EBF analysis of ECB guides to internal models

Credit risk

Please follow these instructions:

- Fill in the column **"Section"** only with one of the following options:
  - **1** for Scope of the credit risk chapter
  - **2** for Data maintenance for the IRB approach
  - **3** for Data requirements
  - **4** for Probability of default
  - **5** for Loss given default
  - **6** for Conversion factors
  - **7** for Model-related MoC
  - **8** for Review of estimates
  - **9** for Calculation of maturity for non-retail exposures

- Fill in the column **"Type of comment"** only with one of the following options:
  - **Amendment**
  - **Clarification**
  - **Deletion**

#	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board
	Foreword	3	3	Amendment	The ECB should specify that the draft guidelines and non-voted RTS will not apply until they are finalised.	The ECB Guide refers to several EBA mandates to develop level 2 texts, which are not yet in final version. Therefore banks are not expected to be compliant with articles which are not legally binding.
	Foreword				We are wondering how the TRIM guide articulate relative to the regulatory texts. When the TRIM guide goes beyond regulatory texts, it can brought both clarifications and additional requirements. Institutions have difficulties to know which text is the reference one.	
	2.4	14-29	5	Amendment	Data Quality : the general framework is considered as very burdensome. Besides we suggest more alignment with BCBS 239. More specifically, a new paragraph should be inserted (before §14) spécifying that all requirements only apply to Critical Data Element (CDE).	The general framework is considered as very burdensome. Besides we suggest more alignment wih BCBS 239 requirements to ensure consistent implementation of data quality standards.

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1	2.2.1	Item 6	6	Clarification/deletion	The ECB expectation that Banks should keep a register that include all current and past version of elements of a rating system, among others a) models data flow /from data entry to reporting and for both historical and current data…. It seems not relevant to save data unlimited back in time. Data storage etc. could alternatively be harmonised with general and absolute limits or requirements as in accounting? (10 years max), IRB assessment methodology (page 12) only states 3 years for register of rating systems that includes documentation on the design and operational details of the rating system. It should not be required to save or maintain a register longer than necessary for the purpose, besides rating models may also be replaced to more updated from time to time. There should be a distinction between well-documented, as described in the assessment methodology (page 17), and unlimited. Ref also CRD IV article 109.2 ….data and information relevant to the purpose of supervision 2can be	It is not relevant to require banks to save all current and past version of elements of a rating system. This should be harmonized with EBA PD and LGD GL and IRB assessment methodology.

					produced…. (guess this is not related to length of data series, ref. DT estimates)	
2	2.2.2	Item 7	7	amendment	…. The implementation of the models is successful and errorfree……Banks will follow rules related to accuracy and completeness there will not be complete errorfree models, instead it should include the wording substantively error-free, as e.g. stated in the GL assessment methododoly article 76. Banks measures e.g. MoCs or make other measures in accordance with EBA GL og PD and LGD, if errors. The same terminology as EBA should be mentioned.	Errorfree should be amended to "substantively errorfree " to harmonise the wording with EBA.
3	2.3	Item 13	8	clarification	The term "IT-owner" is not mentioned in IRB assessment methodology, or CRR or PD, LGD GL. Does banks have a clear opinion on this definition – Is this definition needed? There may be system owners, data-owners, …Banks should use the appropriate definition according to internal structures and their defined split of responsibilities.	GL11 does only list all various types of risks, but not how banks in details should organize. It should be clarified if "IT-owner" is the correct term to use.

4	2	15a, 17, 18	9-10	Clarification	In paragraphs 15a and 17 it is stated that data quality management activities shall be independent of data processing activities. According to Paragraph 18 it is considered "good practice […] to have a dedicated independent unit […] for the management of data quality". It should be clarified that a completely independent unit with exclusively dedicated staff etc. is not obligatory.	Establishing an independent unit just for data quality management would provoke unproportionally high administrative burdens and is not required in the referenced legal background.
5	2.4.2 and more	11 and following pages		clarification	«Data quality management framework», this definition should be more precise – assume this relates to internal model parameters? Such a "framework requirement" is not mentioned in GL 11 (?). The GL on PD and LGD, and the IRB assessment methodology for IRB set clear expectations to accuracy and completeness and more, but gueass that is then maybe aggregated to a quality management framework.	The term must be narrowed to what is in scope, data quality with regards to rating models, parameters etc….or does it mean with regards to the whole bank.

		36	15	Amendment	Vetting data inputs to the model implies to get access to the data which could be extremely difficult and expensive. Rating agencies disclose a description of their approach (inc main hypothesis). However they do not provide pubilc with the detailed formula. Therefore the ECB should take into account this limitation and limit the reference to controls on external data.	The details of external scores and implied models are not publicly disclosed.
	3	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. 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,	Requirements on external scores might compromise their adoption in the future

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					eventually foreseeing on this a dedicated Guidelines subject to a consultation process target to both banking system and Credit Bureaus itself.	
6	3.3.	Item 37 f)	16	clarification	Use of external scores/ratings – why should external scores not be replicated(in an internal format), should it always add internal factors ?	Clarification, how the replication is espected implemented in relation to possible other factors included.
7	3	34,35~~Par. 3.3~~	15~~16~~	Clarification~~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	11~~Requirements on external bureau data might compromise their adoption in the future~~

					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 is based on the use of external data, due to the impossibility to leverage on internal ones. Therefore the analyses required by ECB guidelines jeopardize the new securitization framework aiming at revamping the securitization business in Europe. 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. ~~Generally speaking, we deem that the analyses requested in section 3.2-3.3 for the use of external data/scores/ratings 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 disproportionate Margin of Conservativism not~~	

					~~linked to a model deficiency, but only to the limited disclosure of external providers). 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 88better 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.~~	
		36	15	Amendment	Vetting data inputs to the model implies to get access to the data which could be extremely difficult and expensive. Rating agencies disclose a description of their approach (inc main hypothesis). However they do not provide pubilc with the detailed formula. Therefore the ECB should take into account this limitation and limit the reference to controls on external data.	The details of external scores and implied models are not publicly disclosed.

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8	3	42c	18	Amendment	Point c of paragraph 42 requires institutions participating in a pool model to align their processes for managing distressed obligors. This would constitute an intrusion into the business operations of these institutions. Moreover, the link to PD estimations is not clear anyway. This requirement should be deleted.	In general, this requirement goes far beyond an assessment of internal models. We do not see a legal basis for such a provision.
9	3	42(d)	18	~~Deletion~~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. We propose the following	Validation requirement on g~~G~~roup-wide models not consistent with g~~G~~roup-wide nature of the models themselves

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					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, on perimeters for which the geographical location of the booking is not relevant.	
	3.7	48	19	Amendment	We suggest to delete 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	The application of MoC is fully detailed in the EBA Guidelines on PD-LGD estimation and the treatment of defaulted exposures. These Guidelines do not mention "human judgement used to a greater extent" in the identified deficiencies

					modelling effort. Therefore, we consider the ECB's proposition as unduly justified, not in respect of the Single Rulebook.	
10	4	52	21	Amendment	The required model validation on sub-portfolio level would create massive additional burdens while the gain of knowledge is questionable. For example, we doubt that splitting portfolios geographically is not really meaningful in the case of globally active borrowers. Model validation on sub-portfolio level should therefore not be considered obligatory.	These requirements are not included in the existing legal background. Furthermore, the added value of these provisions is rather low compared to the huge additional efforts to be made by the institutions.
11	4.1.1	Risk drivers, item 50-52	21-22	clarification	Minimum risk drivers are set by ECB, while EBA GLs state that risk drivers may vary in points of time and that they should be adequate, however, lists some in 5.2.2 (PD, LGD GL). Hope there are expert comments from members here if there are material differences.	Risk drivers should be harmonized to a common value range in EBA GL PD and LGD

12	4	54 – 56	22, 23	Amendment	The definition of a grade or pool fails to account for the behavioural element of grade or pool assignment. For example, the credit management process may distinguish between 'Satisfactory' grades and 'Criticised' grades. It may be the case that a satisfactory grade and a criticised grade share the same or similar LRA. Notwithstanding this, these grades are not homogeneous with each other. The behaviour of each class (satisfactory or criticised) can be expected to be different over an economic cycle. The principles of risk differentiation need to be broader than only numerically defined.	Banks use grades/pools to manage risk and to manage individual borrowers/facilities. Risk is characterised not only by PD (for example) in a given economic scenario but also its direction, procyclicality and type of management best applied to it. The wording of paragraphs 54 – 56 may be interpreted to restrict the use of masterscales and/or credit management techniques. The wording of paragraphs 54 – 56 is inconsistent with similar PDs being arrived at via different rating systems.
13	4	55(a)	22	Clarification	"Separate targets and tolerances may be defined for initial development and ongoing performance": please clarify that this permits lower standards for ongoing performance post-development.	

14	4	55(a)	22	Clarification	Clarify that different targets and tolerances may be applied to different models/portfolios.	
	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.	
15	4	59	24	Amendment	As with comment 1 above: The definition of a grade or pool fails to account for the behavioural element of grade or pool assignment. For example, the credit management process may distinguish between 'Satisfactory' grades and 'Criticised' grades. It may be the	Grades/pools may represent more than just a numerical PD. Examples include: (1) obligors/facilities with different risk drivers, assessed by different rating systems but assigned to the same PD grade. (2) Obligors/facilities subject to the same rating system but with additional behavioural characteristics influencing their credit management

					case that a satisfactory grade and a criticised grade share the same or similar LRA. Notwithstanding this, these grades are not homogeneous with each other. The behaviour of each class (satisfactory or criticised) can be expected to be different over an economic cycle. The principles of risk differentiation need to be broader than only numerically defined.	and/or affecting their expected future behaviour such as 'satisfactory' vs. 'criticised'.
	4	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	

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					development complexity with respect to the requirements stated in EBA/GL/2017/16 is expected.	
16	4	61(b)	24	Amendment/Deletion	The proposed horizon of 2 to 3 years is provided without justification. Instead the underlying desired property or principle should be required. What criteria should be used to determine the appropriate horizon? The choice of a two to three years horizon is not duly justified. It might depend on the type of portfolio which is modelled. We suggest deleting bullet point (b).	
17	4	61	24	Amendment	Paragraph 61 appears to limit or prescribe a model philosophy. Is this the ECB's intent? If so, can this intent be stated more clearly and the characteristics of an acceptable rating system provided?	

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18	4	64	25	Clarification	Please clarify the treatment of a guaranteed party, entering financial difficulty, whose obligations are met in full by its guarantor. Is the guaranteed party deemed to have defaulted?	
19	4	78(b)	29	Amendment	No clarification is provided for cases where the portfolio in scope of the rating system is volatile in its composition. For example, exposures to other banks or to sovereigns. As even facilities with no exposures where there is no commitment at reference date may default during the year, an exclusion of those exposures may seem in some cases inapropriate	
20	4	80	30	Clarification	Paragraph 80 requires the institutions to analyse any differences between external and internal observed average default rates. It is mentioned that this analysis should include the adequacy of the Margin of Conservatism (MoC). We do not see the link here. It should be clarified that diverging observed default rates do not necessarily give reason to raise an MoC.	

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21	4	83	31	Clarification	The intent of this paragraph is unclear. Is a specific model philosophy being prescribed? Is a specific test for grade PDs being prescribed?	
	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).	
	4.2	87	34	Amendment	Overally, 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 volumetry of defaults.	The calculation of default rates on sub-ranges of application is not justified

	5.1 Realised LGD	96	37	Clarification	The wording “exceptional cases” is not clear enough	
	5.1 Realised LGD	97	38	Clarification	The guide refers to the “artificial cash flow” method of the EBA GL, which were indeed included in the final EBA GL, but not present in the consultative paper. The ‘artificial cash flow’ method should be applied as described only when economically justified. It should be allowed in justified cases to use a realised loss (before costs) of 0 for cured cases. For example in the case of mortgage loans that are in default due to contagion from another loan and that are repaid normally there is no economic loss. The ‘artificial cash flow’ method, however, would mechanically imply such an economic loss	
	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	

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					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.	
	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 *"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."	
	5.1.3 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. It is therefore requested to amend this Article to be compliant with the economic loss definition.	
	5	100	39	Clarification	On PD and LGD GL (EBA/GL/2017/16), paragraph 14 says that for the purpose of quantification of various risk parameters within a rating system, institutions should apply the same definition of default for the same historical observations used in different models. Institutions should also apply the same treatment of multiple defaults of the same obligor or exposure across internal, external and pooled data sources.	
	5	100(a)	39	Amendment	We consider that setting the period length at 9 months is arbitrary but is a long enough period to collect connected defaults. We think that considering a longer period of	

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					time without any given time horizon is not relevant. Moreover, these requirements go beyond what is required by CRR and EBA GL	
22	5	100(b)	40	Deletion	The analyses required on independence period appropriateness, based on analysis related to the curing process, are basically overlapped 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 - par. 76). Therefore requiring a further analysis on this, considering also the critical and highly questionable asymmetric treatment introduced by independence period (i.e. relevant for LGD but not for PD), would result in a low value added effort required to the Banks.	Overlap of independence period appropriateness with probation period one. In case that deletion is not accepted, we would like to ask the following clarification: "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 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

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						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?
	5.2	103	41	Deletion	We suggest to delete 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 backtesting 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 volumetry of defaults.	The calculation of default rates on sub-ranges of application is not justified
	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.	

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					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.	
	5.3 Risk quantification	108	44	Amendment	§108 indicates that the 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 should not be longer than 12 months. We are wondering why 12 months Moreover this requirement leads to taking into account defaults with immature recovery profiles, increasing the uncertainty of th efinal outcome and potentially leads to higher LGDs. 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	

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					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. Finally, the 12-month period should be extended	

					for the secured facilities where the realisation of the collateral at the end of the recovery process determines an even less significant contribution of young positions.	
23	5	109	44, 45	Clarification	We understand the the maximum period of the recovery "time to workout" has to be duly justified and supported by studies. Can this "time to workout" be modified over a model life cycle considering the regulatory text n°529/2014?~~In principle, can the 'time-to-workout' be revised (subject to material change procedures) within a model?~~	Banks in many Member States have high volumes of NPLs. As these are worked out, the time-to-workout can be expected to extend (supported by empirical evidence).
24	5	110	45	Clarification	Is vintage defined by year-of-observation-as-in-default or by year-of-default?	
25	5	111	46	Deletion Clarification~~Deletion~~	The introduction of a concept of MRP and the adoption of 100% haircut for repossessed assets not yet sold is deemed as potentially over-conservative. Indeed We interpret this paragraph as a requirement to perform a sensitivity analysis in order to evaluate the impact of	Risk of double counting of conservative effect for Repossessions

					repossessed asset on the LRA LGD. If this is the case, the purpose of the analysis should be made explicit. Indeed, the adoption of 100% haircut for repossessed assets not yet sold (after the MRP) would be potentially over-conservative. As a matter of fact 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 factorize uncertainty of the collateral value and level of liquidity, it should be kept in mind that the repossessed assets will be booked on 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-weighed 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 assets will remain in the balance sheet of the Bank, instead of having cash in-flows, the more time the Bank should pay RWA on 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.~~The introduction of a concept of MRP and the adoption of 100% haircut for repossessed assets not yet sold is deemed as potentially over-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 factorize uncertainty of the collateral value and level of liquidity, it should be kept in mind that the repossessed assets will be booked on 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-weighed 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~~	

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	6.2 Realised CCFs	113	46	Clarification	We are in favour of maitening the optionality as it allows to take into account differences in approach to typical retail ~~portfolios (rather facility based)~~ and SME/corporate portfolios (rather based on aggregation of facilities)"	
	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 appropriate to have two options as compliant for calculating the average. The first is to compute the average weighted by the total number of	

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					facilities within that facility grade. The second is 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.	
	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 to replace the proposal of the inclusion of raw data with a percentile treatment of the right tail.	
	5.3 Risk quantification	115 - b/c	47	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.	
	5	118	48	Clarification	Paragraph 118 suggests to take into account "any changes to the structure of the portfolio that are expected to happen in the foreseeable future".	
26	5	118(c)	49	Deletion	Past economic and market conditions only characterise part of an economic cycle and therefore may not provide a representative set of economic conditions for the evaluation of the LRA.	The LRA LGD should represent the long run behaviour of the LGD parameter. Estimation of this parameter will be biased if past economic and market conditions are not representative of the LRA. Adjustments should be permitted (supported by arguments).
27	5	120(a)	49	Deletion	The prescribed 20 year period is arbitrary and does not provide for a level-playing field between Member States. We note that this is subject to a separate EBA consultation.	Contributes to unwarranted variability in RWAs.

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28	5	120(a)	49	Clarification	Is the 20 year period a rolling period, an extending period or a fixed period?	
29	5	124	51	Clarification	An increase in LGD to account for data that does not include adverse economic conditions is not MoC. It should be properly be described as an adjustment as the desired estimate is a downturn estimate of LGD. MoC will also be required in addition to this adjustment to account for possible error in this adjustment.	This maintains consistency of language with the section on MoC and also allows banks to compute the adjustment using econometric modelling.
30	5	Par. 5.3.5	49-51	Deletion	As long as the EBA RTS and GL on downturn will not be closed, and considering the strong debate on this on several critical points (e.g. adoption of the Reference Value), this section should be, for the time being, removed from the current version of the Guide	Downturn GL still in draft in EBA
	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 a quite common feeling 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 Expected Loss Best Estimate. We therefore ask for a clarification on how to interpret this issue and for more details on the approach to be applied. 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.	
31	6	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	Facility aggregation rule for CCF not necessarily similar to LGD one

					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 (e.g as in the cases of current account with connected advances facilities, multipurpose credit lines where a credit limit can be shared among more credit facilities, etc). As a consequence of this not necessarily the same level of aggregation adopted on LGD might fully work on CCF and vice versa. Thus we would suggest to amend the wording making reference to possible aggregation according to the characteristics of the facilities rather than adopting aggregations valid on LGD side.	
	6.2 Realised CCFs	133	56	Clarification	We understand that regulatory texts set rules regarding PD and LGD calculation whereas there is none as far as the CCF parameter is concerned	

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	6.2 Realised CCFs	133 - b	56	Amendment	Refer to amendment to paragraph 97-a on LGD.	
	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 months fixed horizon approach as 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.	
	6.3	134c	57	Clarification	We understand that changes (i.e. increase) in the value of the limit for example may have an impact on the CCF. How do institutions have to consider this changes? Do they have to be considered as new credit lines?	
	6.4	136	58	Amendment	The rules mentioned in article 136 are additional ones to the CRR and add requirements. However, we consider that they are not sufficiently precise and they are open to interpretation	

	6.4 CCF risk quantification	136 - b	58 - 59	Amendment	As for paragraph 113 - c about LGD, we deem not appropriate the proposal not to cap the right tail of the distribution. An appropriate treatment (i.e. interquartile range) has to be performed in order to avoid biases coming from raw CCF.	
32	6	136(c)	59	Amendment	it appears not immediately clear the reasons behind the calculation of the LRA CCF as an arithmetic average of yearly average of observed CCF. Indeed this approach results self-explaining on PD side where it is necessary to have performing obligor at the different reference dates and observing default rates on one-year horizon. But on CCF side, as for LGD, a calibration to a default weighted long run average of all observed defaults is required by the CRR (Article 182, par. 1, letter a) "(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;"). Therefore we suggest to keep a proper	Calculation of realized LRA CCF seems not fully in line with CRR Article 182, par 1, letter a)

					alignment with CRR requirement, by amending the wording accordingly, in order to avoid create potential inconsistency in the interpretation of the requirement. In addition, The rules mentioned in article 136 are additional ones to the CRR and add requirements. However, we consider that they are not sufficiently precise and they are open to interpretation	
33	6	136(d)	59	Deletion	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.	Calibration concept of CCF linkage to PD ones

					Therefore this paragraph appears redundant and might create confusion in the operationalization of the CCF risk quantification.	
34	6	General		Amendment	The section on CCFs is a cut and paste of the section on LGD. However, following the prescribed guidance, one may arrive at a downturn period different to the one used for LGD for a given set of facilities.	It is not appropriate to choose different downturn periods for LGD and CCF for the same set of facilities as there is a correlation between LGD and CCF. Credit management measures could be taken to reduce the CCF of facilities even as their LGD increases during a period of economic adversity. E.g. revolving credit. The text should be amended to prescribe the same downturn period for both LGD and CCF.
	6.4 CCF risk quantification	138	60	Clarification	Since this paragraph refers to the Downturn LGD comments are reported above for paragraphs 119-124.	

	5 for Loss given default	Section 5.3.5, Par. 138	49-51,60	Deletion	As long as the EBA RTS and GL on downturn will not be closed, and considering the strong debate on this on several critical points (e.g. adoption of the Reference Value), all the references to this topic, extended also to CCF, should be, for the time being, removed from the current version of the Guide	Downturn GL still in draft in EBA
	7	142	61	Clarification	Margin of conservatism have to be integrated into models in case of statistical weaknesses. Do institutions have to consider the uncertainty surrounding volatility in a Margin of conservatism whereas the involved models predict it in a satisfactory manner? Wording is not clear regarding the proposed calculation framework for statistical weaknesses as the MoC seems to depend only on observed values. It seems that a model that perfectly follows observed volatility would be penalised only because of volatility in the observations. It could be expected that rather the difference between observation and prediction is targeted by the MoC.	

35	7	142	61	Clarification	It should be clarified that the intent of this paragraph is not to prescribe a model philosophy (PiT, TtC). It should be clarified that the intent of this paragraph is to require a quantification of the error in determining the LRA based upon the length of the timeseries from which it is determined. To this end, it should be recognised that different banks will adopt different approaches unless a common approach can be agreed. Examples would be useful.	
~~36 si;ilqr message than following~~	~~Credit Risk~~	~~7 Model-related MoC §142 - a~~	~~61~~	~~Amendment~~	~~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".~~ ~~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"~~	
36	7	142	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	Not clear explanation on MoC category C for PD parameter

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					all the model's estimation errors. ~~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). Furthemore 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"~~	
	7	142(a)	61	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	MoC C should be independent from the yearly default rate volatility and should depend on number of observations

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					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".	

	8	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	Not clear explanation regarding the additional analyses to be performed in order to evaluate if a model has to be re-estimated

					materiality) model review, considering that paragraph 218 of EBA/GL/2017/16 already requires an (at least) annually regular cycle of review of estimates. Paragraph 146 mentions "material models". This wording is not mentioned in regulatory texts. Could you please explain what are material models and for what purpose they have to be defined?	
37	8	147, 148	63	Clarification	Typographic error.	
38	9	151	65	Clarification	Are exemptions from the one-year maturity floor permitted?	
39	5	General		Clarification	It would be helpful if the ECB would clarify that no specific model philosophy is prescribed for PD.	

40	5	General		Clarification	It would be helpful if the ECB would clarify its expectations regarding the use of Masterscales.	
	All Risks	General	-	Clarification	It would be useful for the industry if ECB issued a policy regarding the timeline for a model change, included the timing it will takes to send the decision (or draft letter) after an application. In this way, with a deadline, banks could plan properly IT interventions, business impacts, etc ... and industry could manage updates of time series or remediation plans in timely manner.	

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