noted in the EBA press release for this guidance, "The guidelines apply to all areas of the CRR where the concept of 'group of connected client' is used, including the EBA technical standards and the EBA guidelines that refer to that concept". Article 276 only refers to concentrations not connected clients.	Concerns related to modelling of groups of connected clients versus issuer concentrations and the EBA guidelines on connected clients versus the CRR referring to concentrations.	Jones, Gregg	ISDA and AFME	Publish
92	Market Risk	7.2 The framework for risks not in the model engines	170	122	Clarification	RNIMEs are now considered to be a component of the IMA (internal model approach) for market risk (whereas the prior version of the ECB guide sees risks not in model as outside of the model). This paragraph suggests that Article 367 applies generically to risk models and that RNIME can be included in these risk models, thereby becoming an integral part of the IMA. While CRR explicitly mentions VaR, sVAR, IRC and CRM as IMA models, it does not mention anything about risks not in the model other than indirectly by requiring that IMA models capture all material price risks (Article 367.1.a). The ECB should therefore clarify the relationship between model engines and RNIMEs, and also between RNIMEs and "own initiative capital buffers" (as per Figure 4). We further note that many banks will already have a risks not in VaR (RNIV) framework in place or set up an RNIM framework as prescribed by the initial ECB guide from February 2017, and that it would be desirable to allow some flexibility in meeting ECB guidance, while also retaining a consistent global framework for identifying and quantifying RNiVs/RNiMs/RNIMEs.	There is no clear indication in the CCR that an extension of IMA to a RNIME is required. Whereas risk not in model can be handled in the scope of existing IMA (on VaR, sVaR, IRC, CRM) through dedicated add-on where all price risks might not be fully captured by the model.	Jones, Gregg	ISDA and AFME	Publish
93	Market Risk	7.2 The framework for risks not in the model engines	171	123	Amendment	There is a contradiction between paragraph 170 stating that IMA model components consist of an "engine" plus RNIMEs, and paragraph 171(b) excluding RNIMEs from regulatory back-testing, for capital multiplier purposes in particular. The industry proposes that guidelines take into account the fact that regulatory back-testing has two objectives: one, to monitor and validate the performance of the internal model, and two, to ensure that all risks in scope of the IMA are adequately capitalised. For the first objective, the model engine only could be considered, but for the second objective, all capital held against IMA components (VaR in this case) should be taken into account. The industry therefore would propose that if institutions can demonstrate that a VaR overshooting is covered by capitalised RNIME, there should be the option for this overshooting to be disregarded for *capital multiplier purposes*. This would be especially relevant for incremental RNIME, as these are already aligned to the VaR framework.	There is a potential contradiction in the concept of RNIME being at the same time part of IMA model and excluded from regulatory back-testing process. The industry proposes a revised treatment of RNIME in the context of back-testing.	Jones, Gregg	ISDA and AFME	Publish
94	Market Risk	7.2 The framework for risks not in the model engines	173	124-125	Clarification	While the risk unit certainly has the duty of monitoring the risk not in model component (as per the requirements detailed in paragraph 172), it is unclear to what extent this framework should fall under the requirements of a full internal model approval. In particular, it should be clarified whether there is a requirement for a RNIME framework to be pre-approved (and with which timeline) and to what extent it is intended to be subject to RTS (EU) 2015/942 on IMA changes and extensions. As per the proposed amendment to paragraph 186, the industry does not consider a requirement for all RNIME to be subject to full internal and regulatory model change and validation processes to be proportionate or practical, given the objectives of the framework.	Risk not in model should be managed by the risk control unit, however outside the rigid standards of the IMA.	Jones, Gregg	ISDA and AFME	Publish
95	Market Risk	7.3 Identification of RNIME	174	125-126	Amendment	The list of risks listed as giving rise to RNIME is very broad and includes items (e.g. IRC factor model assumptions) that are by definition out of the scope of day to day risk monitoring activities designed to ensure that any material price risks not captured are identified. As a matter of fact most of the risks mentioned under 174 (b) are better captured under the model risk framework, which can be subject to Pillar 2 capital with dedicated permanent/static cushions This should hence not trigger any need to plan around model amendments. Additionally, proxies are specifically mentioned in (a) as a potential source of RNIME, when sections 5 and 6 of the market risk chapter specifically deals with their handling within model engines, and banks with specific risk approval are already required to model basis risk due to proxying.	While (a) - omitting reference to proxies - and (c) captures phenomena that are correctly monitored under the RNIME framework, (b) overlaps with the model risk framework that is already regulated, implemented and capitalised. There is a clear overlap and double counting.	Jones, Gregg	ISDA and AFME	Publish

96	Market Risk	7.3 Identification of RNIME	175	126	Amendment	The last paragraph prescribes that "*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 that RNIME into account in its RNIME framework.* " This requirement seems to extend the scope of the RNIME framework beyond the identification of material price risk required by CRR, and to overlap with established processes such as the new product process (NPP), the risk appetite framework (RAF) and associated limit setting, which will already incorporate provisions for ensuring that the conditions of current product approvals are reviewed when trading strategies and other parameters change. □	The paragraph expresses requirements that are in overlap with well-established processes in the bank: RAF, NPP, risk limits setting and that go beyond the identification of material price risks	Jones, Gregg	ISDA and AFME	Publish
97	Market Risk	7.4 Quantification of RNIME	178-183	127;129-130	Amendment	**Incremental Risk Calculation** The ECB considers it best practice that the impact quantification of each RNIMEi should be estimated as the incremental risk number as opposed to the stand-alone quantification specified in the current version of the ECB guide. The industry believes that, for some risk factors, this is contradictory with the notion of RNIME, because it is not possible to incorporate all material risks in model engines in a way that would comply with the model validation standards expected by regulators. Institutions should not be discouraged from identifying and capitalising risks that are not amenable to full inclusion in model engines, bearing in mind that assessments conducted on a stand-alone basis are bound to be conservative, and could very quickly lead to the 10% threshold being breached. At present, the formula implies (via the term 'incorcopared') that an institution has to actually incorporate the risk into (e.g.) VaR and then see the difference. Measurement of marginal impact will in many cases involve a degree of simplification or approximation until the risk factor is fully set up for inclusion in model engines, at which point it will no longer be an RNIME. The industry therefore requests that a clarification is added, stating that use of appropriate estimations of marginal impact is acceptable. The industry would additionally like to point out that capital add-ons are not part of the CRR mechanism to compensate for poor model performance, which is instead driven by back-testing and multiplier increases. This will lead to situations where RNIME are effectively capitalised twice: via increased multipliers due to regulatory back-testing, and RNIME specific add-ons. This will be further exacerbated by the proposed requirement to exclude all RNIME add-ons from regulatory back-testing, as per the comment to paragraph 171. **No Diversification Effect** The new version of the ECB guide does not allow for diversification benefit between RNIMEs, whereas the previous version allowed two options with regards to RNIME calculation: "(...) the bank should propose a remediation plan or show that the effect is not material when diversification is taken into account." The latter of the two options is no longer available in the updated version of the ECB guide. The industry believes that not allowing for any diversification effect between the different risks not in the model engine leads to a scenario that is much more adverse than a 99% quantile on a 10 day holding period in a VaR setting (resp. 99.9% quantile over a time horizon of 1 year for IRC). Because there is no correlation benefit, this approach effectively assumes that all adverse scenarios occur at the same time, which is extremely conservative from a capital perspective. The industry further notes that, since the preferred method for quantifying RNIME in the new version of the ECB guide is its marginal VaR/sVaR/IRC impact, the methodology for diversified assessment will already be in place for some risk factors. **10% Threshold** The industry therefore proposes that the ECB considers the following options on materiality assessment of risks not captured in model engines, as set out in paragraph 183 • Allow a diversified assessment of risks, where a diversified calculation can be methodologically justified; • Require only RNIME that are not capitalised to count towards the 10% threshold, because other RNIME are already capitalised as part of an IMA model component. This could be coupled with a requirement to periodically review all RNIME that are capitalised outside the model engines.	The quantification approach appears over conservative and bound to generate capital add-ons in excess of what the actual impact on the risk measures will be upon model extensions. The 5% and 10% thresholds mimic those of the EBA RTS on model change materiality however refer to a quantity that does not share the same characteristics on an IMA.	Jones, Gregg	ISDA and AFME	Publish
98	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	186	132	Clarification	**RNIME component of IMA** Considering RNIME as part of IMA seems to set a higher bar than out reaching the CRR prescriptions around the completeness of price risk capture. Additionally having RNIME subject to the RTS on model changes and extensions (see the feedback to paragraph 173) has significant potential to lead to bottlenecks in the model change approval process. This could set an adverse incentive not to include RNIMEs until it is absolutely necessary. The industry proposes a clarification to this requirement, stating that a simplified, efficient approach can be in place to validate and quantify the impacts of RNIME. 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, retired RNIMEs, modification of the methodology for the calculation of existing RNIMEs), performed by the risk control unit and validated by the internal validation function, is suggested as an alternative. Full 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 changes to the validated framework. It is also unclear how this part of the model will be dealt with in the context of FRTB. The ECB has already communicated that the RNIME framework is different from the NMRF framework under FRTB. It is also not yet clear whether there will be any requirements analogous to RNiV or RNIME under FRTB. It therefore seems likely that the RNIME framework will not remain under FRTB, which is a clear argument in favour of fairly light approval requirements for RNIME, because the alternative could be a wave of model approval requests for RNIME that might not even reach final approval phase if the currently proposed FRTB timeline is confirmed.	Inclusion of RNIME in IMA framework appears unnecessary. Interaction mechanism with FRTB come into force is also very unclear and exposes to the risk of a wave of model approvals that will be short-lived or not-lived at all.	Jones, Gregg	ISDA and AFME	Publish
99	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	"*Because the RNIME add-ons are not included in the VaR number, they should not be taken into account when performing regulatory back-testing*" Please also refer to the proposed amendment to paragraph 171. The industry proposes that institutions should have the flexibility to either: • Demonstrate that a back-testing overshooting is covered by RNIME for capital adequacy purposes, and that the overshooting should therefore be considered as technical and not affect the capital multiplier calculation, or • If methodologically justifiable, include capital add-ons deriving from RNIME in regulatory VaR for back-testing purposes.	Flexibility should be allowed in the treatment of RNIME capital add-ons. The industry recommends to either exclude the overshooting from capital multiplier calculation or include the capital add-ons in the VaR when justifiable.	Jones, Gregg	ISDA and AFME	Publish
100	Counterparty Credit Risk	2 Trade coverage	12	137	Amendment	Replace current wording of paragraph 12 by (additions in **bold**): **OTC derivatives** transactions for which there is no permission to apply the IMM in accordance with Article 283(1) of the CRR must be covered by one of the exposure methods described in Part Three, Title II, Chapter 6, Section 3, 4 or 5 of the CRR. In the view of the ECB, this includes OTC derivatives transactions without IMM permission, to which the alternative exposure calculations as described in paragraph 8(c) are applied. **Security Financing Transactions for which there is no permission to apply the IMM may be treated in accordance with Title II Chapter 4 of the CRR, as per article 271 of the CRR.** Exposure methods described in Part Three, Title II, Chapter 6, Section 3, 4 and 5 are only applicable to OTC derivatives. For netting sets including SFTs, article 271 of CRR specifies that institutions may use either Chapter 4 or Chapter 6 of CRR. We note that the Financial Collateral Comprehensive Method set out at article 223 also covers derivatives.	Correct CRR reference for SFTs.	Jones, Gregg	ISDA and AFME	Publish
101	Counterparty Credit Risk	2 Trade coverage	13	137	Amendment	Replace current wording of paragraph 13 by (additions in **bold**): *For cases where, for a given legally enforceable netting agreement as defined in Part Three, Title II, Chapter 6, Section 7 of the CRR, one part of the transactions is treated under the method described in Section 6 (IMM) and another part is covered by one of the methods described in Chapter 4 or Section 3, 4 or 5 of Chapter 6, the ECB considers, as a best practice, the creation of different synthetic netting sets, one per method. Hence, one synthetic netting set covers all the transactions under the IMM and the other synthetic netting sets cover all the transactions under each non-IMM method (one per non-IMM method).* **The aggregation of the resulting exposures shall ensure that a proper recognition of the collateral is achieved.** Similar to the previous comment (12), the guide should specify that for SFT transactions the CRR allows the use of chapter 4 instead of Chapter 6. Moreover, creating synthetic netting sets should not lead to significant divergence vs. legally enforceable agreement. Therefore, the recognition of collateral should be done in a way that ensure the exposures modelling is as close as possible to the actual exposure, in particular for standard approaches : if the collateral received is enforceable at the netting set level the modelling should reflect this feature.	Correct CRR reference for SFTs.	Jones, Gregg	ISDA and AFME	Publish
102	Counterparty Credit Risk	2 Trade coverage	15	137	Amendment	Increase % difference with respect to notional amount as well as absolute differences (addition in **bold**). Insert the word 'consecutive' into the parenthesis to read 'for less than [ten **consecutive** business days] during the reference quarter'. If thresholds are set too low, investigations that may be triggered would be too many to be meaningful for the purposes envisaged by the supervisors. For example, in some banks with global trading book, pricing differences often occur due to benchmarking source systems capturing market curves at different times in a day from risk engines. Low thresholds would mainly capture this and similar issues and divert resources from investigating genuine modelling or data quality issues. The notional amount condition 15 (b) should be increased from 0.5% to 5% and absolute difference from 100k€ to 1m€. As pricing differences will be integrated to exposures computations, it is our view that the specific analysis and carve out should be focused on material differences only.	Avoid not meaningful investigations in relation to not material differences.	Jones, Gregg	ISDA and AFME	Publish
103	Counterparty Credit Risk	2 Trade coverage	16	138	Amendment	Replace ~~"*(i) a carve out of transactions to one of the methods described in Part Three, Title II, Chapter 6, Section 3, 4 or 5 of the CRR*~~" with "**(i) a carve-out of transactions to one of the methods described in Part Three, Title II, Chapter 6, Section 3, 4 or 5 of the CRR or in Chapter 4 (article 222 and 223)**" For SFTs, the standard approach is covered by articles 222 (FCSM) and 223 (FCCM). It should be therefore specified here as well that defaulting methods, under Sections 3, 4 and 5 of Part Three, Title II Chapter 6 are not applied to SFTs.	Correct CRR reference for SFTs.	Jones, Gregg	ISDA and AFME	Publish
104	Counterparty Credit Risk	2 Trade coverage	16	138	Amendment	Add the footnote to the following part: "*The ECB considers that appropriate measures to address identified model weaknesses as per the above assessment are (i) a carve-out of transactions footnote to one of the methods described in Part Three, Title II, Chapter 6, Section 3, 4 or 5 of the CRR, and (ii) the creation of synthetic netting sets to remedy unacceptable performance of the CCR exposure model in accordance with Article 293(4) in conjunction with Article 294(1)(d) of the CRR*". **Footnote: Transactions that are part of a package trade are allowed to be carved out in full when at least one of the transaction of the package meets all of the conditions set out in paragraph 15.** Transactions that are part of a package trade are usually risk offsetting (opposite market value and compensating add-ons). Allocating transactions that are part of a single package trade to different synthetic netting sets (when some, but not all, transactions meet the conditions set out in paragraph 15) is penalising due to the lack of netting and diversification benefits.	Missing recognition of netting and diversification benefits.	Jones, Gregg	ISDA and AFME	Publish
105	Counterparty Credit Risk	2 Trade coverage	16	138	Deletion	Deletion of "~~*the ECB considers that the netting benefit 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 page 138 would make sense if the exposure is uncollateralized and is not appropriate for margined trades. The fundamental reason is that Current Counterparty Exposure (CCE), or CCE benefit, is not a relevant measure of risk for margined transactions since there would be an offsetting collateral amount to the CCE.	This approach would not be consistent with the treatment of margined trades.	Jones, Gregg	ISDA and AFME	Publish
106	Counterparty Credit Risk	2 Trade coverage	18	138	Amendment	Paragraph 18 should be modified as follows (addition in **bold**): "*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**. *For these grid points, the difference could be estimated using more sophisticated methods taking amortising transactions and margining schemes into account.*" The essence of CCR modelling, which relies on Monte Carlo simulations and generation of numerous market scenarios over long time horizons, might require the use of pricing approximations compared to what is performed for the official valuation systems. Controls over price differences between IMM and FO prices are introduced via paragraph 15. When pricing differences occur, the uncertainty generated shall be accounted for, but 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. Instead institutions should aim to be accurate and employ symmetric adjustments. In the margined case, it is also not trivial to determine in which way the adjustment is conservative. Indeed, for margined netting sets, the impact of pricing differences will have an effect on both the exposure arising from positions and the collateral computation. Moreover, margining schemes should be taken into account as the uncertainty generated by valuation tools only impact the exposure over the MPOR, but not beyond (as collateral would offset this impact afterwards). Institutions should be allowed to develop their own methodologies to assess potential impacts derived from prices' differences on the exposure drift over the margin period of risk.	Avoid not meaningful investigations in relation to not material differences.	Jones, Gregg	ISDA and AFME	Publish
107	Counterparty Credit Risk	2 Trade coverage	19	138-139	Deletion	Deletion of **OPTION 1:** Article 284(1)(a) and (b) of the CRR requires that exposure values be based on a forecasting distribution of joint changes in market variables. The ECB considers that any kind of alternative exposure calculation160 that is not derived from valuations directly using forecasting distributions based on simultaneous changes of market variables with a joint dependency structure161 does not comply with that requirement.	The Industry prefers OPTION 2 as it provides more flexibility.	Jones, Gregg	ISDA and AFME	Publish

108	Counterparty Credit Risk	3 Margin period of risk and cash flows	23	142-143	Amendment	We would suggest therefore a rewording of this initial paragraph as follows : Replace *"In the view of the ECB, regarding the modelling of margin call and trade-related CFs within the MPOR, Article 272(9) of the CRR should be understood as providing that none of these CFs is received from the counterparty after the beginning of the MPOR."* with: **"In the view of the ECB, while Articles 272 (9), 289 (5) and 292 (1) do not mention explicitly the modelling of margin call and trade-related CFs within the MPOR, those features have to be integrated to the modelling of exposures in an appropriate manner. No cash flows should be assumed to be received from the counterparty after its default. Formally, for a margined set n, the total exposure can be obtained as the sum of the EEPE assuming that CFs are neither paid nor received during the MPOR and an additional term, capturing the increase in exposure measure when complying with the requirements of paragraph 23. An institution may use the methodology described in paragraph 24 (a) to compute this additional exposure term or other methodology resulting in materially equivalent or more conservative exposure measure."** All the regulatory references in this section only refer to either broad definitions (Article 272 (9) defines the MPOR), or very generic principles (Article 289 (5) refers to the adequacy of the time steps grid and 292 (1) refers to the necessary adequate reflection of transactions terms and conditions). Those articles do not explicitly mention risks linked to cash flows and margin payments, but set out general principles with regard to the definition of the MPOR and the principle of correctly representing terms and conditions applicable to the different netting sets. While we understand that the ECB expects risks linked to trade and margin related cash flows during MPOR to be capitalised as counterparty credit risk, defining such precise technical standards with regards to cash flows treatment goes beyond a simple interpretation of those articles. Moreover, simply including of cash flows paid to defaulting parties in the effective expected positive exposure (EEPE) may not be adequate in all cases as it does not properly reflect the margining agreements in place and therefore is not fully compliant with article 292 (1). Therefore more careful consideration of the resulting exposure measurement is needed when setting up the new expected market practice. Further comments to paragraph 23 aim to better align the proposed measures with economic reality of the risks and ensure better consistency between alternative measurement approaches.	Interaction with the CRR and consistency with the EEPE modelling.	Jones, Gregg	ISDA and AFME	Publish
109	Counterparty Credit Risk	3 Margin period of risk and cash flows	23-23(a)	142	Amendment	Beginning of paragraph 23 states that "none of these CFs is received from the counterparty after the beginning of the MPOR. Furthermore: (a) the counterparty is supposed to default at some time point during the MPOR (…)." Notwithstanding the previous remark, those assertions should be made consistent by changing the first sentence with **"none of these CFs is received from the counterparty after its default"** instead of *"after the beginning of the MPOR"*. Consistent assumptions need to be made: if the counterparty defaults n days after the beginning of the MPOR then it should not be assumed that no cash flows are received from the counterparty from the beginning of the MPOR, but only after its default has occurred. However, this amendment becomes obsolete if the amendment to paragraph 23(a) above is applied.	Consistency with the MPOR definition.	Jones, Gregg	ISDA and AFME	Publish
110	Counterparty Credit Risk	3 Margin period of risk and cash flows	23(a)	143	Amendment	Paragraph 23 (a) states that *"the counterparty is supposed to default at some time point during the MPOR."* We propose to amend this as follows: "**the counterparty is supposed to default on trade and/or margin-related CFs at the beginning of the MPOR."** Assuming at the same time that no cash flows are received from the counterparty from the beginning of the MPOR and that the counterparty may default after the beginning of the MPOR does not reflect the transaction conditions as prescribed by article 292 (1). In order to achieve consistency in measurement across institutions we propose to conventionally assume that default on either margin or trade-related cash flows takes place at the first date of the MPOR. Indeed, assuming the counterparty can default at any time during the MPOR leads to inconsistencies in some situations between the cash flows received, paid, and the definition of the MPOR itself (typically, in a scenario where the counterparty is supposed to post additional collateral, default must happen during the re margining frequency, next comment also highlights potential inconsistencies. Similarly, the assumption on received cash flows must be homogeneous with the time of default)	Interaction with the CRR and consistency with the MPOR definition.	Jones, Gregg	ISDA and AFME	Publish
111	Counterparty Credit Risk	3 Margin period of risk and cash flows	23(b)	143	Amendment	Current paragraph should be reworded as follows (addition in **bold**): *"If the institution has no defined DMP or the DMP is not taken into account in the modelling, all trade-related CFs due by the institution should be assumed to be paid to the counterparty during the whole MPOR*, **unless specific operational setups are implemented to mitigate this risk of asymmetric payments of cash-flows.** In practice, many different operational setups exist to mitigate this risk of asymmetric payment of cash flows: Delivery vs Payment, triparty custodians or continuous linked settlement (CLS) settlement, settlement netting schemes, etc. So the existence and efficiency of the default management process (DMP) should not be the only condition to be taken into account and the risk linked to cash flows shall only be considered where no such operational schemes exist and where the DMP does not ensure a proper control of settlement risk.	Consistency with the market practices in relation to risk mitigation techniques.	Jones, Gregg	ISDA and AFME	Publish
112	Counterparty Credit Risk	3 Margin period of risk and cash flows	23(a)-23(c.)	143	Amendment	Replace in 23 (a) : *"It is seen as good practice and cautious modelling (for example, given that watch lists of critical counterparties include only a subset of all potentially critical counterparties) that trade-related CFs from the institution to the counterparty that are due according to the underlying contract are assumed to be paid at least for a time period after the beginning of the MPOR corresponding to the re-margining period."* With : *"It is seen as good practice and cautious modelling (for example, given that watch lists of critical counterparties include only a subset of all potentially critical counterparties)* **that institution take into account in their CCR modelling trade related CFs by developing appropriate methodologies**. *Trade-related CFs from the institution to the counterparty that are due according to the underlying contract* **should be** *assumed to be paid at least for a time period after the beginning of the MPOR corresponding to the re-margining period,* **consistently with the internal DMP and market settlement practices**. *"* Replace in 23 (c): *"Assuming that there are documented and enforceable settlement netting rules, the aggregation of netting set CFs with opposite signs falling due on the same date from different legs of the same transactions and/or from other transactions in the netting set could be integrated into the modelling of CFs within the MPOR."* With *"Assuming that there are documented and enforceable settlement netting rules, the aggregation of netting set CFs with opposite signs falling due on the same date from different legs of the same transactions and/or from other transactions in the netting set could be integrated into* **the institution**'*s modelling of CFs within the MPOR."* As explained in the overall comment to paragraph 23, adequate methodologies should be used to account for risks associated with cash flows in MPOR as the effectiveness cannot apply to the risks linked to cash flows without side effects which would not allow to adequately reflect the legal terms and conditions of the netting set as required by CRR Art 292. Furthermore, the settlement practices (settlement through triparty agents, settlement netting, delivery vs payment...) and the DMP in place within the institution are mitigating this settlement gap risk and therefore the modelling should take those into account.	Consistency with the MPOR definition.	Jones, Gregg	ISDA and AFME	Publish
113	Counterparty Credit Risk	3 Margin period of risk and cash flows	24(a)(iii)	144	Deletion	Text ~~*"If the longest-remaining transaction maturity among all transactions in the netting set, denoted by T, is above or equal to one year, then Δ should be expressed in units of a year. If T is below one year, e.g. 0.5y, then Δ is expressed as a fraction of T (in other words, the Δ are rescaled by 1/ , in this example by 1/ =2)"*~~should be deleted as the risk linked to cash flows has not an additive nature and therefore assuming a systematic rollover of this risk is overly conservative. Rescaling to 1 year may add on linked to cash flow payments is implicitly assuming that transactions with a defaulting party would be rolled and therefore the risk on paid / not received cash flows is borne several times, which is not relevant with what would be the institutions practice and therefore not consistent with the actual counterparty credit risk. The rescaling would lead to a significant deviation of the CCR and exposure metrics compared to the actual risks. Please refer to comment below in relation to paragraph 84.	Consistency with the EEPE modelling.	Jones, Gregg	ISDA and AFME	Publish
114	Counterparty Credit Risk	3 Margin period of risk and cash flows	23-24	142-144; 171-173	Amendment	The following bullet point should be added to paragraph 23 (addition in **bold**): " **(e) If (i) an institution does not comply with the requirements of Articles 292(1)(a) and 289(5) of the CRR, and (ii) there is a material impact according to (d), the ECB has the power to impose an appropriate and proportionate remediation measure, which can consist – as provided by Article 284(4) of the CRR – in an increase of the alpha parameter derived from expected exposure add-ons for all margined netting sets."** paragraph 24 should be amended as follows: ~~*"If (i) an institution does not comply with the requirements of Articles 292(1)(a) and 289(5) of the CRR, and (ii) there is a material impact as referred to in paragraph 23(d), the ECB has the power to impose an appropriate and proportionate remediation measure, which can consist – as provided by Article 284(4) of the CRR – in an increase of the alpha parameter derived from expected exposure add-ons for all margined netting sets*~~. **Spikes resulting from CFs modelled as being paid during the MPOR are expected to be considered, where the following two options are possible.** **(a) Spikes are included as a full part of the simulated expected exposure profiles and enter effective EPE.** ~~(a)~~ **(b)** *It is proposed that the expected exposure add-on per margined netting set (see Annex 1 for details) be equal to the average of the CF spikes.* *(i) Formally, for a margined netting...* *(ii) When institutions already (partially)....* *(iii) If the longest-remaining transaction....* ~~*(b) In order to obtain the alpha increase, the add-on of paragraph 24(a) would be added to the EEPE for each netting set and the overall increased exposure would be compared with the overall exposure using only the EEPE (see Annex 1).*~~" And Annex 1 should be: *"Annex 1* *This annex specifies how the* ~~capital~~ **Effective EPE** *add-on mentioned in paragraph 24 can be calculated. It starts by assuming that exposure spikes can be calculated for all counterparties and all netting sets. At the end of this annex, this assumption is relaxed and a method to obtain an overall* ~~capital~~ **-Effective EPE** *add-on is shown given that spike calculations can be done only for some representative netting sets.* The following definitions are given for margined netting sets: (…) *For all un-margined netting sets: addoni = 0.* ~~*For the purpose of calculating a potential alpha increase, the following algorithm applies to all the netting sets that the institution has.*~~ ~~*Definitions:*~~ ~~*• effective EPEi is the effective EPE (EEPE) for netting set i;*~~ ~~*• Δα is the alpha increase (to be added to the current alpha).*~~ ~~*Then Δα is calculated as:*~~ ~~*Δα = α * Σi addoni / Σi effective EPEi,*~~ ~~*where the sum runs over all netting sets (of all counterparties) that the institution has. The resulting Δα is, in general, subject to rounding."*~~ Our proposal implies that spikes would be included in the monotonic operator, i.e. the expected exposure (EE) profile would not decrease after the spike. Furthermore, we do not believe it is realistic to assume those spikes that are expected to be recurring to stay at the constant high level. The calculation of the expected positive exposure (EPE) add-on in paragraph 24 is therefore more appropriate, but we do not believe to be appropriate to include this in the alpha calculation. We would consider it the best modelling practice overall to add the EPE add-on as defined in paragraph 24 to the EPE profile. In more detail, we are of the view that the add-on calculation set out in paragraph 24, which ensures that spikes excluded from the Effective EPE monotonic operator, should be added on margin set level to the Effective EPE for the following reasons: i) An alpha factor increase should only be applied when applicable regulation is not adequately implemented. The add-on calculation that is set out in Annex I is in line with the with ECB's interpretation – set out in paragraph 23 of applicable regulation; ii) Ultimately, an alpha-factor increase could results in an ECB's withdrawal of the IMM approval, see paragraph 90. iii) Increasing the alpha-factor, instead of the Effective EPE, is a measure that is not risk sensitive as the Effective EPE estimate for netting sets without a margin agreement are affected. In addition, margin sets with large spikes and margin sets with no/small spikes would get the same exposure at default (EAD) estimate (assuming all else equal). Therefore, we propose to stay as much as possible to the wording used in the previous ECB's guide for the Targeted Review of Internal Models (TRIM).	Consistency with the EEPE modelling.	Jones, Gregg	ISDA and AFME	Publish
115	Counterparty Credit Risk	3 Margin period of risk and cash flows	26	145	Clarification	Should the following statement *"The ECB understands that the effective length of the MPOR for these grid points may be shortened and considers that this will not affect the formal length of the MPOR, which is provided by Article 285(2) to (5) of the CRR"* been interpreted that it is acceptable for the time steps between t0 and t0 + MPOR floors (as specified in article 285) to use MPOR shorter than the floors set out in article 285?	Interaction with the CRR.	Jones, Gregg	ISDA and AFME	Publish
116	Counterparty Credit Risk	3 Margin period of risk and cash flows	26	145	Amendment	Annex I stipulates that theta effect is usually small and acknowledge that the methodologies proposed to isolate CFs ignore it. We propose to leave banks the option to remove the theta effect providing they have an adequate methodology for doing so. Theta effect is generally small but the impact may be larger for large portfolios, in particular when cash flows (CFs) cannot be netted. This leads to an overall overestimation of cash-flow effects.	This leads to an overall overestimation of cash-flow effects.	Jones, Gregg	ISDA and AFME	Publish

117	Counterparty Credit Risk	4 Collateral modelling	32	149	Clarification	(b) It is the currency: (i) agreed in the individual derivative contract if no netting has been agreed upon; (ii) of the relevant governing master netting agreement if agreed without a credit support annex; or (iii) of the relevant credit support annex, if agreed; or (iv) of the close-out amount if more than one credit support annex has been defined for one master netting agreement. Please confirm that these conditions are not necessarily intended to be met at the same time.	Consistency with market practices.	Jones, Gregg	ISDA and AFME	Publish
118	Counterparty Credit Risk	4 Collateral modelling	33	149	Amendment	Addition in **bold**: *"It can be derived from Article 285(6) in conjunction with Article 285(7) of the CRR that an institution can use, in order to capture directly the effects of margining in the calculation of exposure values,:* *(a) the option of joint modelling (Article 285(6) of the CRR) for modelling of all collateral; or* *(b) the volatility adjustment option (Article 285(7) of the CRR) for modelling of all collateral.* *In all other cases, the ECB is of the view that using both options would only be compliant with the above CRR articles if volatility adjustments for non-cash collateral are used, while applying the joint modelling option for the treatment of FX risk in the collateral modelling. In this context, it is considered by the ECB as good practice that the above combination can only be made by using jointly modelled FX rates for all currencies* **that are simulated for the exposure calculation under the Internal Models Method.** *In other words, a partial application of FX volatility adjustments alongside jointly modelled FX rates for the purpose of collateral modelling would not be considered by the ECB as consistent modelling".* The joint modelling of some FX rates might show low model performance, e.g. identified within the back-test scope. Consequently, these FX rates would not be used for exposure and collateral modelling within the IMM. In our view it should be avoided that the logic set out in paragraph 33 cannot be used in full when few FX rates (with only small exposure linked to it) are excluded outside the scope of the IMM. In addition, the ECB could request an assessment of the appropriateness of the regulatory haircuts for the FX rates that are not jointly modelled under the IMM as it is likely that the excluded FX rates will demonstrate relatively high volatilities. The aforementioned assessment could provide an appropriate response to any supervisory concerns regarding potential cherry picking of the FX rates that are not jointly modelled under the IMM.	Consistent calculation of the FX exposures.	Jones, Gregg	ISDA and AFME	Publish
119	Counterparty Credit Risk	4 Collateral modelling	34	149	Amendment	We propose the following additions (in **bold**): *"In order to comply with the requirements laid down by Article 292(1)(a) and (b) of the CRR with respect to the terms of margining and netting arrangements, the ECB is of the view that the future composition of collateral over the lifetime of the netting set should reflect the contractual arrangements in terms of eligible margin collateral or the composition observed historically or* **the institution's policy(footnote1), or the collateral composition for comparable counterparties(footnote2),** *or at least the current composition of margin collateral."* *Footnote1* **Only for posted collateral.** *Footnote2* **Only for newly set-up agreements.** In our view these modelling techniques are compliant with Article 292(1)(a) and (b) of the CRR. Adding these approaches could avoid a necessary reliance on collateral eligibility schedules which are burdensome to capture in IT systems and which are difficult to assess in terms of the most likely collateral to receive.	Interaction with the CRR.	Jones, Gregg	ISDA and AFME	Publish
120	Counterparty Credit Risk	4 Collateral modelling	35	149-150	Amendment	Suggested rephrasing (addition in **bold**): *"[…] 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."* We believe that the current phrasing is prone to double counting and confusion with Article 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.	Consistent calculation of the FX exposures.	Jones, Gregg	ISDA and AFME	Publish
121	Counterparty Credit Risk	4 Collateral modelling	37	150	Amendment	Removal of paragraphs (a) and (c) and rephrasing of the paragraph as follows (addition in **bold**) *"When a contractual (…), 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 mentioned in 28 (c). Although double counting of collateral should be prohibited, institutions should be allowed to allocate collateral to different netting sets".	Interaction with the CRR and missing recognition of netting and diversification benefits.	Jones, Gregg	ISDA and AFME	Publish
122	Counterparty Credit Risk	5 Modelling of initial margin	41	152	Amendment	The paragraph should be reworded (addition in **bold**): *"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* **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 in an adequate manner. 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."** Modelling initial margin as part of EEPE is complex. Moreover, IM can be determined based on a wide range of margining models depending on the type of product (cleared OTC derivatives, bilateral OTC derivatives subject to Standard Initial Margin Model (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 shall have the option to retain one modelling approach. Institutions should be allowed to make the assumption of a constant IM over time if it can be proven that it does not lead to systematically underestimation of exposures.	Consistency with the EEPE modelling.	Jones, Gregg	ISDA and AFME	Publish
123	Counterparty Credit Risk	5 Modelling of initial margin	41	152	Amendment	It should be clarified that the current phrasing only apply 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.	Institutions should be allowed to elaborate on excluding posted IM from IMM if deemed more appropriate.	Jones, Gregg	ISDA and AFME	Publish
124	Counterparty Credit Risk	5 Modelling of initial margin	42	152	Clarification	When IM is commingled with VM, it is redundant to benchmark both IM and VM (please refer to paragraph 36) with "real" IM and VM as only the total collateral is known.	Avoid redundancy of potential investigation requirements.	Jones, Gregg	ISDA and AFME	Publish
125	Counterparty Credit Risk	6 Maturity	48	154	Amendment	Replace in the paragraph 48 (i) the 2 year period with a 6 months period. Paragraph 48 (a) becomes (addition in **bold**): *"If the institution has the right to terminate the transaction, in the ECB's view, the transaction maturity should be set at the higher of:* **(i) the contractual agreed first date on which the open term repo can be terminated;** *(ii) five business days."* A 2 year period may not allow institutions to reflect the actual contractual conditions in an adequate manner. Furthermore, in order to reflect the economic rational underlying of open term SFTs, the first date on which the contract can be terminated is relevant in order to determine the maturity. Note that an institution can terminate the contract, e.g. in case of deteriorating credit quality of the counterparty, and in such cases there is no dependency on the length of the previous rolled period.	Consistency with the market practices.	Jones, Gregg	ISDA and AFME	Publish
126	Counterparty Credit Risk	6 Maturity	51	155	Amendment	The following sentence should be added (in **bold**) to the paragraph "**unless the institution can justify the use of a different maturity for specific products".** For physically cleared swaptions, using the maturity of the underlying swap is not appropriate as once the option is exercised the underlying swap is cleared via a CCP (timing of which is typically unknown) so the counterparty risk would no longer be against the client.	Consistency with the market practices.	Jones, Gregg	ISDA and AFME	Publish
127	Counterparty Credit Risk	7 Granularity, number of time steps and scenarios	55	157	Amendment	Paragraph 55 should be clarified as follows, so that this assessment is performed either on the full portfolio or on representative sub-portfolios as defined in the counterparty credit risk Glossary, to avoid redundancies (addition in **bold**): *"the ECB also considers that, if the EEPE calculated with a very dense time grid is more than [5%] above the EEPE as calculated by the institution using its standard set of grid points for the whole portfolio* ~~*or representative sub-portfolios as defined in the counterparty credit risk Glossary*~~ *, then the ECB can increase the alpha parameter following the process described in section 11.* **Institutions can conduct this impact assessment on representative sub portfolios as defined in the counterparty credit risk Glossary instead of using the full portfolio.** While it is legitimate to impact the alpha parameter when the uncertainty generated by the standard set of grid points on the EAD metric becomes too significant as mentioned in article 284(9) of the CRR, such a direct link cannot necessarily be made when assessing this impact on sub portfolios when they are used as an additional assessment of the model performance. Indeed, only impacts at group level are relevant when assessing the own funds requirements and therefore the alpha parameter. Impacts at counterparty or portfolio levels may impact the risk monitoring framework of the institution, and therefore should be assessed as well, but do not directly impact EEPE at group level. Consequently, no direct link with the alpha parameter should be made. However, when representative portfolios are used in replacement of the time steps granularity assessment on the full perimeter, then the link with the alpha parameter can be made as per Article 284 (9) of the CRR.	Consistency with the EEPE modelling.	Jones, Gregg	ISDA and AFME	Publish
128	Counterparty Credit Risk	7 Granularity, number of time steps and scenarios	55	157	Amendment	Increase threshold to 10% as suggested in initial version of the ECB guide. As a Monte Carlo error of 5% is tolerated (paragraph 56) then simply changing the density of the grid could have an impact of 5% on the EEPE simply because the sequence of random number will be different for scenarios with denser and standard grid. A 10% threshold is therefore seen as more appropriate to ensure that increasing the granularity of the grid genuinely improves the accuracy of the profile. Note that a 5% threshold for Monte Carlo error is already conservative given an alpha floor combined with very low observed Wrong Way Risk (WWR) at overall portfolio level.	Consistency with the EEPE modelling.	Jones, Gregg	ISDA and AFME	Publish
129	Counterparty Credit Risk	7 Granularity, number of time steps and scenarios	55	157	Amendment	Specify that the EEPE calculated with "*a very dense time grid"* should be calculated using the same model and assumptions as the one used in production. This is to avoid cumulating the impacts (cash flows in particular) which are being looked at separately and assess the granularity of the time grid impact independently.	Consistency with the EEPE modelling.	Jones, Gregg	ISDA and AFME	Publish
130	Counterparty Credit Risk	8 Calibration frequency and stress calibration	62	159	Amendment	Current text: *"The frequency of the recalibration of the parameters of the underlying stochastic processes (such as drift, volatility and correlation) for internal risk management should be at least monthly unless the institution is able to demonstrate that the minimum quarterly frequency required by Article 292(2) of the CRR for the calculation of capital requirements is sufficient to reflect changes in market conditions in an appropriate manner."* Proposed text (addition in **bold**): *"The frequency of the recalibration of the parameters of the underlying stochastic processes (such as drift, volatility and correlation) for internal risk management should be at least* **quarterly and the institution should be able to demonstrate that the calibration frequency selected as** *required by Article 292(2) of the CRR for the calculation of capital requirements is sufficient to reflect changes in market conditions in an appropriate manner."* The adequacy of the recalibration frequency depends on the type of the calibration method (historical or market implied) and on procedures in place to identify if market conditions require a more frequent recalibration pursuant Article 292(2) of the CRR. The current text consists in a significant change of Article 292 as it sets the calibration frequency to monthly and replaces the need to increase the calibration frequency when market conditions justify it. Moreover, it can be argued that a monthly recalibration based on market implied data without additional controls on changing market conditions may be less satisfactory than a quarterly historical calibration with controls for changing market conditions. Besides, performing a historical calibration on a 3 years (or longer) time period at higher frequency (e.g. monthly instead of quarterly) will not on its own make the calibration much more sensitive to sudden changes in market conditions, as the part of the sample affected by such changed market conditions would anyway be small. Additional adjustments to calibration would be needed to achieve this goal. In summary, it is our view that there is no reason to stipulate that a monthly frequency is always sufficient; no reason to overwrite the minimum requirement for the calibration frequency provided by Article 292(2) of the CRR and institutions shall be required to justify the adequacy of the selected calibration frequency. Furthermore, a calibration process can be subject to an extensive manual review of the adjusted exposure profiles and in order to prevent an unnecessary burdensome assessment process the manual review steps for a recalibration should be limited. In addition, please note that a credit institution would already assess the appropriateness of its recalibration frequency as part of its back testing program as is required by Article 294.1(n) CRR.	Interaction with the CCR and consistency with the market practices.	Jones, Gregg	ISDA and AFME	Publish
131	Counterparty Credit Risk	9 Validation	68	163	Clarification	*"Hence, the ECB considers that for cases where operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, are conducted by staff also responsible for model design and development, the above-mentioned requirement provided for by Article 293(1)(c) of the CRR would be fulfilled if all of the following practices were implemented:* *(a) the respective validation task is conducted on behalf of the validation function;"* What does the statement "(a) the respective validation task is conducted on behalf of the validation function" mean in operational terms and how could it be verified?	It is not clear how to interpret the requirement that certain tasks are executed by model developers "on behalf of" the validation function.	Jones, Gregg	ISDA and AFME	Publish

132	Counterparty Credit Risk	9 Validation	68	163	Amendment	Current text: *"68. In accordance with Article 293(1)(c) of the CRR, validation/review and model development must be independent, that is, the validation function must be effectively separated from model development. Hence, the ECB considers that for cases where operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, are conducted by staff also responsible for model design and development, the above-mentioned requirement provided for by Article 293(1)(c) of the CRR would be fulfilled if all of the following practices were implemented:* *(a) the respective validation task is conducted on behalf of the validation function;* *(b) a regular, independent and effective challenging of the underlying methodological aspects of the respective validation task comprising scope, data samples, tools, etc., is performed by the validation function;* *(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 the responsibility of the validation function only."* Proposal (addition in **bold**): *"68. In accordance with Article 293(1)(c) of the CRR, validation/review and model development must be independent, that is, the validation function must be effectively separated from model development.* **Certain parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, may also be used as parts of ongoing model performance monitoring.** *Hence, the ECB considers that for cases where* **some methodological and/or operational parts of the validation framework,** *e.g. back-testing runs or benchmarking of IMM pricing functions, are conducted by staff also responsible for model design and development, the above-mentioned requirement provided for by Article 293(1)(c) of the CRR would be fulfilled if all of the following practices were implemented:* **(a) a regular, independent and effective challenging of the underlying methodological aspects of the respective validation task comprising scope, data samples, tools, etc., is performed by the validation function.** **(b) in addition to the model performance monitoring tasks performed by the staff also responsible for model design and development, model validation function must perform its own independent assessment of the outcomes of the analysis required by Article 294 of the CRR. The assessment required by paragraph68 (b) may be based on the operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, conducted by staff also responsible for model design and development, and not on an independent implementation thereof, only if the requirements in paragraph68 (a) are met.** **(c) The judgement regarding the adequacy of the remediation measures proposed should be the responsibility of the validation function only."** The formulation of requirements in paragraph 68 lacks clarity and consistency. The paragraph refers to the cases "where operational parts of the validation framework e.g. back-testing" are conducted by model developers and aims to define, under which constraints such setup is deemed compliant with the requirements in Article 293(1)(c) on independent model review. The reference to "operational parts" only implies that the methodological part underlying the operational part should be designed by the model validation function. But paragraph 68 (b) describes "a regular, independent and effective challenging of the underlying methodological aspects of the respective validation task" as necessary, which implies that such methodological aspects could be designed by the model development function, which may be a contradiction. Besides, the requirement in paragraph 68(a) that "the validation task is conducted on behalf of the validation function" can be interpreted in different ways and it is not clear, how this could be implemented organizationally. Finally, the requirement in paragraph 68 (3) implies that the model validation function alone should have the responsibility for the analysis and "respective remediation measures". This requirement takes outset in the view that ongoing model performance monitoring (such as back-testing or pricing comparisons) are exclusively part of model validation and does not recognize the fact that, while being inalienable parts of validation, they are often parts of model maintenance and model risk management process. Depending on the nature, size and complexity of the institution, model monitoring and performance may be implemented differently on organizational terms: as part model development, as a separate unit or as part of model validation. Methodology for performance assessment, especially back-testing methodology, is often complex, as it uses non-trivial statistical methods. Requiring that it is developed by model validation function only may in fact increase the model risk, making an independent review of such methodology unnecessary, if it is developed by a model validation function. In our view, a setup where model performance assessment methodology is developed by either a specialized unit or model development unit and then independently assessed by the model validation function, as any component of the model is preferable and more aligned with the intentions of the requirement in Article 293(1)(c) of the CRR. Pursuant the latter article it might be required that model validation performs its own assessment of the outcomes of the analysis as part of the validation review, without depriving the model development function or model monitoring function to have their traffic lights and initiative of remediation actions. The initiative of the remediation actions, naturally belonging to the model development team, and the judgement on the adequacy thereof, belonging to the model validation, is not clearly separated in the proposed text. It should be noted that by their very nature model validation activities are often performed at lesser frequency, than model performance monitoring tasks. It is our view that such activities are most efficient when they are performed continuously, are integrated in the model development cycle and the underlying methodology and implementation benefit from independent review.	Consistency with the validation processes.	Jones, Gregg	ISDA and AFME	Publish
133	Counterparty Credit Risk	9 Validation	73	164-165	Amendment	Current text: *"(c) whenever ratios are less than [50%], institutions should be able to provide an explanation justifying the level of the ratio."* Proposed text (in **bold**): **"the institutions should be able to provide an explanation justifying the level of the coverage ratio."** There is no precise definition of how the coverage ratio shall be computed and of the granularity, at which it should be computed (except the requirement to do it by asset class and on both risk factors and portfolio levels). Institutions using stratification or clustering techniques may well achieve better representativeness of their back-testing sample than those aiming at achieving a certain threshold. An institution may be incentivised to define the sample construction methodologies and/or the metrics and granularity of the coverage ratios in a way that maximizes the chances to meet a certain coverage target rather than improve the representativeness of the sample. For instance, to achieve a 50% coverage ratio an institution may be incentivised to only include bigger counterparties in the sample. Those might have structurally different portfolios, than smaller counterparties and the representativeness of the back-testing sample will be compromised. According to the current proposal, in such cases the institution will not have to justify the construction of the back-testing sample. Hence it is our view that institutions should always be able to provide an explanation justifying the level of the ratio and fixing any particular value to secure an exemption from this requirement is counter-productive.	Consistency with the market practices.	Jones, Gregg	ISDA and AFME	Publish
134	Counterparty Credit Risk	9 Validation	76	165	Amendment	Addition in **bold**: *"In order to ensure appropriate back-testing practices as required by Article 294(1)(j) of the CRR, the ECB sees it as good practice to pay special attention to the consistency of predictions and realisations in the case of actual portfolio back-testing; in other words, changes of the portfolio composition during the observation period (e.g. due to new or closed-out transactions) should be handled accordingly."* **The ECB will consider alternative approach for back-testing on actual portfolios as well as good practice if these approaches can be justified by the credit institution,** In our view the wording of paragraph 76 should allow for other good practices with respect to back-testing of actual portfolios. Please note that back-testing approaches on actual portfolios are, but are not limited to: a. The portfolio composition on T-t is taken. A forecast for T-(t-x) is compared with a realisation on T-(t-x). - Pro: The true portfolio composition on T-t is considered. - Con: The portfolio composition on T-t might not be representative for the current portfolio; b. The portfolio composition on T is taken. This portfolio is moved to T-t (with some transaction modifications in order to ensure portfolio sensitivities are representative, see Article 294.1.h). A forecast for T-(t-x) is compared with a realisation on T-(t-x). - Pro: Throughout the back-test observation period a representative portfolio is considered. - Con: Transaction modifications are needed to ensure the portfolio sensitivities are kept representative. Where: T = today T-t = a time-point in the back-test window x = the forecast horizon The good practice set out in paragraph 76 with respect to the portfolio composition during the observation window seems to be only relevant for approach above.	Consistency with the market practices.	Jones, Gregg	ISDA and AFME	Publish
135	Counterparty Credit Risk	9 Validation	79	166-167	Amendment	*Footnote 189* As described in footnote ~~158~~ **152**	Typo	Jones, Gregg	ISDA and AFME	Publish
136	Counterparty Credit Risk	10 Effective expected positive exposure	84	167-168	Deletion	The interpretation the ECB makes of article 284 of the CRR in this article is contradictory with article 284 itself, which states that "If all contracts in the netting set mature within less than one year, EPE shall be the average of EE until all contracts in the netting set mature. Effective EPE shall be calculated as a weighted average of Effective EE". The rescaling of time interval is not mentioned in the CRR and is significant change in the interpretation of this article.	Interaction with the CRR.	Jones, Gregg	ISDA and AFME	Publish