Comments

on the ECB guide to internal models

Risk-type-specific chapters

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 1,700 banks.

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ID	Chapter	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated
1	Credit risk	2 Data Maintenance of the IRB Approach	15(a), 17, 18	9-10	Clarification	The requirements for data quality vetting go beyond the requirements of the EBA Guideline on PD Estimation and the RTS on Assessment Methodology regarding the IRB Approach. In particular, it should be made clear that it is not absolutely necessary to establish an independent, dedicated unit for vetting data quality.	The establishment of a separate, independent unit for data quality management would lead to a disproportionately high level of effort and is not necessary for ensuring independent data vetting.
2	Credit risk	3.4 Use of pooled data	40	17	Amendment	In order to avoid bias in risk parameters estimates, multiple-rated counterparties should also be counted consistently in the numerator and denominator of the default rate in pool level analyses. This procedure will ensure that the pool used as a basis for developing and reviewing the pool model is structurally matched as well as possible to the portfolios of the individual institutions that use the pool model for valuing their relevant portfolios and, in particular, that large counterparties	Paragraph 40 of the Credit Risk chapter sets out a concrete requirement for pool solutions for dealing with clients for which ratings are prepared by more than one of the institutions participating in the pool (common obligors). A requirement is that the existence of such common obligors may not lead to distortions or double-counting for risk parameter estimates. This requirement is then further expanded on by requiring in particular that each common obligor is only taken into account once in the calculation of the one-year default rate. We consider this requirement to be inappropriate, in particular because the exclusion of multiple-rated counterparties in the sense of the “single count only” required here would in fact lead to bias in many portfolios: the scope of the vast majority of rating systems

						are adequately included in the data pool.	(e.g. all rating systems in the RSU pool solution) includes clients of different company sizes (e.g. in the sense of different ranges of total assets or revenue). However, the frequency of common obligors, i.e. counterparties within the data pool that are rated by more than one institution, is directly related to the size of the company, for example: large counterparties (e.g. DAX groups) usually have relationships with more than one credit institution much more often than smaller counterparties (e.g. small medium-sized companies). Excluding multiple-rated counterparties, therefore, leads to a structural change in the resulting “pool without double-counting”: due to the less frequent occurrence of common obligor scenarios, the smaller counterparty scenarios are now significantly overrepresented, not only in comparison to the “pool including double counting”, but also in comparison to the portfolio of the individual institutions participating in the pool. The structure of the “pool without double counting” thus differs to a greater extent from the portfolio of the individual institutions than the “pool including double counting” precisely because of the exclusion of multiple-rated counterparties, which leads to increased risk due to limited representativeness of the pool within the meaning of Article 179(2)(b) of the CRR. Take, e.g., two institutions A and B participating in the same pool rating system that each have 1,000 large and 1,000 small corporate customers. Among the large corporates they have 900 common obligors, among the small corporates only 100.

							In this example, the composition of the pool only corresponds to the share of large and small obligors of the individual institutions (50 percent each) if common obligors are double counted. In a “pool with single counting of common obligors” the relative shares of large (27.5 percent) and medium-sized companies (72.5 percent) in the pool would differ systematically from those of each of institutions A and B. A similar effect can also be achieved with regard to other dimensions, e.g. specific sectors, countries, etc. It is completely unclear what an approach to counting common obligors only once, but at the same time avoiding the bias effects described above, might look like. At the moment, we presume that there is no possibility of ensuring such an exclusion without corresponding bias as a side-effect. The requirements of the ECB Guide do not provide any guidance for this. But requiring “single counting” would underrepresent the institution’s perspective in the pool data in a completely different respect, namely with regard to the consideration of all relevant information: an analysis adjusted for double counting will systematically only be able to address one of the perspectives of the banks involved; the perspectives of the institutions whose ratings are excluded due to common obligor scenarios are not taken into account in the pool. This means that a requirement to count common obligor scenarios only once also leads to the exclusion of relevant and rationally usable available data for model optimisation and validation.

3	Credit risk	3 Data Requirements	42(c)	18	Amendment	Institutions using a pool model should not be required to have an aligned process for managing distressed debtors.	From our point of view, this requirement constitutes inadmissible interference with the business practice of the institutions and has no basis in supervisory law. In addition, the purpose of this requirement is in any case not apparent with regard to the estimation of PD.
4	Credit risk	4 Probability of Default	52	21-22	Amendment	The review of models separately for individual sub-portfolios would be very time-consuming. The extent to which, for example, an analysis based on geographical regions would be feasible/meaningful in the case of globally active borrowers, is also questionable.	The proposed granularity does not currently result from regulatory requirements and would lead to a very high validation effort with questionable added value.
5	Credit risk	4 Probability of Default	79(b)	30	Amendment	The preference given to using overlapping 1-year time windows over non-overlapping time windows for certain analysis results, in particular in the case of 79(b) for the significant difference of the observed average default rate between overlapping and non-overlapping time windows is not appropriate without further clarification of the cause of the difference. In particular, depending on the rating philosophy, the historical average PD measure should be backtested against the historical	The reason for the difference of the observed average default rate between overlapping and non-overlapping time windows in the case of paragraph 79(b) could also be due, for example, to a different clustering of time windows under poor and good economic conditions.

						average default rate on the basis of the same time windows. However, most test procedures require the sample to be independent. This is clearly no longer the case if the default periods overlap.	
6	Credit risk	4 Probability of Default	80	30	Clarification	There is a requirement to compare the observed average default rates on the basis of internal data with those based on external data. The difference also has to be analysed with regard to the adequacy of the margin of conservatism (MoC). It is unclear what the connection is to the MoC. It should be clarified that any differences between the default rates do not necessarily lead to the application of an MoC.	For example, if the different average default rates are the result of a different risk structure of the portfolios internally versus the rest of the pool, but the risk drivers of the model reflect this risk structure sufficiently well (e.g. internal PD measure vs. the rest of the pool is also correspondingly different), then no MoC should be required.
7	Credit risk	4 Probability of Default	80	30	Clarification	We consider it necessary to clarify what is meant by a “separate” calculation. In particular, we consider it necessary to clarify that, for the calculation at pool level, there is no requirement to artificially exclude the data of the relevant institution from the data pool.	Paragraph 80 sets out a special requirement within the context of the requirements for calculating the long-term default rate in the event that an institution also uses calculations based on pool data in addition to its internal data: specifically, there is a requirement that the calculation of the default rate at pool level in this case should be carried out separately from the calculation of the default rate at the institution level.

							Excluding data from an institution would be completely alien in the conceptual framework for pool models. One of the key aspects of the pool model approach is the development and calibration of the model at the level of the entire data pool. This enables institutions to access models that are more differentiated, accurate and stable in their application to the portfolio of an individual institution than any model that could be developed on the basis of the portfolio of an individual institution. The pivotal point here is the data pool as a whole. An institution-specific "pool without the institution" resulting from the artificial exclusion of the data of an individual institution cannot in any way play a meaningful role in optimising or reviewing the pool model. Quite apart from that, a "pool without the institution" perspective does not offer any added value for model validation even for the individual institution: if the amount of the institution's own data is small compared with the size of the data pool, the comparison with the "pool without the institution" does not lead to any other outcomes than the comparison with the pool as a whole. On the other hand, if the share of the individual institution's data in the pool is large, the "pool without the institution" no longer represents a meaningful benchmark for the institution because the model is not optimised, calibrated or validated based on this data pool.
8	Credit risk	5.1 Realised LGD	91(a)	36	Amendment	In our opinion, it is neither effective nor appropriate to demonstrate representativeness	

						based on non-relevant dimensions. If a dimension demonstrably has no influence whatsoever on credit risk, it is also irrelevant for representativeness. Requiring evidence of representativeness is an unnecessary effort because the evidence does not pursue any objective and is hence obsolete.	
9	Credit risk	5.1 Realised LGD	97(c)	38	Clarification	As an approximation, paragraph 97(c) allows the change in exposure values at two consecutive dates to be considered instead of specific dates. Even taking into account the requirements (justification, documentation), we believe that this is a very positive simplification for the banks, especially for very small cases and certain types of accounts (e.g. current accounts).	
10	Credit risk	5.1 Realised LGD	103	41-42	Amendment	Reviewing models separately for individual sub-portfolios would be very time-consuming, especially since paragraph 121 of the EBA Guidelines on PD and LGD estimation, to which	The proposed granularity does not currently result from regulatory requirements and would lead to a very high validation effort with questionable added value.

						reference is made, lists 18 potential risk drivers, only some of which are relevant for the actual IRB portfolio. The extent to which, for example, an analysis based on geographical regions would be feasible and expedient in the case of globally active borrowers, is also highly questionable.	
11	Credit risk	5.3 Risk quantification	109	44-45	Clarification	The (a) to (e) list in this paragraph represents alternative approaches for identifying the maximum “time-to-workout”. It is not clear what the added value is of performing all of these analyses. For example, alternative determination methods can be used to validate the results. However, the choice of the method to be used should be a matter for the institutions in order to ensure methodological freedom.	
12	Credit risk	5.3 Risk quantification	110(b)	45-46	Amendment	In particular for portfolios with potentially very long recovery periods (e.g. loans secured by real estate) in which there is also an extremely high variability in the recovery periods (e.g. clarification through curing or	

						liquidation by private sale, compulsory auction, dependence on available capacity at local courts and demand at compulsory auction dates), we are highly critical of the proposal to base the analysis of defaults exclusively on a given year (vintage), which we regard as inappropriate. In order to be able to determine an appropriate estimate of the losses still to be expected, institutions must in particular be permitted to take other criteria into account (such as existing characteristics with regard to the institution's own recovery processes as well as the duration of the default, the processing status, the unit in charge, the status of recovery, etc.). Restricting modelling freedom at this point by limiting it solely to completed defaults in one year for which a similar LGD could be observed at a given time, leads here to distorted results that do not consider all the information available.	

						In addition, it is possible that this approach cannot ensure the availability of a sufficient number of observations.	
13	Credit risk	5.3 Risk quantification	113(a)	46	Clarification	Paragraph 113(a) proposes two options for aggregating the realised LGDs weighted by the number of defaults. In our view, the volume-weighted aggregation of the facilities at client level is the more appropriate approach, since only then will the expected loss amount of the client: Expected loss amount =PD*LGD*EAD be determined in line with expectations. In addition, a purely number-weighted aggregation of LGDs could provide incentives for manipulation by splitting over-collateralised financing portions with expected lower realised LGDs into several facilities and combining under-collateralised financing portions with expected higher realised LGDs into a single facility only, if possible.	Example: Client with 2 facilities Facility 1 = 20m EUR and Facility 2 = 80m EUR plus realised LGD1=20% and realised LGD2=25%. The client's actual realised loss is: 20%*20m + 25%*80m = 24m Volume-weighted averaging of the realised LGDs results in an LGD for the client of 20%*20/100 + 25%*80/100 =24%, which, for 100m EUR EAD, corresponds to the actual realised loss of 24m EUR. By contrast, in the case of the number-weighted averaging of the realised LGDs via the facilities, the loss amount for the client is 22.5%, i.e. 22.5m EUR for 100m EUR EAD, which underestimates the actual loss amount by 1.5m EUR.

14	Credit risk	5.3 Risk quantification	115(a)	47	Amendment	Paragraph 115(a) explicitly notes that, in a bottom-up approach, the sub-quotas (e.g. separate recovery rates for the collateralised and unsecured portions) should be independent, or any dependency must be reflected in the modelling. This is not explicitly required if a total LGD is estimated directly, possibly with the same components as explanatory variables. It must therefore be ensured that the bottom-up approach is not disadvantaged, in particular if the model exhibits an adequate forecasting quality even if there are dependencies.	
15	Credit risk	5.3 Risk quantification	120(a)	49	Amendment	Paragraph 120 in conjunction with paragraphs 124 and 138 requires a data history of 20 years for downturn analyses. This is mitigated by paragraph 123(a), which permits capping to 2008. However, we still regard a loss history of 20 years as very long – similar to our comments on EBA consultations on economic downturn LGD: RTS (EBA/CP/2018/07), Guideline (EBA/CP/2018/08). Macroeconomically, this would cover	

						2-3 business cycles (Juglar cycle).	
16	Credit risk	6.3 CCF structure	134(b)	57	Clarification	In addition to the fixed horizon approach (analyse risk driver one year prior to default), paragraph 134(b) requires the cohort approach (analyse risk driver within the previous year). However, the sequence of the analysis is not presented in sufficient detail. It is not clear how exactly the NCA should deal with a finding that the risk driver may be very volatile ("When choosing the appropriate reference date for a risk driver, institutions should take into account its volatility over time.") Should there be smoothing?	
17	Credit risk	7.1 Relevant regulatory references	142(a)	61	Amendment	It is unclear whether in paragraph 142, the ECB requires the calculation of a rating class-specific MoC ("affecting the LRA estimate at grade level"). Paragraph 43(b) of the EBA GL on PD and LGD (EBA/GL/2017/16) requires an MoC quantification "at least for each calibration segment". The EBA Guideline	Depending on the rating philosophy, the fluctuation of default rates over time reflects the impact of economic developments and not the statistical variance of the default rate.

						does not require the calculation of a rating class-specific MoC. Technically, there are only two alternatives for calculating a rating class-specific MoC, both of which are extremely problematic and lead to management errors: a) On the one hand, the rating classes could be kept stable and only the PDs per rating class could be assigned a rating class-specific MOC. Since the MoC must also be calculated individually for each rating system, the MoC in a rating class would differ per rating system. Since the MoC depends on the number of clients in the rating classes, different PDs would be obtained per rating system. For example, a company would receive a PD including an MoC of 0.20% in rating class “BBB” and a PD including an MoC of 0.30% in rating class “BBB–”. On the other hand, a PD including an MoC of 0.15% would be obtained for a retail client in rating class “BBB” and a PD including an MoC of 0.20% in rating class	

						"BBB–". As is easily evident, the rating classes lose their significance for the PD level because of the MoC. Risk reporting on the basis of rating classes is then no longer plausible and leads to management errors. Downstream regulatory processes, such as EBA benchmarking, would also produce incorrect results. b) On the other hand, a rating class-specific MoC could initially be calculated for the preliminary rating classes ("rating class before MoC"). The individual PD would then have to be adjusted by the MoC and the clients would then have to be assigned again to a final rating class ("rating class after MoC") with the adjusted PD. Since the MoC depends on the number of clients in the rating classes, adjacent rating classes will receive different MoCs. This leads to a shift in the order in which ratings are distributed. Especially for portfolios with a low number of defaults, this can lead to a considerable shift in the rating	

						distribution, which is not technically plausible. Unfortunately, this approach also results in the observed default rates no longer corresponding to the estimated PDs of the rating classes. Risk reporting based on the final rating classes can therefore lead to management errors. Downstream regulatory processes, such as EBA benchmarking, would also produce incorrect results. It should therefore also be in the ECB's interests if institutions calculate the MoC in line with the EBA requirements per rating system or per rating segment, and not per rating class. The words "at grade level" in paragraph 142 should therefore be deleted.	
18	Market risk	2.2 Delimitation of the regulatory trading book	9	70	Amendment	According to the last subparagraph, institutions should be able to identify "internal transactions in the regulatory trading book", and show that these do not contribute to own funds requirements." To our knowledge, there is no such requirement in the CRR.	To our knowledge, there is no such requirement in CRR. Moreover, the FRTB text stipulates that "internal risk transfers between trading desks within the scope of application of the market risk charges ... will generally receive regulatory capital recognition" (see FRTB 2016 paragraph 37). Please delete the second half of the sentence ("...and show that these transactions do not contribute to the own funds requirements obtained using the internal model").

						We ask for deletion of the second half of the sentence.	
19	Market risk	2.4 Partial use models	21	73	Amendment	In this paragraph “general interest rate risk” is interpreted in conjunction with the statement in Article 362 of the CRR (“change in the level of interest rates”) “is a reference to risk-free interest rates”. We do not support this reference.	We do not support this reference, because Article 367(2)(b) of the CRR stipulates that “the model shall also capture the risk of less than perfectly correlated movements between different yield curves” which is - in supervisory assessment practice - regularly understood as the need for modelling different sector/rating/etc. depending yield curves for each relevant currency.
20	Market risk	2.4 Partial use models	21	73	Clarification	We ask for clarification, which market factors are to be included as general risk factors and which are not, for instance are implied volatilities and correlations, dividends, tenor-spreads, collateral spreads, and others are to be included.	We would also like to point out that there should be a clear understanding of what in detail is included as specific risk within the Standardised Approach. If for example all credit spread risks from bonds and credit derivatives are included, banks with partial-use IMA for general interest rate risk, who include general credit spread risk within general interest rate risk, would be double counting those risk. However, if they aren’t included within specific risks of the SA, paragraph 21 will lead to a non-capitalisation of credit spread risks.
21	Market risk	3.3 Historical period used to perform back-testing, definition of business days, and documentation	57	84	Amendment	In this paragraph it is stipulated that a given day should be considered as a business day for VaR and backtesting, even if it is a holiday for the major part of the institution and only “a reduced number of staff” is in operation.	Please note that usually these staffs are just for "fire-fighting", no regular trading or similar operation is taking place. Hence the first two sentences of this paragraph should be deleted, the decision whether a (local) holiday is a “business day” for VaR and backtesting should be to the institution's discretion and justified to the satisfaction of the regulator.

						The first two sentences of this paragraph should be deleted, the decision whether a (local) holiday is a “business day” for VaR and backtesting should be to the institution's discretion and justified to the satisfaction of the regulator.	
22	Market risk	3.3 Historical period used to perform backtesting, definition of business days, and documentation	60	85	Clarification	In the last sentence it is unclear what is meant by P&L “decomposition of economic, actual and hypothetical P&L into their elements”. A reference or explanation should be added.	We ask for clarification.
23	Market risk	3.5 Calculation of hypothetical P&L	75	89	Amendment	In footnote 86, priority is given when calculating the hypothetical P&L to the requirement to use market quotes or pricing methods and model parameterisations used for the economic P&L over the requirement to change only the risk factors within the risk categories of the IMA. To ensure the integrity and adequate backtesting of partial use VaR measures mentioned at the beginning of paragraph 75, there should also be the possibility to calculate the hypothetical P&L reflecting the	For example, if partial use consists of the general interest rate risk, only the (risk-free) interest rate and the general credit spread risks are modelled in the VaR relevant for reporting in the case of bonds, while the hypothetical P&L must be determined on the basis of their market prices in accordance with paragraph 75. However, in addition to risk-free interest rates, market prices also reflect bond-specific credit spreads, which in turn consist of general and special credit spreads. The hypothetical P&L thus also reflects in particular special interest rate risks, which in turn are expressly not part of the partial use VaR measure, with the result that no adequate statement on the integrity of the partial use VaR measure can ultimately be made using correspondingly designed backtesting.

						partial use modelling. Footnote 88 should be amended correspondingly.	Footnote 88 should be amended as follows: "In this case *(that an exclusion of the P&L stemming from risk categories not included the scope of the internal model is operationally challenging or its effect on the total P&L is immaterial)*, if a market price that incorporates all risks is used in the economic P&L, it should also be used in the hypothetical P&L."
24	Market risk	5.5 Proxies, beta approximation and regressions	122	105	Amendment	In our view the stipulated requirement for interest rate curves to "duly justify why the data points interpolated owing to the reduced granularity should not be considered as proxies" is in contradiction to CRR. These paragraph should be amended.	Article 367(2)(e) of the CRR states that "Proxies ... shall be used only where available data is insufficient or is not reflective of the true volatility of a position or portfolio", while at the same time Article 367(2)(a) of the CRR requires that "the yield curve shall be divided into a minimum of six maturity segments". If this reduction of granularity would be seen as proxying by Article 367(2)(a) of the CRR would have to be rephrased since interest curve do have more than six pillars with "sufficient available data" in almost all cases, and would thus not be allowed for "proxying".
25	Market risk	5.5 Proxies, beta approximation and regressions	125	106	Amendment	"The ECB considers that the requirement to have a documented set of internal policies and controls also applies to the use of proxies, as they are part of the overall operation of internal models." The GL should be amended accordingly: "... policy in place that ensures processes for deriving and validating each proxy ...".	Since usually the derivation and validation of each proxy is individually set up, it would be difficult if not impossible to "define a clear process for deriving and validating each proxy". Hence we propose to change the requirement into "... policy in place that ensures processes for deriving and validating each proxy ...".

26	Market risk	5.5 Proxies, beta approximation and regressions	128	106	Amendment	Please note that the requirement in (b) and (c) to replace the market data in the hypothetical P&L by their proxies might not be possible due to technical restrictions / different system setups (cf. paragraphs 74 and 75). This paragraph should be amended correspondingly.	We would also ask for allowing a different alternative for paragraphs 128, 131 and 135. We would propose the usage of one P&L only in which all effects (proxies, risk factors, and valuation methods) are combined – so called “Risk-P&L” or “VaR-P&L”.
27	Market risk	5.6 Risk factors in the model	131	107/ 108	Amendment	Please note that the requirement in (b) to omit risk factor changes in the P&L might not be possible due to technical restrictions / different system setups (cf. paragraphs 74 and 75). This paragraph should be amended correspondingly.	We are of the opinion that the separation of model-specific “risk factors” and “proxies” in a P&L is not particularly expedient because their adequacy is directly connected. In particular, the P&L required in paragraph 131, in which only the risk factors are changed and the remaining market data remain at the previous day’s level, does not lead to any meaningful results. Take the example of the P&L resulting from a yield curve. According to paragraph 131, the interest rates of the maturity support points selected as risk factors must be changed, while the interest rates of the immediately adjacent support points not declared as risk factors remain unchanged. As a minimum, the following two problems are associated with these requirements: a) If there is a yield curve with a (very) high granularity of support points, the interest rates of neighbouring support points are, on the one hand, empirically highly correlated, and on the other, there is a very high probability that a cash flow will be measured using an interest rate at a grid point not defined as a risk factor. This results in a high discrepancy between the P&L required in

							paragraph 131 (in the example: 0 EUR) and the hypothetical P&L, which indicates a model problem that does not exist because the interest rate used to determine the hypothetical P&L (with a very high probability) moves very similarly to the directly adjacent risk factors. b) If the specifications are implemented one-to-one, this will result in yield curves that have spikes at the risk factor support points. As a result, the yield curves may not be sufficiently "smooth" to be included in or processed in individual (complex) valuation models. See also comment on paragraph 122.
28	Market risk	5.7 Pricing functions and methods in the model	135	109	Amendment	Please note that the requirement in (b) to use VaR/sVaR pricing functions in combination with market data of the hypothetical P&L might not be possible due to technical restrictions / different system setups (cf. paragraphs 74 and 75). This paragraph should be amended correspondingly.	
29	Market risk	7.2 The framework for risks not in the model engines	171	123	Amendment	In our view, the requirement in (b) to capitalise RNIME as add-ons to the own funds requirements in pillar 1 should be deleted.	Pillar 1 add-ons to the own funds requirements cannot be derived from CRR, since the internal model itself already has to "capture accurately all material price risks", and there are no provision for add-ons. See also feedback on paragraph 189.

30	Market risk	7.4 Quantification of RNIME	177/178/ 179	127/ 128	Amendment	The ECB considers that the risk parameters for RNIME quantification should be aligned to the regulatory specifications. In paragraphs 177 and 178 it is stipulated that the RNIME should be quantified as "incremental risk numbers" using the same risk parameter setup as for VaR/sVaR calculations (i.e. 99%, 10 day holding period, etc.). We reject this request and ask for a more flexible approach for incremental quantification. Moreover we ask for a more equal alignment of the incremental and stand-alone quantification.	This ECB request requires a risk model that is indeed able to calculate the "full" risk including the risks-not-in-VaR, too. If such a model were at hand for all RNIME components, there would be no reason to not include these in the VaR/sVaR model. The paragraphs should be amended to include the consideration that, more often than not, the given requirements are technically / operationally not realisable. In our opinion paragraph 179 does not give enough flexibility to give institutions more freedom to calculate the incremental risk numbers ("The impact quantification of RNIME should be accurate to the extent possible using reasonable effort. The ECB considers that a more conservative impact quantification than described in paragraph 178 could be used where this is duly justified."). Moreover we ask for a more equal alignment of the incremental and stand-alone quantification.
31	Market risk	7.5 Management of RNIME and implementation in an institution's risk engines	182	129	Amendment	The ECB considers that in order to assess the adequacy of own funds, institutions should quantify and monitor the RNIME at least quarterly. In our opinion the frequency for quantification should be "at least annually", not "at least quarterly".	In our view there is no foundation in CRR for requiring to capitalise RNIME add-ons to the own funds requirements in pillar 1, see feedback on paragraph 171. Thus the reference to Article 99 of the CRR for RNIME quantification is not feasible and the frequency for quantification should be "at least annually", not "at least quarterly".

32	Market risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129/ 130	Amendment	The ECB states, that "in accordance with Article 367(1)(a) of the CRR, any internal model must capture accurately all material price risks. Therefore, the ECB considers that in order to ensure that the models accurately capture all material price risks including RNIME and thereby result in a sufficient level of own funds,…". We are of the opinion, that this cannot be derived from the CRR, and the paragraph should be amended correspondingly.	By definition, RNIME are not part of the VaR/sVaR etc. models. Thus, in our view, it cannot be derived from Article 367(1)(a) of the CRR that RNIME should also be considered for a "sufficient level of own funds", see also feedback on paragraph 171. The introduction of the paragraph should be amended correspondingly.
33	Market risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129/ 130	Amendment	In footnote 145 in part (b) of this paragraph, it is stated that the comparison of RNIME numbers should be performed using 60 days / 12 weeks averages of VaR/sVaR. The comparison of the RNIME numbers should be to VaR/sVaR as of the same due date.	RNIME numbers are based on the position of a certain due date, while the averages take different positions into account. Thus the comparison of the RNIME numbers should be to VaR/sVaR as of the same due date.
34	Market risk	7.5 Management of RNIME and implemen-	183	129/ 130	Amendment	In part (b) of this paragraph, it is stipulated that the RNIME numbers should be capitalised applying the VaR/sVaR multiplication factors (mc and ms). Apart from that we do not see	There is even more no justification for applying the VaR/sVaR multipliers, since these are determined from backtesting of VaR where RNIME is not included. See also feedback on paragraph 189.

		tation in an institution's risk engines				any foundation for RNIME capital add-ons (see feedback on paragraph paragraph 171).	
35	Market risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129/ 130	Amendment	For part (d) of this paragraph, see feedback on paragraphs 171 and 189. Part (d) should thus be removed.	
36	Market risk	7.5 Management of RNIME and implementation in an institution's risk engines	186	132	Amendment	Here it is stipulated that changes to the RNIME framework should also be quantified with the aim of assessing whether these changes would lead to "material" changes as defined in the technical standard on materiality of extensions and changes of the IMA. The first section of this paragraph should be removed.	The technical standard on materiality of extensions and changes of the IMA only defines thresholds for changes of VaR/sVaR numbers / risk numbers, which by definition do not include the RNIME. So this reference cannot be applied, and should thus be removed.
37	Market risk	7.5 Management of RNIME and implementation in an institution's risk engines	186	132	Amendment	The ECB considers that because the RNIME framework is a component of the IMA, a change in it should accordingly be notified ex ante to the competent authorities, and is thus seen as a "core process". We reject this, the ex ante notification should be restricted to	In Article 7b and Annex III, Part II, Section 2(13) of the technical standard on materiality of extensions and changes of the IMA, RNIME is not given as an example for a "core process" in risk management. Thus it cannot be derived that any change in the RNIME framework is a change in a "core process". For example, the introduction of a new risk factor examination in the RNIME framework is not a change in a "core process" and does not need to be notified ex ante. The ex ante notification should be restricted to significant changes in the RNIME

						significant changes in the RNIME framework only, like the initial setup of its policy, all other changes can be reported as all other “model” changes in an annual frequency.	framework like the initial setup of its policy, all other changes can be reported as all other “model” changes in an annual frequency.
38	Market risk	7.5 Management of RNIME and implementation in an institution’s risk engines	189	132	Comment	Here it is correctly stipulated that RNIME is not part of regulatory backtesting. Consequently, since material RNIME effects can lead to backtesting outliers, RNIME should not be capitalised under pillar 1. Otherwise, if a backtesting outlier is due to RNIME effects, RNIME is capitalised twice: Once by the VaR/sVaR multiplication factor and once by separate RNIME capital add-ons. See also feedback on paragraph 171.	If RNIME become/are material, this will be reflected in an unsatisfactory backtesting result, i.e. in particular in an increased number of outliers in the case of significant risk underreporting because of RNIME, which in turn will result in an increased backtesting add-on. Contrary to the RNIME specification in paragraph 183(a), backtesting adequately models and reflects model risks that both underreport and overreport risks and, in particular, their mutual dependencies, contrary to the RNIME specification in paragraph 183(b). In this respect, the objective of adequate own funds requirements for market risk is already fully met by the IMA in conjunction with the backtesting add-on. By contrast, the RNIME framework leads to a high level of own funds requirements, among other things through double counting of the same RNIME via the backtesting add-on and the RNIME add-ons.