



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

Public consultation on the revised ECB guide to internal models

Institution/Company

Austrian Economic Chamber

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General comments

Template for comments

Public consultation on the revised ECB guide to internal models

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: 15 September 2023

ID	Chapter	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated
1	General topics	1.9. General principles for the implementation of a changed or extended model	26	12	Amendment	Current formulation: "The ECB generally expects this time frame to be no longer than three months from the date of the notification." Please adjust this to reflect COREP reporting dates: "... no later than at the end of the following quarter for COREP reporting"	The amendment does not lead to any additional delay in COREP reporting
2	General Topics - Roll-Out and PPU	2.7 Internal Models in the context of consolidations	48	19	Clarification	Which ECB decision is the Guide referring to? Is it the decision related to Article 146 CRR ?	Clarification of content.
3	General Topics - Roll-Out and PPU	2.7 Internal Models in the context of consolidations	49	19	Amendment	We would suggest to amend the sentence "Institutions are expected to submit a "return to compliance plan" explaining how they will return to compliance with regard to all consolidation-related compliance issues" by replacing "all consolidation-related compliance issues" with "model related compliance issues"	Better definition of the scope of the compliance plan.
4	General Topics - Roll-Out and PPU	2.7 Internal Models in the context of consolidations	49	19	Clarification	What is the timeframe for submission of the return to compliance plan after the acquisition date?	Clarification of regulatory expectations.
5	General Topics - Roll-Out and PPU	2.7 Internal Models in the context of consolidations	49	19	Clarification	Is our understanding correct that the return to compliance plan would replace any potential TPU application?	Clarification of regulatory expectations.
6	General Topics - Roll-Out and PPU	2.7 Internal Models in the context of consolidations	46-49	19	Clarification	Are the rules in Chapter 2.7 referring only to the business combinations as defined in paragraph 6 of the Guide on the supervisory approach to consolidation in the banking sector? In this case, is our understanding correct that simple portfolio acquisitions (purchase of additional exposures without acquiring the share on the entity) are not covered by Chapter 2.7?	Clarification of the scope of the chapter.
7	General topics	3.5. Understanding of the rating systems	64	23	Amendment	One word is obviously missing (indicated in bold): "(b) ...form and frequency of management reporting are adequate ..."	Correction of misleading typo
8	General topics	6.2. Use test requirement	96	38	Amendment	The current formulation of "minimum 3 years at time of application" would lead to significant delays in rollout plans and minimize the value-added by implementing risk-sensitive capital requirements. We suggest to adjust the wording slightly to reflect "at least 3 years at time of implementing the IRB approach"	Avoiding significant delays when introducing new IRB entities or model segments
9	General topics	6.6.2. Analysis of overrides	111 (b)	45	Deletion	The added phrase seems to duplicate what was already there: "i.e. if there is a situation that systematically triggers an adjustment <i>and that could justify an adjustment to the model (for example the inclusion of a specific risk driver)</i> ." In our interpretation both situations are essentially the same: systematically triggering an adjustment and adjusting the model by adding a specific risk driver mean the same thing.	The new addition is just replicating/doubling on already existing paragraph and might create inconsistencies in interpretation.
10	Credit Risk	2.2.2 IT implementation of a new model or model change	7	61	Amendment	Please replace the word "fully" in the phrase "It should also be able to fully replicate the execution of the model and the calculation..." with the word "broadly" - "It should also be able to broadly replicate the execution of the model and the calculation ..."	In order to avoid undue costs and efforts for the creation of a 1:1 environment of the fully fledged process.

11	Credit Risk	2.2.2 IT implementation of a new model or model change	8	62	Amendment	Punctuation within brackets might cause misinterpretation. Should be ", it" instead of ". it"	Correction of misleading typo
12	Credit Risk	3 Use of data	33	69	Amendment	"Since the data-related requirements of the CRR also apply in cases where an institution estimates CCFs, paragraph 0 is also relevant for such institutions." Not clear what "paragraph 0" is.	For clarification.
13	Credit Risk	3.2 Use of external data	34	69	Amendment	"Data-related requirements established under the CRR apply to all data: internal, external or pooled. In the ECB's understanding, therefore, paragraph 0 is also relevant in the event that an institution uses external or pooled data". Not clear what "paragraph 0" is.	For clarification.
14	Credit Risk	3.6 Use of human judgement	47, footnote 34	74	Amendment	Treating environmental risks by assigning a "conservative rating via override" would conflict with the concept of (unbiased) ratings in the methodological sense (e.g. for the purpose of calibration). Overrides generally must not be conservative. In case of application deficiencies in the assignment process acc. to Par. 196 EBA/GL/2017/16, however, conservatism in the application of risk parameters can be applied.	Avoiding inconsistencies: Conservatism in the application of risk parameters (due to application deficiencies) versus overrides as part of the (unbiased) rating assignment process for methodological purpose.
15	Credit Risk - Definition of default	4.2 Consistency of the application	63	79	Deletion	"In the ECB's understanding, it is best practice for institutions to foster consistency within the process related to the default identification by also applying these requirements to joint credit obligations involving non-retail exposures."	Avoiding of enlargement of scope of EBA Guideline EBA/GL/2016/07 only for SSM institutions.
16	Credit Risk	4.2 Consistency of the application	64	79	Deletion	1. The concept of an obligor, i.e. the natural or non-natural entity being responsible to repay a certain exposure, is essential part of all credit risk processes and regulations. We consider the introduction of a new type of obligors as inconsistent with the currently applicable Art. 147 CRR. 2. On methodological grounds we agree that the existence of joint credit obligations must be properly considered in risk models due to the described effects, and the correlation this introduces between the joint obligors. Such effects, however, might be verified by proper calibration tests on sub-segment level (e.g. comparing sub-segments with joint obligors and without). We suggest to remove the (unconditional) need to treat such constructions separately. Alternatively, you may replace it by methodological requirements (e.g. homogeneity tests) in line with the standard understanding of "credit obligors" for the respective rating methods.	Re 1: The basic foundation of risk management (the understanding of an obligor) was adjusted for the purpose of updating the definition of default in the EBA GL on DoD. Expanding this concept beyond the scope of this guideline seems to go beyond a pure interpretation of legal requirements. Such fundamental changes should require alignment with EBA before enforcing it. Re 2: The potential inhomogeneity caused by joint responsibility for credit exposures can be handled by state-of-art modelling and validation techniques: Information of both obligors may be considered for rating assignment. Homogeneity tests shall ensure that resulting PDs are unbiased for both single and joint obligors. In this sense the added complexity seems redundant from a risk quantification perspective, would trigger significant investment needs and would even increase modelling complexity by introducing artificial (highly correlated) clients. As a consequence, implementation of this requirement would be considered unduly burdensome.
17	Credit Risk	4.3 Days past due criterion	69	81	Deletion	This paragraph essentially requires the implementation of an alternative days past due counter for any country not within SSM responsibility. This is considered high effort and does not justify the minor improvements in credit risk steering, considering the fact that: 1. The absolute threshold is only relevant for small exposures (irrelevant for high exposures) 2. In most cases local materiality thresholds are set more conservatively compared to the Euro value, properly considering potential variations in FX rates. We kindly ask for removal of this condition. Alternatively, you may replace it by a more flexible, potentially conservative, formulation without the need to implement a second days past due counter unconditionally.	The current formulation might lead to significant investment needs with limited added-value from risk steering perspective
18	Credit Risk	4.4 Unlikeness to pay criterion	79	84	Deletion	The justification for "the calculation should also be performed in cases where the threshold is blatantly exceeded" is based on LGD data requirements. Clearly, for LGD modelling purpose, detailed information on write-offs and restructurings are needed. However, the values from the calculation of diminished financial obligation according to the GL On DoD is not needed for LGD estimation, as there are different requirements to be applied (e.g. different discounting, consideration of costs, etc.). In this sense the required calculation is not needed for LGD data requirements.	Avoiding undue and unjustified cost in operative risk management
19	Credit Risk	4.7 Adjustments to risk estimates in the case of changes to the definition of default	91	88	Amendment	The current formulation unconditionally requires full redevelopment under described situation. EGB kindly asks to allow for more flexibility, as there are different options available between pure recalibration (which is clearly insufficient under the described circumstances) and full re-development. We propose a formulation to require a full Review of Estimates in that case, triggering the appropriate follow-up activity.	Current formulation is too black-white. The update should allow for more flexible approaches to adjust models properly.
20	Credit Risk	5.1.4 Use of ratings of third parties	109	97	Clarification	You state: "institutions should not assign a rating to an obligor that is better than the rating of the third party". Considering that the rating of the 3rd party may come from a different rating system/rating scale, one should compare PDs instead of ratings.	Alignment of terminology with Par. 108 and Par. 110
21	Credit Risk	5.2.2 Calculation of the one-year default rate and observed average default rates	122 (b)	100	Deletion	See our comment on §64 in Section 4.2 Consistency of the application	See our comment on §64 in Section 4.2 Consistency of the application

22	Credit Risk	5.2.3 Calibration to the LRA default rate	130 (a)	104	Amendment	The closing statement "under no circumstances should an approach be adopted to overcome data scarcity at grade or pool level, ..." would mean that statistically unreliable non-parametric approaches must be applied in case of scarce data. In this sense we kindly ask to remove the reference to data scarcity.	The requirement not to select appropriate methodologies to overcome data scarcity is the opposite to what should be done with proper statistical modelling. Methodologies for low default portfolios are specifically defined to overcome issues on data scarcity. Differentiation in regulatory requirements between non-retail (e.g. 7 years of data) and retail (minimum 5 years) are mostly focused to handle the situation of reduced data appropriately. In this sense we kindly ask to remove this closing condition, as this is not in line with advanced statistical approaches and might easily lead to excessive variability in low default portfolios. Such a restriction would become a huge burden for low default portfolios in IRB.
23	Credit Risk	5.2.3 Calibration to the LRA default rate	130 (c)	105	Amendment	The unconditional requirement to "take all reasonable efforts to obtain such long series with sufficient data quality" seems excessive. Depending on the grade assignment dynamic (e.g. pure PIT or TTC models) or the applied calibration methodology, a shorter series (of best possible quality) may be sufficient.	The requirement should properly reflect different rating philosophies. For example one might construct a TTC rating system by transforming (=aligning) the score distribution at each point in time, before assigning risk grades. This way the rating distribution would not change over time and the need to "take all reasonable effort to back-simulate ratings" would be excessive.
24	Credit Risk	5.2.3 Calibration to the LRA default rate	135	107	Deletion	The closing part states: "In any case, even if the deviations are not systematic, the ECB expects institutions to demonstrate that such grade-level deviations do not distort the RWEA calculations...". We kindly ask to remove the final statement requesting simulation even for non-systematic (and statistically non-significant) deviations.	Avoiding undue and unjustified cost in operative risk management: Although the guideline explicitly allows for 2 alternative solutions, this paragraph would request implementation of both simultaneously. 1. For each rating systems, a grade level calibration (including any required analysis for MoC etc) has to be performed as well, and 2. any "non-systematic" random deviation needs to be factored into RWA. Similarly to our argumentation on §130(a) this would lead to unjustified variability of reported results, on top of doubling the effort for any calibration activity. To give a simple example: a single default from AAA during 2008 in a banks portfolio might indicate a 1% "grade level" default rate in that grade. A simulation of RWA impacts with such a grade-level approach would not add value.
25	Credit Risk	5.2.3 Calibration to the LRA default rate	137	108	Amendment	The reference to "new override policy" seems overly specific. We suggest to replace this by "potentially updated override procedures"	Seems to be too specific
26	Credit Risk	6.2.1 Relevant regulatory references	172	121	Amendment	EGB would like to point out that, in order to increase the representativeness of the LGD development sample to its application scope, the better approach is to chose a fixed-time approach where the observations 12 months before default are used. Indeed, the farther away from the default, the more similar will the risk features of the facilities be to the performing application portfolio. Typically, the usage of behavioral risk drivers (which change significantly when the facility is approaching default, e.g., days past due) in LGD produce models that are highly correlated with PD (a property that is understood to be not desirable), and where the prediction is very granular for "bad" grades, and is affected by high concentration in the "good" grades when analysing the application portfolio. Indeed, it is EGB's understanding that one of the requirement of representativeness as set out in EBA GL on PD and LGD, art. 24, is that the distribution of the risk drivers in the modelling sample must be comparable to the one in the application portfolio. This can typically only be achieved when using a 12-months fixed time horizon, since observations closer to the default skew the drivers distribution towards "worse" values. EGB would also like to point out that changes in product mix due to restructurings occurring before default can be properly taken into consideration by means other than variable-horizon approach, e.g., reconciliation of the loss to the "parent" account in the RDS, without prejudice to the representativeness principle discussed in the previous paragraph of this comment.	To increase the representativeness of the LGD development sample
27	Credit risk - Conversion Factors	7.2.1 Relevant regulatory references	199	135	Clarification	"...those requirements as set out in paragraphs 0, 204, 205, 206 and 210(b) of this chapter" - typo "paragraph 0".	Typo correction.