Template for comments

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

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General comments

UniCredit welcomes the opportunity to comment on the ECB TRIM Guide – specific risk chapters.

Besides more detailed remarks and proposals in the 'Comment spreadsheet', below the following general comments:

Regarding the Credit Risk Chapter, the main areas of attention are the following:
• external data/bureau for which it is suggested to have specific guidelines addressed to both financial institutions and external data providers;
• pool model concerning the adoption of data from different institutions of the same banking group;
• critical points from EBA guidelines confirmed such as independence period, discount of the artificial cashflow and downturn (on which EBA guidelines are still in consultation and whose principles have been extended to CCF.
Furthermore several clarifications have been requested in order to avoid possible future misinterpretation. Therefore on these points it was difficult to provide a punctual feedback. In particular the most relevant topics are the estimation of MoC category C, the treatment of repossessed asset, full review of estimates and the requirements on grade assignment dynamics.

For what concerns the Market Risk chapter, the main point of attention is the un-anticipated introduction on a new IMA component: the Risk Not in Model Engine.
While the monitoring of RNIM and the introduction of capital add-on in the presence of material price risk not captured by the Market Risk Models appears as a sound practice, the introduction of Risk Not in Model Engines under the IMA seems to go beyond CRR prescriptions and poses serious concerns when it comes to model approval and model change procedures.
Additionally the scope of RNIME - in its current definition - appears much broader than the "material price risks" CRR refers to, effectively overlapping with model risk framework, Risk Appetite Framework and New Product Processes.
Finally, CRR foresees capital add-ons in terms of increase to the regulatory multiplier which could already cover for some of the newly prescribed RNIME add-ons, effectively leading to a double-counting on the same risks.

Regarding the CCR sections, the carve out requirement for trades that show pricing discrepancies over defined thresholds with respect to benchmark seems to be over-reaching. This is particularly true for Banks that share the same pricing framework in FO and Risk for which a quarterly monitoring should be sufficient to detect the "unacceptable performance" the CRR refers to. Additionally the proposal for margined trades does not seem to properly account for the benefits of collateralization rather addressing diversification effects.
Finally, the prescription of including cash-flows in the margin period of risk, requires the inclusion of detailed contractual settlement information into the CCR Engine (which accounts only for pre-settlement exposure), a requirement that is not clearly spelled in CRR which rather deals with Settlement and Pre-Settlement risks as distinct risk types.

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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;
 - <u>you indicate the relevant chapter/section/paragraph</u>, 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	20	11	Clarification	It is not clear how banks are supposed to comply with this requirement, given that they have limited leverage on data providers, to require disclosure of their data quality treatment. Therefore we suggest to better clarify and describe in the detail a minimum set of information that are necessary to be disclosed, eventually foreseeing on this a dedicated Guidelines subject to a consultation process target to both banking system and most common external data providers.	Clarification required due to the difficulty of gathering information on external data providers data quality treatment.	De Palma, Valeria	UniCredit	Publish
2	Credit Risk	3.2 Use of external data	34, 35	15	Clarification	Generally speaking, we deem that the analyses requested in section 3.2 for the use of external data might be likely not sustainable, since they entails a level of disclosure closed to the one available for internal data (for example representativeness analysis of par. 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 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 analyses required by ECB guidelines might likely limit the workability of the new securitization framework aiming at revamping, as for Basel Committee intendments, the securitization business.	Requirements on external data might compromise their adoption in the future and they might likely limit the new securitization framework	De Palma, Valeria	UniCredit	Publish
3	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 par. 37(b)-(e) but are usually not reported by credit bureau (for example, shadow rating models, as defined in section 4.1.5, par. 70, are developed in some segments exactly to infer the key risk drivers underlying external ratings, which are not disclosed by rating agencies). This would hinder the recourse to a typically powerful data source for risk differentiation purposes, limiting, in violation of regulatory requirements themselves, 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 to better clarify and describe in the detail a minimum set of information that are 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.	Requirements on external scores might compromise their adoption in the future	De Palma, Valeria	UniCredit	Publish
4	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. group-wide 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 group-wide perimeter. Thus the measurement of rank ordering and predictive power at single legal entity level would provide a partial (and potentially biased) view. We propose the following amendment of footnote 21:"The paragraphs below are also relevant in cases where institutions use pooled data that are generated from institutions belonging to the same banking group, with exception of models developed and applied at overall group level.	Validation requirement on group-wide models not consistent with group-wide nature of the models themselves	De Palma, Valeria	UniCredit	Publish
5	Credit Risk	4.1 Structure of PD models	52	21	Amendment	It should be specified that in case of analysis performed at sub-ranges level, a lower performance with rispect to the overall model is expected.	Lower performance structurally expected in case of sub-ranges of application	De Palma, Valeria	UniCredit	Publish
6	Credit Risk	4.1 Structure of PD models	52, footnote 24	21	Deletion	In footnote 24 is asked to perform analysis of a meaningfull differentiation for subranges in which one of the main driver of the internal rating isi missing. In our opinion, being the main information not available, the model performance is expected to be significantly lower. However in the specific case of credit bureau, the lack of availability of the information is itself a driver considered by the model . This is particularly true in the application score of retail models.	Significantly lower performance structurally expected in case of not availability of credit bureau, when this information is one of the main risk driver	De Palma, Valeria	UniCredit	Publish

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7	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 par. 61(a) and how the 2/3 year horizon indicated in par. 61(b) should be embedded in the modelling framework. 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. In particular, EBA/GL/2017/16 par. 66 leaves to the institutions the possibility to choose a rating dynamics approach, as long as they are aware of the consequences, while the ECB guidelines seems to require a Trough-The-Cycle philosophy.	Not clear requirements on grade assignment dynamics	De Palma, Valeria	UniCredit	Publish
8	Credit Risk	4.1 Structure of PD models	65	26	Clarification	It is not clear the link between the additional requirements contained in this paragraph and paragraph 74 of EBA/GL/2017/16.	Inconsistency with EBA/GL/2017/16 par. 74	De Palma, Valeria	UniCredit	Publish
9	Credit Risk	4.1 Structure of PD models	75	28	Clarification	It is not clear which kind of analysis is required, in shadow rating models, for counterparties that switch from externally rated to unrated status.	Requirement not clear	De Palma, Valeria	UniCredit	Publish
10	Credit Risk	4.2 PD risk quantification	82(b)	31	Amendment	It is not clear how to select factors relevant for the geographic composition and the sectorial distribution. We propose to substitute the following sentence "such indicators are relevant for the portfolio at least in terms of geographical composition, sectorial distribution and other risk drivers relevant to the portfolio, including the list of drivers referred to in section 4.1" with "such indicators are macro-economic factors with a relevant impact on the model application scope".	Proposed a direct reference to the use of macro-economic factors for the identification of good/bad years.	De Palma, Valeria	UniCredit	Publish
11	Credit Risk	4.2 PD risk quantification	83	31	Amendment	It shall be clarified that, in case the institution uses direct PD estimates, the comparison between the final PDs and the LRA default rate shall be performed "at a level that is appropriate for the application of the probability model" and not at grade level, consistently with the provisions as of paragraph 92 (b) of the EBA GL on PD and LGD.	Alignement with EBA/GL/2017/16 requirement in case of adoption of direct PD estimates.	De Palma, Valeria	UniCredit	Publish
12	Credit Risk	4.2 PD risk quantification	86(b)	32	Clarification	It is not clear how the analysis required in this paragraph should be carried out. Moreover, it is not clear the meaning of the reference to paragraph 36.	Paragraph and reference not clear	De Palma, Valeria	UniCredit	Publish
13	Credit Risk	4.2 PD risk quantification	86(d)	32	Amendment	The reference to paragraph 75 of EBA/GL/2017/16 should be removed. Indeed, that paragraph refers to counterparties without a rating at the start of the relevant observation period, while par. 86(d) refers to "withdrawn" rating, i.e. counterparparties with a rating at the start of the observation period, which, in the period, moved to unrated status according to the rating agencies.	Removal of reference to par. 75 of EBA/GL/2017/16	De Palma, Valeria	UniCredit	Publish
14	Credit Risk	4.2 PD risk quantification	88	34	Amendment	The sentence "using masterscale discrete PDs for the purpose of risk-weighted exposure amounts (RWEA) calculation" seems not consistent with the section "Specific requirements for direct PD estimates". We ask for moving this paragraph in a separated section.	Request to move this paragraph mentioning a masterscale to another section	De Palma, Valeria	UniCredit	Publish
15	Credit Risk	5.1 Realised LGD	96	37	Amendment	In the wording of par. 96, the facilities aggregation for modelling purposes is defined as "exceptional cases". However, in our opinion, it should be seen as "structural" if for specific type of facilities an aggregation should be done in order to mirror the recovery processes characteristics as well as the interconnections among facilities. Indeed in case of complex facilities like multi-purpose credit lines including more than one transactions or receivables advances facilities connected to a current account on which a credit line is granted, the interconnections are such not to foresee for LGD modelling purposes the single elementary facilities as separated and independent. Thus we would suggest to amend the wording by replacing "exceptional cases" with "in cases of particular facilities characterized by strict interconnections and/or common recovery features".	Better specification on the cases where a facilities aggregation is needed.	De Palma, Valeria	UniCredit	Publish
16	Credit Risk	5.1 Realised LGD	98	39	Amendment	With respect to the specific reference to paragraph 51 of the EBA GL on the definition of default, since the amount by which the financial obligation has diminished is a loss component for the LGD calculation, it should be specified that Delta NPV is purely related to the modifications of contractual terms, without envisaging debt forgiveness, since it would be captured in the lower outstanding exposure at the moment of the cure corresponding to the Artificial cash flow. Indeed, including the debt forgiveness in the delta NPV will introduce the double counting (forgiveness will be present both in NPV and Artificial cash flow). **Amended text:** *98. The economic loss as defined in Article 5(2) of the CRR also includes material discounts. In the understanding of the ECB, paragraph 134 of the EBA GL on PD and LGD refers to all losses incurred through forgiveness or write-off, including all losses that can trigger a default under Article 178 of the CRR, as further specified in the EBA GL on the definition of default. Therefore, where a default has been triggered by a sale of a credit obligation, the loss is calculated in accordance with paragraph 44 of the EBA GL on the definition of default should be taken into full consideration. Similarly, and 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, without including any debt forgiveness, being its effect already embedded in the lower Artificial Cash Flow for facilities that return to the non-defaulted status (EBA GL on PD and LGD Article 135).*	Delta NPV should not include debt forgiveness	De Palma, Valeria	UniCredit	Publish
17	Credit Risk	5.1 Realised LGD	100	39-40	Deletion	The analysis on curing process required in letter a) results in overlapping with probation period assessment as for the monitoring requirement reported in EBA Guidelines on Definition of Default. Considering that independence period should be applied on top of the probation period, with already a strong conservative effect on the estimates coming from the asymmetric treatment between PD and LGD (independence period is indeed required only on LGD), it is deemed as a double operational effort not totally relevant to be performed. Thus we suggest to remove this section.	Analysis of curing process already required for probation period with counsequent double operational effort	De Palma, Valeria	UniCredit	Publish

#		Section	Page	Para	Type	Comment		Name	Institution	
18	Credit Risk	5.2 LGD structure	103	41-42	Amendment	EBA GL on PD and LGD Article 121 requires to use relevant risk drivers "[…] potential risk drivers that are relevant". The LGD final model will be built on the long list of relevant risk drivers that discriminate the risk. Thus, all significant risk drivers should and will be included in the model. Using the same risk drivers as a segmentation driver for analysis will imply the power of the risk differentiation will be lower inside this clusters. For example, for a mortgage portfolio with segmentation by the LTV: n this case, since the variable LTV is a crucial one the model performance inside the clusters will be lower compared to portfolio level as an important driver is excluded. **Amended text:** *Institutions' rating systems must provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk and accurate and consistent quantitative estimates of risk. It is the ECB's understanding that to comply with this requirement institutions should demonstrate that, in terms of the range of application of LGD models, the model performs adequately (in terms of discriminatory power and predictive power) on economically significant and material sub-ranges of application of the rating systems.* **[removed the remaining part requiring the adoption of risk drivers as sub-ranges drivers]**	Segmentation done by risk drivers used in the final model will imply reduced performance inside the segments	De Palma, Valeria	UniCredit	Publish
19	Credit Risk	5.2 LGD structure	105	42-43	Clarification	As specified in the paragraph, institutions should provide empirical evidence that components estimated separately are independent. It is deemed useful to provide more clarification on: 1) Which tests does ECB consider adequate for this analysis (e.g. correlation analysis between loss component and cure component will be considered sufficient)? 2) Should be discriminatory power considered or the calibration accuracy of the model? Furthermore it is required that "In the event of dependency, institutions are expected to adequately reflect this dependency in the models (for example using relevant risk drivers)." Should be dependency corrected in the risk differentiation step or during the risk quantification step (e.g. with the application of the overall calibration factor which is already required by the EBA GL on PD and LGD in par. 161(b))?	Clarification of the ECB requirements	De Palma, Valeria	UniCredit	Publish
20	Credit Risk	5.3 Risk quantification	111	46	Clarification	The case of repossession has been described by EBA. Particulary the value of the repossession is defined by Article 116: *"116. For the purpose of point (b) paragraph 115 institutions should determine the value of repossession as the value by which the credit obligation of the obligor has been diminished as a result of the repossession of the collateral, and with which the repossessed collateral was recorded as an asset on the balance sheet of the institution […]"*. As reported in the wording, the haircut is expected to be different from zero (or at least not always zero). Moreover, when the repossession occurs, institutions may also decide to not sell the asset (i.e. rent it), depending on market conditions, paying RWA for Asset detention in bank's balance sheet. Thus, given the wording of the ECB Guidelines *"assess the impact on the LRA LGD of the inclusion of the repossessed collateral (for example by applying a haircut of 100% to cases where collateral have been repossessed but not yet sold"* we interpret it as a pure sensitivity analysis resulting from the application of 100%. Therefore we deem appropriate to clarify that this is a pure sensitivity as well as the goal and what triggered by the outcomes of this analysis.	This introduction of the 100% haircut would be extremely conservative but in a counterintuitive way with respect to the meaning of the collateral repossession. Clarify this is just a pure sensitivity analysis	De Palma, Valeria	UniCredit	Publish
21	Credit Risk	5.3 Risk quantification	113	46-47	Amendment	In order to calculate LRA LGD, "(a) In the event of definition of default applied at obligor level, where two facilities of the same obligor are assigned to the same facility grade or pool, two options are seen as compliant for calculating the average", institutions should "compute the average weighted by the total number of facilities within that facility grade". This first option among the two propose should be adopted as a general option complying with the EBA requirements of the facility level estimation. The other option could be considered in the exception cases where the client level LGD estimation is applied as defined in the Article 96, in this case the client level weight LGD should be applied. "Institutions should demonstrate that the approach they use does not distort the actual observed loss." What analysis is deemed sufficient to analyze distortion of the observed loss, given that is an average value of all the losses? **Amended text:** 113. Under paragraph 150 of the EBA GL on PD and LGD, institutions should calculate the LRA LGD as an arithmetic average of realised LGDs over a historical observation period weighted by a number of defaults. When performing this calculation, institutions should observe the following points. (a) In the event of definition of default applied at obligor level, where two facilities of the same obligor are assigned to the same facility grade or pool, two options are seen as compliant for calculating the average. The first is to compute the average weighted by the total number of facilities within that facility grade. **The second is to compute average number weighted on the client level in case of the estimation of the LGD on the client level following the Article 96.** Institutions should demonstrate that the approach they use does not distort the actual observed loss. (b) […] (c) […]	The first option would be preferable since it would be aligned with the EBA requirement of the facility level estimation.	De Palma, Valeria	UniCredit	Publish

#	Topic	Section	Para	Page	Type	Comment	Rationale	Name	Institution	Publish
22	Credit Risk	5.3 Risk quantification	113-c	47	Amendment	We agree that if high LGD realizations are due to economic and structural reasons no cap should be applied but rather the topic should be managed within the estimation process (either within the risk differentiation or within risk quantification, e.g. by foreseeing calibration segmentation). Nevertheless in presence of outlier cases, characterized by a very low frequency but with clearly abnormal values such to potentially bias the estimation process, a specific treatment with the adoption of cap/percentile should be admitted. Therefore we would propose to slightly amend the paragraph 113-c explaining that subject to an analysis of underlying economic reasons a cap is admitted only in presence of pure and clear outlier cases. **Amended text** "*Under paragraph 162 of the EBA GL on PD and LGD, institutions should apply an appropriate treatment to extremely high values of realised LGDs much above 100%, at the level of data quality, risk drivers, assignment to grades or pools or assignment to calibration segments. To ensure that the estimates are accurate, institutions are not expected to cap realised LGD values (i.e. to replace the observed value by a pre-defined value when the observed value is above the pre-defined one)* **except in case of clear outlier cases, whose identification should be subject to a preliminary analysis on the economic reasons/dynamics underlying**".	Amendment for outliers management	De Palma, Valeria	UniCredit	Publish
23	Credit Risk	6.1 Commitments, unadvised limits and scope of application	129 (d)	54	Clarification	We agree on the requirement, but it seems to be not aligned to what is stated in article 105 of BCBS paper "Basel III: Finalising post-crisis reforms" which requires: "Banks which meet the minimum requirements for use of their own estimates of EAD (see paragraphs 241 to 250) will be allowed for exposures for which A-IRB is permitted (see paragraph 34) to use their own internal estimates of EAD for undrawn revolving commitments to extend credit, purchase assets or issue credit substitutes provided the exposure is not subject to a CCF of 100% in the foundation approach (see paragraph 102). Standardised approach CCFs must be used for all other off-balance sheet items (for example, undrawn non-revolving commitments), and must be used where the minimum requirements for own estimates of EAD are not met. […]"	Clarify the article making reference on the treatment of other non-revolving commitments	De Palma, Valeria	UniCredit	Publish
24	Credit Risk	6.1 Commitments, unadvised limits and scope of application	130	54-55	Deletion	We deem this analysis not aligned to the revised input floor of BCBS paper "Basel III: Finalising post-crisis reforms" for the conversion factor for Uncommitted Cancellable Commitments, for Standards approach, imposing values higher than 0%. As a consequence, the phenomenon reported within this paragraph should not be an area of investigation anymore.	Delete this article in order to avoid burden of proof for the Banks in light of future regulatory evolution foreseen by Basel 3 reform	De Palma, Valeria	UniCredit	Publish
25	Credit Risk	6.2 Realised CCFs	132	55-56	Amendment	A strict link of the aggregation logics of CCF to the LGD ones is not fully meaningful. Indeed the aggregation logic on LGD might be driven by the level at which the recovery process is performed, whereas on CCF side the aggregation logic should be driven more by potential interconnections among elementary facilities affecting each other the behavior of the drawing of the unused credit line. As a consequence of this, not necessarily the same level of aggregation adopted on LGD might fully work on CCF and vice versa.	Amend the wording making reference to possible aggregation according to the characteristics of the facilities rather than adopting aggregations valid on LGD side. ☐	De Palma, Valeria	UniCredit	Publish
26	Credit Risk	6.2 Realised CCFs	133 (c)	56	Clarification	In order to to ensure consistency in the calculation of realized EAD and LGD for estimation purposes and in the treatment of Drawings after Default, it is necessary to adopt the same default window considered for LGD also for EAD parameter including the treatment of independence period.	Clarify the article explicitly requiring to adopt the same default window (including the treatment of independece period) in order to calculate realized EAD and LGD parameters	De Palma, Valeria	UniCredit	Publish
27	Credit Risk	6.4 CCF risk quantification	136 (b)	58-59	Amendment	Very high realized value can be due to economic reasons (and in this case they should be treated accordingly) but also to outlier values that can therefore introduce a potential bias in the estimates. In our opinion, although it is agreeable that the adoption of cap as a first choice might make the developer run the risk to miss an economic intuitive phenomenon, it should be specified that the the adoption of cap can be possible subject to a deep investigation on the reason underlying such high values and its use limited to manage real outlier cases.	Amend the article limiting the adoption of cap, conditioned to deep investigation in order to detect economically reasonable phenomena, for real outlier cases management	De Palma, Valeria	UniCredit	Publish
28	Credit Risk	6.4 CCF risk quantification	136 (c)	59	Amendment	According to article 182.1 (a) of CRR conversion factor estimates should be calculated "using the default weighted average resulting from all observed defaults within the data sources" and consequently this requirement seems to be not consistent with CRR prescription. The approach of considering the arithmetic average of yearly averages is more appropriate for the calculation of the long run default rate where it is explicitly required to calculate a long run 1-year DR average	Amend the article requiring a defualt weighted average for deriving conversion factor estimates consistently with what required by CRR	De Palma, Valeria	UniCredit	Publish
29	Credit Risk	6.4 CCF risk quantification	136 (d)	59	Deletion	The article is redundant being the same requirement reported in the section of PD parameter for the calculation of the long run average DR. Moreover it is not consistent with the requirement that EAD parameter should be appropriate for an economic downturn (article 182(1)(b) of CRR). Indeed making adjustments based on the mix of bad/good years ultimately will not have any effect (except for the identification if exist or not a downturn effect, but this requirement is already covered by par. 136(a)) since a calibration to downturn conditions (if determining an average value higher than the long run) is required (differently from PD where a representativeness with the likely range of variability of default rates).	Delete the article as it is redundant and not fully consistent with the article 182 (1) (b) of CRR	De Palma, Valeria	UniCredit	Publish
30	Credit Risk	6.4 CCF risk quantification	138	60	Deletion	Paragraph 120 makes reference to EBA Guidelines which are still under consultation phase and are not applicable to conversion factor.	Delete the article as it includes reference to EBA guidelines not applicable to conversion factor.	De Palma, Valeria	UniCredit	Publish
31	Credit Risk	7 Model-related MoC	142	61-62	Clarification	we deem that the wording "[…] estimate a MoC to account for statistical uncertainty/sampling error affecting the LRA estimate at grade level […]" should be better clarified. Indeed, in case of adoption of a calibration by grade or pools, the calculation of a MoC for each grade, which seems to be what required in this paragraph, would be basically not sustainable since it might end up in a potentially high MoC the more the estimation is risk sensitive (and therefore the more granular is the grading). Moreover, for institutions using direct PD estimates, the calculation of the MoC to account for statistical uncertainty/sampling error shall not be performed at grade level, but "at a level that is appropriate for the application of the probability model", consistently with the provisions as of paragraph 92 (b) of the EBA GL on PD and LGD. Furthermore it should be clarified what intended for LGD and CCF with 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"	Not clear explanation on MoC category C	De Palma, Valeria	UniCredit	Publish

#	Risk	Section	Para	No	Type	Comment	Summary	Author	Company	Status
32	Credit Risk	7 Model-related MoC	142 (a)	62	Amendment	It should be clarified that the MoC "to account for statistical uncertainty/sampling error affecting the LRA estimate" should be based on the number of observation available rather than the variability of one year DRs. Indeed considering the volatility of the DR as key driver in the computation of the MoC would lead to the following drawbacks: - model with a longer historical time series (and hence an expected higher variability in the DR) will be penalised with an higher MoC although the statistical uncertainty/sampling error would be smaller due to the huge number of counterparties in the sample for the CT computation; - inconsistency with framework for the CT computation designed in the EBA/GL/2017/16, that requires a CT which is representative of the likely range of variability; Therefore we suggest the following amendment: " to account for statistical uncertainty/sampling error potentially affecting the LRA DR estimate at least at the level of calibration segment. The MoC should be based on the level of the LRA DR and the number of observations available for its estimation".	MoC C should be independent from the yearly default rate volatility and should depend on number of observations	De Palma, Valeria	UniCredit	Publish
33	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 analyses are required in order to evaluate if the inclusion of the most recent data would lead to different material model outcomes. However poor details are provided regarding the additional analyses 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 can determine difficulty in interpretation and consequent operationalization with potential increase of the operative effort in Model maintenance phase. The risk of an excessive operative effort is also linked to the request of three-yearly basis (or more often depending on the materiality) model review, considering that paragraph 218 of EBA/GL/2017/16 already requires an (at least) annually regular cycle of review of estimates. □	Not clear explanation regarding the additional analyses to be performed in order to evaluate if a model has to be re-estimated	De Palma, Valeria	UniCredit	Publish
34	Credit Risk	8 Review of estimates	147-148	64	Amendment	The table included in paragraph 147 should be moved to another point in the document.	Unclear table position	De Palma, Valeria	UniCredit	Publish
35	Market Risk	2.3 Treatment of banking book positions	15	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 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 A/L imbalance (net equity of the (e.g.) CZK Legal Entity, 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 PL-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 is carried out. Harmonization should begin from the consolidation principles in the first place.	De Palma, Valeria	UniCredit	Publish
36	Market Risk	2.5 Exclusion of positions in the regulatory trading book from the scope of application of the IMA	23	74	Deletion	The requirement "Additionally, institutions should be able to demonstrate that the level of own funds requirements under the standardised approach is commensurate with the risks of those positions." appears undue. 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 use, we propose to remove the last sentence of the paragraph.	Correct and complete application of the regulatory requirement should be the only requirement.	De Palma, Valeria	UniCredit	Publish
37	Market Risk	2.6 Treatment of specific positions	32	78	Amendment	Inclusion of defaulted debt in VaR and SVaR appears un-necessary in that market factor volatility should no longer be relevant for the security.	The treatment of defaulted assets under VaR and SVaR appears un-necessary.	De Palma, Valeria	UniCredit	Publish
38	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 PL. 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 (FuVA, MVA, KVA..) should not be seen as part of Actual PL. FuVA 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.	De Palma, Valeria	UniCredit	Publish
39	Market Risk	5.2 General requirements	102	98	Amendment	The paragraph requires the "risk factors included in the VaR and SVaR models on the basis of observable data. The observability criteria are not defined in the CRR and seem to establish a connection with the forthcoming FRTB modellability standards.	The concept of "observable data" is not set in CRR. FRTB contents should not be front-loaded.	De Palma, Valeria	UniCredit	Publish

#	Risk Type	Section			Type	Comment	Rationale	Name	Institution	Status
40	Market Risk	5.5 Proxies, beta approximation and regressions	128	106	Deletion	The paragraph requires a test where two types of PL 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 HYPL and RTPL. Since Its engineering would be certainly demanding, the question on the opportunity of such test a few year away from FRTB come-into-force is posed.	De Palma, Valeria	UniCredit	Publish
41	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 fall-back case, alternative to the liquidity horizon assessment required for the constant level of risk assumption. We would suggest to amend the paragraph to clarify that one-year constant position assumption does not require, by itself, to be justified in terms of adequacy.	Requirement to proof the adequacy seems not required by CRR that elects this approach as the fallback one in case Liquidity Horizon assessment was not possible.	De Palma, Valeria	UniCredit	Publish
42	Market Risk	6.2 General requirements	139	111	Deletion	The paragraph requires a quantitative assessement of how maturity mismatches – that may lead to imbalanced positions within the modelling horizon – impact the IRC and the default risk in the IRC amounts. Such effect should be naturally captured in migration risk via the difference in CS01 of instruments of different maturities: 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 the 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.	De Palma, Valeria	UniCredit	Publish
43	Market Risk	6.4 Distribution and correlation assumptions	151	114	Amendment	The granularity of the cases for which correlation effects are explored is too high. Half of the cases would suffice.	Too many correlation scenarios, would not bring significant additional information.	De Palma, Valeria	UniCredit	Publish
44	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	161	118	Amendment	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 a weighting mechanism (JtD or Incremental / Standalone IRC based) that is more risk sensitive.	Amend the unweighted approach with a weighted one.	De Palma, Valeria	UniCredit	Publish
45	Market Risk	7.2 The framework for risks not in the model engines	170	123	Amendment	The paragraph suggests that Article 367 rules generically risk engines and that RNIME can be included in such category becoming an integrating part of the IMA. On the other hand CRR explicitly mentions VaR, SVAR,IRC and CRM as IMA engines not mentioning anything about Risks Not in the Model Engine other than by expressing in367(1)(a) that a model shall "capture accurately all material price risks". The stance of the Guide seems hence over-reaching in requiring RNIME to have the same standing of a component of an Internal Model (initial approval, model change RTS) We therefore would suggest to revert to the 2017 concept of RNIM avoiding any extension of the current IMA perimeter. RNIM should be simply complementing the existing IMA metrics with ad-hoc add-ons to address material deficiencies in the quantification of the price risks.	There is no clear indication in the CCR that an extension of IMA to a RNIME is required. RNIM 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 represented in the model.	De Palma, Valeria	UniCredit	Publish
46	Market Risk	7.2 The framework for risks not in the model engines	173	124	Amendment	While the risk unit certainly has the duty of monitoring the RNIM component, even according to prescriptions detailed in paragraph 172, the handling of the framework should not follow under the same standards of the IMA component, especially when referring to initial approval and subsequent model changes standards.	RNIM should be managed by the risk control unit however outside the rigid standards of the IMA.	De Palma, Valeria	UniCredit	Publish
47	Market Risk	7.3 Identification of RNIME	174	125	Deletion	The list of risks listed as giving rise to RNIM 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 static cushions . Additionally, proxies are specifically mentioned in a) as a potential source of RNIM, 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 RNIM framework, b) overlaps with the Model Risk Framework, that is already regulated and potentially capitalized in Pillar2 via cushions.	De Palma, Valeria	UniCredit	Publish
48	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." Also in this case the scope of the RNIME seems to be going beyond the identification of material price risk required by CRR and to overlap with consolidated process in a Bank such as the New Product Process (NPP), the Risk Appetite Framework (RAF) and the limits setting.	The paragraph expresses requirements that are in overlap with well-established processes in the Bank e.g. RAF, NPP, risk limits setting. The quantification of the adequacy of a risk model should be based on objective measures like BackTesting.	De Palma, Valeria	UniCredit	Publish

#	Risk Category	Section			Type	Detailed Comment	Reasoning	Name	Institution	Publish
49	Market Risk	7.4 Quantification of RNIME	177	127	Amendment	The paragraph prescribes the same level of conservativism in the quantification of the RNIM of the metric they refer to. In the light of the fact that no diversification is allowed among them and that the only practical assessment could be standalone rather than incremental (if it was readily available the risk would be already included in the model), the overall result of the prescribed calculation is bound to be over-conservative.	The paragraph sets impractical and too conservative standards in the quantification of the RNIM.	De Palma, Valeria	UniCredit	Publish
50	Market Risk	7.4 Quantification of RNIME	178	128	Amendment	Incremental assessment can be only obtained by including the RNIM in the Model. The requirement appears hence impractical since the standard assessment will be conducted on a standalone basis, which is bound to be too conservative. Additionally any capital add-ons that might be quantified for a RNIM should not be compounded with any aggravation of the regulatory multiplier caused by back-testing exceptions driven by the RNIM.	The paragraph sets impractical and too conservative standards in the quantification of the RNIM. CRR clearly prescribes a multiplier increase mechanism to compensate for model inaccuracies and this should not be compounded with add-on.	De Palma, Valeria	UniCredit	Publish
51	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129	Amendment	Lack of diversification benefit and standalone calculation of RNIM impacts will lead to over-estimation of the relevance of such risks which, once embedded in the model, might as well prove immaterial on the risk metric. . Additionally if such quantification system gets linked to capital add-ons (as opposed to simply triggering model enhancements) for those cases where BT exceptions are also induced by the model deficiency, there will be a double counting on capital.	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.	De Palma, Valeria	UniCredit	Publish
52	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	186	132	Deletion	Considering RNIME as part of IMA seems out-reaching the CRR prescriptions around the completeness of the price risk capture Additionally having it subject to the EBA RTS on model change will congest even further a model change mechanism that is already proofing a bottleneck to normal model maintenance operations. It is also unclear how this part of the model will be dealt with in the context of FRTB come into force, i.e. if it will be replaced or if it will stay. Since the former appears more likely, this would mean a wave of model approvals for the RNIME set up that might not even reach the approval phase if FRTB timeline to 01.01.2022 is confirmed.	Inclusion of RNIME in IMA framework appears unnecessary. Interaction mechanism with FRTB come into force is also unclear and exposes to the risk of a wave of model approvals that will be short-lived or not-lived at all.	De Palma, Valeria	UniCredit	Publish
53	Counterparty Credit Risk	2 Trade coverage	15-18	137-138	Amendment	Provided that CRR mentions "unacceptable performances", a carve out as described in par 16 seems to be overdemanding. While par 15 demands for a detailed assessment, it may also be the case that impacts on the Regulatory measures of misprices could not be material at all. We deem that a fair approach would be in three steps 1) analyze the material differences 2) estimate impacts on EPE 3) proceeds to carve out if and only if impacts are material at bank level. An automatic carve out would penalize banks that have aligned pricing infrastructure with the FO with sporadic cases of differences. In addition, for margined exposures, in case real collateral at t0 is used, we deem that the request is double counting the pricing misalignment	The CRR only mentions "unacceptable performances". A few trades exceeding the thresholds could not affect RWA computation in an appreciable way. A monitoring request should be sufficient.	De Palma, Valeria	UniCredit	Publish
54	Counterparty Credit Risk	2 Trade coverage	15	137	Amendment	Although we acknowledge that "above-mentioned differences occur for less than [ten business days] during the reference quarter" is an improvement wrt to previous guidelines, daily process is demanding from an operational point of view, and at least for banks that share the same pricing models between Front Office and Risk this request should not be mandatory. We agree on the request of monitoring, but we deem that banks should be allowed to set up their internal processes provided that no risk underestimation is guaranteed.	Monitoring Request on a quarterly basis, followed by drill down analyses for trades exceeding the thresholds and impact at overall level should be deemed sufficient at least for the Banks that shares the same pricing models in Front and Risk environment.	De Palma, Valeria	UniCredit	Publish
55	Counterparty Credit Risk	2 Trade coverage	16	138	Amendment	CRR only mentions "unacceptable performaces", and paragraph 16 seems to associate par 15 thresholds to "unacceptable performances". A further alternative to carve out or remediation would be to perform impacts on EPE due to pricing misalignments, and only in case impacts are material perform the carve out.	Monitoring Request on a quarterly basis, followed by drill down analyses for trades exceeding the thresholds and impact at overall level should be deemed sufficient.	De Palma, Valeria	UniCredit	Publish
56	Counterparty Credit Risk	2 Trade coverage	16	138	Deletion	"In particular for margined netting sets, the ECB considers as compliant with the above-mentioned requirements the keeping of the transactions within one netting set to calculate future margin requirements. In this case, in order to address any unacceptable performance of the exposure model, the ECB considers that the netting benefit158 due to not carving out should be added to the entire netting set's expected exposure (EE) time profile." should be deleted. The reference/relevance of margining in this context is unclear. Indeed, if at t0 the bank uses the real collateral, possible pricing mismatches are already included in the margined exposure. For future grid points, any pricing difference will be embedded in the margining (what really drives the exposure is the Delta of MtM of margin set over the MPOR and it is much less material than baseline pricing differences).	As formulated, the requirement is over conservative and does not reflect the effects of margining. As a consequence we suggest the removal of the paragraph, no exposure adjustment should be made for margined trades.	De Palma, Valeria	UniCredit	Publish
57	Counterparty Credit Risk	2 Trade coverage	19	138	Amendment	Option 2 should be allowed, since it provides more flexibility.	Option 2 should be allowed, since it provides more flexibility.	De Palma, Valeria	UniCredit	Publish
58	Counterparty Credit Risk	3 Margin period of risk and cash flows	23 c)	143	Amendment	Counterparty Credit Risk Models, aiming at computing RWA for PRE settlement risk, usually do not embed all the settlement information that are needed for a proper modeling of Settlement Risk. As a consequence, we propose to reword 23 c) smoothing this aspects always allowing netting at least between different leg of the same trades, removing the reference to settlement rules as it follows. 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. (i) If a net CF is to be received from the counterparty, this net CF should be modelled as not received. (ii) If a net CF is to be paid, this net CF should be modelled as being paid or not paid according to (a) and (b). (iii) If, in the IMM modelling, there is no reliable access to legal settlement netting agreements, no settlement netting is to be applied.	Request of embedding settlement information into CCR Models seems overdemanding if compared to the CRR requirements.	De Palma, Valeria	UniCredit	Publish
59	Counterparty Credit Risk	4 Collateral modelling	36	149	Clarification	Clarification could be useful on the fact that the yearly verification is due only in case Real Collateral is not used at t0	Clarification could be useful on the fact that the yearly verification is due only in case Real Collateral is not used at t0	De Palma, Valeria	UniCredit	Publish
60	Counterparty Credit Risk	5 Modelling of initial margin	41	152	Clarification	Footnote 173 should be clarified. "all contractual elements". CCP Models are not available to Banks for a fully fledged simulation.	Footnote 173 should be clarified. "all contractual elements". CCP Models are not available to Banks for a fully fledged simulation.	De Palma, Valeria	UniCredit	Publish

61	Counterparty Credit Risk	6 Maturity	48	154	Amendment	Provided that the possibility to unilaterally unwind the transaction is a risk mitigation, we deem that it should be properly embedded in the TRIM guidelines, replacing the average lifetime of transactions, that correspond to a "business as usual case". We would suggest replacing (i)" the average lifetime of the transaction type under consideration in the last two years with the same or comparable175 counterparties, subject to a cap of one year;" replacing it with "notice period".	Removal of "average lifetime…." replacing it with "the notice period". The possibility to unwind the transaction on unilateral basis should be embedded as it is a risk reduction measure.	De Palma, Valeria	UniCredit	Publish
62	Counterparty Credit Risk	7 Granularity, number of time steps and scenarios	55	157	Amendment	Given the usual set up of MC for CCR, we deem that a 5% impact is too close to a typical error, and considering that regulatory alpha does already include a conservative buffer, we deem that it is more appriorate to rely on 10% threshold.	We deem more appropriate to set the threshold at 10%, as it was in previuos TRIM version.	De Palma, Valeria	UniCredit	Publish
63	Counterparty Credit Risk	8 Calibration frequency and stress calibration	64 b)	159	Amendment	It should be added "or to the current window" after the sentence "should also be calibrated with the data from the identified stress period" . In case of the drift, a calibration out of stress period is not always feasible or meaningful.Furthermore, the request of " showing that does not underestimate exposure" is prone to interpretation.	in case of the drift, a calibration out of stress period is not always feasible or meaningful. it should be clarified that other parameters can be calbirated as in current window. Furthermore, the request of " showing that does not underestimate exposure" is prone to interpretation	De Palma, Valeria	UniCredit	Publish
64	Counterparty Credit Risk	9 Validation	68 a)	163	Deletion	The sentence "(a) the respective validation task is conducted on behalf of the validation function;" should be removed, since it is unclear how to implement this requirement. Otherwise, clear instructions on how to fullfill the request should be provided.	Removal of "(a) the respective validation task is conducted on behalf of the validation function;" Otherwise clarify how to fulfill the requirement.	De Palma, Valeria	UniCredit	Publish
65	Counterparty Credit Risk	9 Validation	73	164	Amendment	Article 73 is prone to interpretation, provided that coverage level could depend on the methodology used. As such, a 50% ratio would not fit to all methodologies. Bank's should be asked to develop their own methodologies and set the thresholds accordingly. The usage of "simple number based" could be misleading. As such, we would suggest a rewording removing "next to simple number basis" and replacing [50%] with "an internal threshold, agreed with the validation function, deemed adequate for Bank's portfolio	Removal of "number based" and allowing the bank to set thresholds internally.	De Palma, Valeria	UniCredit	Publish