Template for comments

Public consultation on the draft ECB Regulation on the definition of the materiality threshold for credit obligations past due pursuant to Commission Delegated Regulation (EU) 2018/171

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General comments

UniCredit welcomes the harmonization in the definition of default initiative, fundamental to ensure consistency of application, transparency and comparability across banks.

Moreover, it is recognized that the current wide disparity in the application of the materiality threshold underlying the credit obligation past due materially affects the comparability of risk-weighted assets and a consistent application of the materiality threshold would also help to reduce the burden of compliance for cross-border groups.

UniCredit would like to confirm that the new definition of default and all related implications have been deeply analysed and the institution is fully committed to comply with the new regulation. Furthermore, the implementation throughout the Group covers all the relevant aspects with a coordinated and homogeneous approach. Indeed, UniCredit has already launched a dedicated project, currently on going adhering to the proposed new guidelines, including the materiality thresholds according to the RTS and object of this consultation.
# Template for comments

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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 whether your comment is a proposed amendment, clarification or deletion.

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<th>ID</th>
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<td>1</td>
<td>Clarification</td>
<td>The two steps approach would produce a “temporary” impact, not necessarily immaterial, on P&amp;L (provisions) and capital (shortfall), due to the increase of the number of defaulted exposures (based on new default) not compensated by the IRB parameters calibration, which is envisaged only in the second step, thus creating the ground for a clear disparity between IRB and Standardized Institutions. In the cost and benefit analysis for the definition of the materiality threshold for credit obligation past due the ECB presents a framework for assessing the impact on a list of elements to be taken into account in the analysis. In case the introduction of the new definition of default triggers an higher PD, the effect on LGD most likely will be the opposite, as lower thresholds might result in a higher number of defaults cured in a short period of time. This effect would decrease LGD estimates and risk weights for non-defaulted exposures, disregarding the effect stemming from the EBA GL on PD and LGD estimation. In case of 2 step approach, in 2019 we would observed an higher number of defaults and a consequent increase of provisions and capital requirements. This effect would be compensated by the reverse impact that institutions will have on the LGD once applied at the end of the IRB Repair Program - i.e. by 2020. Given the relationship between risk-weighted-exposure-amounts and risk estimates through the risk-weighting functions, the final combined effect of these movements would most likely result in an instability in the risk-weighted exposure amounts (as mentioned, reduction on the RWA and increase of shortfall in 2019 to be than ‘normalized’ in 2020).</td>
<td>The two steps approach – which foresees to focus on the implementation of the changes to the definition of default in the first place, and to concentrate on the adjustments to rating systems afterward – will imply a “temporary” impact on P&amp;L (provisions) and capital (shortfall) as well as a disparity of impact between IRB and Standardized Institutions</td>
<td>Capelli, Chiara Francesca</td>
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<td>2 Clarification</td>
<td>In the foreseen 2 step approach too limited time span would be available for adjusting the risk parameters (in case of implementation of the new default detection by June 2019), in order to adjust risk parameters by December 2020, only one year data would be available to manage all models revisions and relevant ECB approval in the last 6 months of 2020, that is very limited for developing and validating PD and would not fit for purpose to update LGD (especially cure rates) and CCF (particularly the drawings after default component). According to the paragraph 10 of the final EBA Guidelines on the application of the definition of default (EBA/GL/2016/07), the EBA encourages institutions to implement the change before 31 December 2020 (when the new Regulation will apply). This request is fostered in particular for institutions that use the IRB approach, as the change in the definition of default may require further adjustments in their rating systems as well as in the process of reconstruction of reliable time series that have to start as early as possible. In our view, an early implementation would not be effective, while • a retrospective simulation of the time series could be used in order to adjust rating systems, given that a longer historical time series would be available for development/calibration purposes • parallel run anticipating process implementation and not impacting capital and provisions could be used. In our case both mitigation actions have been put in place: retrospective past due simulation per 2010-2018 data and past due parallel run starting for 2019 data (to be used for final calibration).</td>
<td>The 2 step approach does not reach the goal of having more robust models as too limited time span would be available for adjusting the risk parameters from June 2019 to December 2020</td>
<td>Capelli, Chiara Francesca</td>
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