

Banca Monte dei Paschi di Siena S.p.A.
Piazza Salimbeni, 3
53100 Siena
Italy

To the attention of the Board

14 December 2018

Status update on TRIM and outlook for 2019

Dear Sir or Madam,

Further to my previous letter of 31 July 2018, I would like to update you on the status of the ECB's targeted review of internal models (TRIM), and in particular on the progress of the ongoing investigations on "low-default portfolios" (LDP).¹ Similar to previous communications, the Annex contains an overview of the TRIM on-site investigations (if any) which are currently planned to start at your institution in the course of 2019. In addition, I am pleased to inform you about the progress made in the public consultation on the ECB guide to internal models.

Status update on TRIM and overview of the ongoing LDP investigations

As 2018 draws to a close, we can look back on a year in which important TRIM milestones have been achieved.

As explained in previous letters, phase one of TRIM² has been successfully completed. We have finalised about 120 on-site investigations across 15 countries and have started to share the related supervisory decisions with the institutions.

The second and final phase is now also under way. Phase two of TRIM mainly involves LDP investigations, which will broadly take place in three progressive waves, starting with "corporates – other", continuing with "institutions", and concluding with "specialised lending". As in previous TRIM missions, all LDP investigations are carried out using common inspection techniques and tools to ensure consistency in the assessments by different inspection teams.³

The first LDP investigations have benefited from the excellent collaboration of the institutions involved so far. The on-site phase has already started for approximately 25% of the planned LDP investigations, involving 19

¹ Covering the following exposure classes: corporates (including corporates – other and specialised lending) and institutions.

² The TRIM project has two key phases: (i) Phase one ran from 2017 to mid-2018 and involved a review of the models used to assess the credit risk for retail and small and medium enterprise portfolios, as well as market risk and counterparty credit risk; (ii) Phase two, which started in the third quarter of 2018 and will continue throughout 2019, mainly focuses on the models used to assess the credit risk for low-default portfolios. See also:
<https://www.bankingsupervision.europa.eu/about/ssmexplained/html/trim.en.html>

³ For more information on the different layers of quality assurance embedded in TRIM to ensure consistent results, see the article on TRIM in the Supervision Newsletter of November 2018:
https://www.bankingsupervision.europa.eu/press/publications/newsletter/2018/html/ssm.nl181114_4.en.html

institutions in 10 countries. Preparations for on-site work in 2019 are also under way, with more than 50 investigations covering the above-mentioned LDP exposure classes planned for launch in January 2019 and the following months. For your reference, the Annex provides a list of the TRIM investigations (if any) to be launched at your institution in 2019.

Update on the public consultation of the ECB guide to internal models

Among the milestones achieved by TRIM in 2018, the public consultation on the ECB guide to internal models merits special mention. The guide provides transparency on how the ECB understands and intends to apply EU regulation on internal models and marks a key step towards harmonising supervisory practices within the Single Supervisory Mechanism.

The public consultation was organised in two phases.

- The consultation on the “general topics” chapter was recently finalised with the publication of a revised version on the ECB Banking Supervision website on 15 November 2018,⁴ alongside a feedback statement showing how the comments received were taken into account.
- The consultation on the remaining “risk-type-specific” chapters (for credit, market and counterparty credit risk) was launched on 7 September 2018 and ran to 7 November 2018. The TRIM centres of competence are currently assessing the feedback received, with a view to publishing the revised version of the risk-type-specific chapters in the first half of 2019.

I would like to thank all bank representatives who took part in the two consultations, either by attending the public hearings or by submitting written comments. I welcome the industry’s attentive and constructive response to the guide and the valuable feedback provided across the different chapters.

Next steps

The LDP investigations will continue until the second half of 2019, by which time we plan to have finalised all on-site activities. We will share additional information on TRIM with the institutions in due course, including updates on the progress of the LDP investigations and further overviews of the TRIM results to complement the information already provided to you in our letter of 11 June 2018.

Also on behalf of all staff involved in TRIM, I would like to express once again my appreciation for the commitment shown by participating institutions so far. Were it not for your continuous efforts, the achievements reached within TRIM up to now would not have been possible. We look forward to continuing this collaboration in 2019.

Yours sincerely,



Korbinian Ibel

Director General – Directorate General Microprudential Supervision IV

⁴ See <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.guidegeneraltopics201811.en.pdf>



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ANNEX: Updated simplified SEP 2019

Reference	JST Acronym	Legal entities concerned by the investigation	Purpose	Tentative launch
TRIM-2019- ITMPS-3917	ITMPS	Banca Monte dei Paschi di Siena Spa and all affiliated entities and outsourcing service providers	Internal Model Investigation on SSM initiative related to Credit risk (PD; LGD; CCF/EAD) for the following exposure class(es): Corporate - Other	Q1

This document is provided for general information purposes only. The supervisory activities listed therein are not exhaustive and may be changed as necessary without prior notice. Information on the tentative launch date is also subject to change.

Please also note that "N/A" indicates that no TRIM investigation is currently planned in 2019.