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Set up in 1960, the European Banking Federation (EBF) is the voice of the European banking sector (European Union & European Free Trade Association countries). The EBF represents the interests of some 4,500 European banks: large and small, wholesale and retail, local and cross-border financial institutions.

The EBF is committed to supporting EU policies to promote the single market in financial services, in general, and in banking activities, in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

Subject : EBF response to the consultation on the materiality of extensions and changes of internal approaches

General remarks

The EBF attaches great importance to the draft regulatory technical standards (RTS) that the EBA has put forward in this consultation. The supervision of internal risk models is a central part in the prudential framework established with the adoption of the Basel II standards. The EBF has long claimed that a common set of rules as to the supervision of such models shall contribute to restoring confidence in advanced models as well as to streamlining supervisory processes in European banking groups.

The EU took the lead with the implementation of the more risk-sensitive options available under the Basel II prudential framework from the outset in 2007. Since then, European banks have invested major resources and built up experience with internal risk models that promote the adoption of stronger risk management practices by the banking industry.

In the view of the EBF the present draft RTS should contribute to creating a sounder and more consistent regulatory framework for the use of internal models if certain cautions are taken on board. This response paper condenses the experience of EU bank experts as to the questions raised by the EBA. Firstly, several proposals are put forward for EBA's consideration. Secondly, answers to specific questions follow.

EBF Proposals

1. The considerable burden associated with the ex-ante notification process could be alleviated by including the following provisions in the RTS:
 - a. Changes should be either classified as material therefore requiring approval or as immaterial in which case ex-post notification on a periodic basis should be sufficient.
 - b. In case that the ex-ante notification category is maintained, the following should be considered:
 - c. In credit risk, recognise the fundamental difference of scoring systems as to the number of tiny changes inherent to their normal operation and allow for direct implementation of minor changes that will be duly reported to the competent authority on a periodic basis.
 - d. In credit risk, operational risk and market risk, include an additional category of immaterial changes that do not require ex-ante notification.
 - e. Allow for bundling changes that would require ex-ante notification at regular intervals in order to reduce the workload for both banks and supervisors without detriment of the adequate degree of control.
 - f. Restrict ex-ante notification only to new data used to recalibrate existing models.
 - g. Review the thresholds proposed in the RTS making them less stringent in search for a right balance between the level of the thresholds¹ and the burden entailed. The consistency across Europe is the main benefit sought after all.
 - h. In market risk, it is worth noting that the Fundamental Review of the Trading Book (FRTB) currently underway at the Basel Committee may include proposals to use, for benchmarking purposes, internal models with standardised calibration. Such models may provide fair benchmarks for assessing the materiality of model changes. Therefore, we would favour the introduction of a clause that allows the EBA to review the assessment of the materiality of changes in the light of the FRTB final paper.
2. Rely more on internal validation evaluations. The role of the independent validation teams has proved to save a lot of time and resources on the part of supervisors and has largely brought about confidence to the whole supervisory framework. We believe that EBA should promote, in these RTS, further and better use of the outcomes from independent internal validation teams.
3. Request a timeline of one month for supervisory approval and allow for the implementation of changes in the meantime. In the absence of supervisory response changes should be deemed acceptable.

¹ See responses to specific questions 3, 6 and 10.

4. Changes to stress test processes should not be subject to ex-ante notification as these exercises are subject to continuous scrutiny of supervisors.
5. The qualitative assessment should have greater priority than the quantitative criteria. The consultation should concentrate on the capital impact of model changes rather than a detailed analysis of all changes that may occur.
6. The EBA proposal links the quantitative thresholds to the risk-weighted exposure per risk category, i.e. credit risk, operational risk or market risk. We would argue that the threshold should be related to the impact on the overall risk-weighted assets instead of one risk category.

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- **Related documents:** EBA Consultative Paper:
<http://www.eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2013/CP-02/EBA-CP-2013-02-CP-on-RTS-on-materiality-of-model-extensions-and-changes.pdf>;

Specific questions

1. *Are the provisions included in this draft RTS that specify the principles of categorisation of extensions and changes, sufficiently clear? Are there aspects which need to be elaborated further?*

Regarding credit risk, the following points would need further clarification:

- Point 6 in page 11 states that thresholds for IRB should apply to a specific model. It is unclear how this is related to the thresholds mentioned in article 3(1) c(i) and 4(1) a(iii). We would suggest that a minimum impact evaluation be established at the specific model level and that the term specific model be made more concrete. If, for instance, two scorecards together constitute the model for private customers, would this constitute two specific models? The threshold of 5% mentioned in article 4(1) c(iii) should be revised, if the Article 4(1) c(ii) is to refer to a specific model level, and not all the portfolios covered by the IRB approach.
- It appears that the provisions in article 2 paragraph 2, i.e. that in the course of the classification of changes the institution shall calculate the quantitative impact of any extension or charge on own funds requirements or where applicable RWA, is not consistent with the classification of materiality according to Articles 3 to 8.
- In the same article 2.2 (a), the “use of the most recent data available” should be clarified. We would suggest the last three months.
- Of paramount importance is the interpretation of Article 2 (2) (b). Where a precise assessment of the quantitative impact of a model change is not feasible, the impact may be assessed on the basis of a representative sample or other “*reliable inference methodologies*”. Precise assessments require comprehensive parallel calculations (cf., for the IMA, Article 7 (2)) and parallel double rating processes based on the old and new methodology (cf. Article 3 (2) and Article 4 (2) “*refer to the same point in time*”) which impose a considerable burden and put the technological architecture under unnecessary pressure due to a typical release sequence in the information systems implementation. We thus assume that the scope provided by the above-mentioned article must be broadly exploited. This requires a willingness on the part of supervisors to do so. In addition, this option should also apply to changes where it is obvious from the outset that the thresholds will not be exceeded
- Article 2 paragraph 3 presumably says that where a change has not been classified as material, i.e. subject to prior permission, on the basis of qualitative criteria or on the basis of a quantitative assessment on a stand-alone basis, then institutions shall also

assess the aggregate impact of changes triggered by the same underlying reason which have been implemented without prior approval since the last internal validation process. It is not totally clear whether article 2 paragraph 3 implies that the latest change, which may not be material itself, shall be subject to a full approval process when the aggregate quantitative assessment is above the thresholds specified in articles 3, 5 and 7.

- The same article refers to changes that are triggered “by the same underlying reasons”. The question is raised whether a number of insignificant changes should be treated individually or in clusters. For instance, the periodic recalibration of scoring models may lead to numerous small changes resulting in many increases and decreases of RWAs. It would make more sense to evaluate the aggregate impact on RWA. We suggest that the supervisory authorities may be notified and, at their discretion, choose to consider the net effect of the changes rather than each individual refinement.
- As to the time between permission and implementation (article 2.5) we think it should be determined as 6 months.
- Article 3 should also include further clarifications on the following points:
 - Article 3(1): The implications of the material change notification should be further elaborated, in particular the period between notification and approval and whether the change could be implemented for regulatory capital calculation in the meantime. The same question should be clarified for economic capital calculation purposes.
 - Annex 1, Part I, Title I:
 - Points 1(a) and 2(b): Application to another business unit. It is not clear how to categorise changes in business units resulting from business policy decisions (splitting, merging, different organisational assignment, etc.). The requirement also comes as a surprise because rating methods are approved at the level of legal entity / client group, but not at the level of business unit.
 - In annex 1, part II, title I:
 - Point 2(a): It should be made clear whether this point is aimed at methodology changes related to the assignation process or it is directed to changes in the algorithm or scoring system. If it is referred to the latter, we believe that this type of changes shall not be conditioned to the implementation dates (unless the quantitative threshold is surpassed).

- Point 2(d)(ii): “distribution of obligors, facilities or exposures (...)”. Almost any change will have an impact on these.
 - Point 2(f): More detail is needed about the concept of “fundamental methodology” to avoid including small changes that are common during parameter updates.
 - Point 3: It should be clarified if advanced models are subject to consideration.
 - Point 4: We would appreciate more elaboration about what kind of changes are considered as “material” during the validation process.
- In annex 1, part II, title II:
 - Point 1: We would appreciate more detail about the concept “reducing the range of application”. Changes in segmentation criteria are commonplace in financial institutions. Valuation models and parameter estimation should be under ex-ante notification category.
 - Point 3: The same comment above would apply to “extending the range of application”.
 - Point 4: Our understanding is that the original intention was to refer to equity models instead of rating systems. It should be therefore amended accordingly.
 - In annex 1, part II, title II:
 - Point 2 (d, e, f and g): these changes may affect the day-to-day risk management of financial institutions. Changes in internal models take place frequently due to the need of improvement once deviations and flaws are identified. Hence, these changes should not be notified ex-ante, unless quantitative criteria apply.
 - Point 2 (h): More detail about the sort of changes considered would be helpful. Slight changes in parameter updates should be outside the scope of pre-notifications (unless quantitative threshold applies).
 - Point 3: More detail is needed about the kind of changes that would be subject to ex-ante notification during the validation process.
 - Point 4 (a, b and c): It is not clear the changes these provisions refer to. In addition, if ex-ante notification applies, more detail would be needed about documentation requirements.

- Point 4(d and e): In our understanding, these changes should not be in the ex-ante category, as they are part of the day-to-day process in a financial institution.
- Point 6 (b, c and d): These changes take place frequently due to the need of improvement once deviations and flaws are identified. Hence, these changes should not be notified ex-ante, unless quantitative criteria apply.
- Point 7: The use of an internal model for non-regulatory purposes should not be subject to ex-ante notification requirements. Should we understand the requirement as for the use of an internal management model for regulatory purposes?
- Annex 2, Part II, Title II: We regard the following points as changes of limited relevance and anticipate implementation difficulties:
 - Point 1(a): The elements described are connected to a number of possible changes to processes in central and non-central operational risk management functions. It is difficult to establish a direct link to specific components of the AMA. We do not see that implementation will be possible unless the scope is narrowed.
 - Point 1(b): In our view, the design and scope of a properly targeted reporting system for operational risk should be sufficiently flexible to allow prompt adjustment to changes in the environment. Requiring advance notification of such adjustments would conflict with the desired ability for reporting systems to respond to events rapidly (e.g. Basel Committee on Banking Supervision’s “Principles for effective risk data aggregation and risk reporting”).
 - Point 2(b): Owing to the close interplay between operational risk management and adjacent areas, it is difficult to pinpoint the exact number of staff dedicated specifically to operational risk. We therefore do not believe it makes good sense to measure and track the allocated resources. On top of that, the differing designs of central and non-central operational risk functions make it difficult to compare the data mentioned across banks.

As for operational risk, we welcome the fact that this RTS is useful for consistency given the wide range of models. We would like to point out a few issues in terms of understanding and implementation that may be considered by the EBA:

- There is a need for a distinction between quantitative (purely model) and qualitative (global operational risk framework and governance) changes for assessing the compliance with quantitative threshold that is proposed. Items which do not have a direct impact on own funds requirement cannot be quantitatively assessed and consequently should not be covered by the quantitative threshold provision.
- A few quantitative items seem to be better adapted to models mainly based on historical data rather than scenarios. Indeed, notifying the creation, change or removal of any scenario would be an administrative task that would add little value (if any) to supervision and hinder the risk sensitiveness of the model.

In market risk other questions are raised:

- Further explanations should be given to “the scope of application” for the quantitative assessments.
- Also, the timeline of the extensions and changes implementation should be clarified. In particular, the timeline for supervisory feedback.
- The interaction between Home and Host regulators in this context should also be clarified.
- Further clarifications should be provided regarding the details in Annex 3:
 - Annex 3, Part II, Title I:
 - Point (3); Further clarification is required as to what is meant by ‘*beyond those necessary*’. As all relevant risk factors are required to be modeled, this point is unclear and seems obsolete.
 - Annex 3, Part II, Title II:
 - Points (5) and (14): Pricing models are not subject to regulatory approval. If a change in pricing model leads to immaterial changes in risk, they should not be subject to ex ante notification.
 - Point (17) is too general. More detail is required to understand the reason for notification. Changes in organisation have no impact on risk figures, and only staffing changes in key positions will have impact on the risk management processes.
- Point (19) is too general as well, e.g. changing the market data provider for one curve does not necessarily lead to a significant change in risk figures and if the data quality is significantly better, this should not be delayed solely for notification purposes. Sometimes this is also required because a vendor stops quoting, which should not lead to temporarily suspension of reporting the risk figures. Furthermore, the closing down of trading locations should not require ex ante notification as there will be no risks remaining.

- We do not see any relations or effects resulting in consequences for own funds or risk-weight exposures from changes to the organisational and operational structure of risk management and internal governance processes, especially organisational changes, changes to the new product process or internal organisation and staff changes. Even if relevant in the context of the IMA and its organisational and process-related setup, it is not feasible from our perspective that changes relating to these mentioned characteristics should require an ex-ante notification to the supervisor based on a one month notice period, as they are referring to continuous processes on an operative level. Additionally, it is not transparent how required documents - referenced under Title V, Article 9, clause 2 - like scope of application with volume characteristics, and a quantitative impact of the expected effects on the risk weighted assets or the own fund requirements shall be produced in this context.

2. Are the provisions included in this draft RTS on the calculation of the quantitative threshold for the IRB approach sufficiently clear? Are there aspects which need to be elaborated further?

The wording in articles 3 (material changes to the IRB approach) and 4 (other changes to the IRB approach) lead to confusion as to the interpretation of the scope and the threshold:

- The scope is defined differently:
 - Article 3(1) c(i) refers to the overall EU parent institution's consolidated risk-weighted exposure amounts;
 - Article 4(1) a(iii) refers to a parent institution which is not an EU parent institution or any subsidiary where the parent institution has not received the permission to use the IRB approach.
- The threshold also differs:
 - Article 3(1) c(i) sets a threshold at 1.5% decrease.
 - Article 4(1) a(iii) sets the threshold at 5% decrease.

We fear that the combination of the abovementioned scopes and thresholds may unnecessarily complicate the implementation of the rule. We find also that article 4(1)a(iii) should be worded more clearly.

We understand Article 3 (2) and Article 4 (2) in regard to the consolidated level approach to mean that no separate model change process is envisaged for subsidiaries. This is, however, necessary for subsidiaries which are themselves subgroup parent companies.

3. Do you support the calculation proposal of the quantitative threshold for the IRB approach in terms of design of the metrics and level of thresholds?

Regarding the threshold of 1.5% at consolidated level, in our view it is unreasonably low compared with the thresholds for operational risk and market risk. This means that even small changes in risk-weighted assets would lead to material changes that would have to be approved by supervisors. This could result in lengthy waiting periods for approval of changes and delay implementation of necessary improvements. Therefore, like with the proposals for operational risk and market risk, a 10% threshold should also be set for credit risk. Also, a minimum absolute change should be used.

Regarding the threshold of 15% for an internal rating system, we think it may be reached by changes on non-material portfolios. In a granular rating system a 15% decrease can still be immaterial from a group wide perspective and may lead to an increase in workload for both supervisor and institutions.

Our proposal for improvement is that a minimum overall decrease is also required in addition to the 15% decrease of the individual rating system.

Some clarifications would also be needed for calculation purposes:

- There are doubts regarding the range of application, should it mean the entity, the business line or the portfolio. A more precise definition would be needed.
- When calculating the impact of changes to the IRB approach on the RWA, it is not clear whether the impact of credit risk mitigation techniques has to be taken into account in the process. Clarification is required here.
- The requirement that extensions where the lending decision has been taken by a third party will also be included as material extensions is unclear.
- Changes in the methodology used for assigning exposures to regulatory exposure classes are, as material changes, to be approved ex ante by supervisors (Annex 1, Part II, Title 1 (1) (a)). We fail to understand this, as such assignment does not allow institutions any discretion whatsoever from a regulatory angle. We would therefore assume that assignment remains unchanged as long as the regulatory criteria for assignment stay the same. This requirement could therefore be dropped on the grounds that banks have no discretion.

- Changes to rating criteria that lead to a change in the assignment of debtors to rating categories are to be classified in every case as material (Annex 1, Part II, Title I (2) (d)). We believe this is unreasonable, as it means that all recalibrations of rating systems would have to be approved ex ante by supervisors. Hence, only changes that lead to material changes in the assignment of ratings should be covered by this provision.
- We would expect that the calculation is interpreted pragmatically: e.g. approximations/estimates should be permitted as far as is possible within an overall framework of trust between supervisor and bank. It is not always possible or practical to compute capital/RWA impact infinitely accurately in advance of a change.

4. *Do you support for the IRB approach the three month period for notification of the changes before implementation?*

The industry is of the opinion that three month is a too long period for banks to wait until implementation of changes. It would interrupt the normal conduct of business and bring about uncertainty as to the operations of banks.

The EBF would propose the following:

- To shorten the period to one month.
- To set a timeline for supervisors' feedback.
- To deem the changes effective from the beginning unless they are challenged by the supervisor within the given timeline.

5. *Are the provisions included in this draft RTS on the calculation of the quantitative threshold for the AMA sufficiently clear? Are there aspects which need to be elaborated further?*

Given that some changes are related to qualitative items, such as the positioning of the independent risk function, or to the resources allocated to the corporate risk function, there is no reasonable quantitative assessment possible for this kind of changes.

The mechanism considered as per article 2 paragraph 3 appears extremely difficult to implement for operational risk. Moreover, if we have to follow the impacts per reason, it will be virtually unworkable for the institution and hardly controllable by any auditor. We wonder whether this mechanism for AMA extension is justified owing to the fact that the supervisor already has a strong and sufficient monitoring of extensions as per annex 2,

part 1, title I (5) and title II, and part 2, title I (5) and title II (8). In addition, the proposal that AMA extensions be done per legal entity does not seem to be sufficiently justified.

Other problems of understanding are related to:

- The interpretation of “triggered by the same underlying reasons”.
- The question is raised whether marginal changes, whatever their individual impact, will be subject to permission or *a priori* notification.
- As regards changes to the AMA framework a lot of the items given in Annex 2 are qualitative, therefore we do not see how to assess the aggregate impacts on operational risk own fund requirement.
- We take for granted, but would like to see it explicitly, that the “last internal validation process” requirement will not apply retrospectively but only from the entry into force of these standards.

6. Do you support the calculation proposal of the quantitative thresholds for the AMA in terms of design of the metrics and level of thresholds?

We basically support the idea to set a threshold for defining material changes to the AMA depending on the percentage change in the operational risk capital charge. These are objective criteria and guarantee that all banks will be treated in a consistent way.

Nevertheless, we would argue that the threshold has a secondary level of significance due to the comprehensive range of cases for material extensions and changes already contemplated in annex 2. For this reason, the 10% threshold referred to in Article 5 could be lifted to, for example, 20%.

On the other hand, the threshold for new business lines stands at 5% which is considered a very low level. Raising it to, for example, 10% would be reasonable.

7. Do you support for the AMA the three month period for notification of the changes before implementation?

As in the case of credit risk the industry is of the opinion that three month is too long a period for banks to wait until implementation of changes. In combination with the requirements set under Article 9 (1) (e) and (f) for the internal approval process ahead of notification, the total timeframe would result in an ex ante notification period of up to 12 months.

The EBF would propose the following:

- To shorten the period to one month.

- To set a timeline for supervisory feedback.
- To deem the changes effective from the beginning unless they are challenged by the supervisor within the given timeline.

8. Do you support that for the AMA no quantitative differentiation between changes requiring notification prior vs. post implementation is made?

We support the objectiveness of quantitative differentiation criteria. The differentiation of 10% between material changes and notification is too low as argued in our response to question 6. The potential addition of an extra quantitative differentiation between ex-ante and ex-post notification would only increase the burden for all parties concerned with limited (if any) added value.

9. Are the provisions included in this draft RTS on the calculation of the quantitative threshold for the IMA sufficiently clear? Are there aspects which need to be elaborated further?

It is not sufficiently clear whether it is possible to bundle changes and calculate a total impact. Otherwise the complexity would make it unworkable. For example, if the VaR model for specific risk includes a risk factor for each international security identification number there might be new risk factors implemented daily on an ongoing basis. It is not clear how such changes should be handled. In relation to this, the list of elements requiring ex-ante notification is very exhaustive and broadly formulated. As a consequence, almost everything a bank can do in terms of updating its models would require ex-ante notification. This list should be significantly reduced to those elements that are deemed material without requiring further quantification.

Examples:

- Organisational changes should be restricted to specific types of changes.
- Changes to pricing models occur (and rightfully so) frequently, as banks are required to adapt valuation models to market practices. Only system wide changes should require ex-ante notification. The continuous improvement of individual models should not.

Furthermore, model improvements, such as the inclusion of risk factors (either those that are required by the regulator or those that increase the capital requirement) should:

- Not require an approval or ex-ante notification.
- Not be dependent on the impact of the capital requirement.

It is clear EBA wants to avoid regulatory arbitrage between models or methodologies. The RTS should be aimed at this objective. The way the RTS is formulated now would result in an extensive, continuous reporting scheme that is of little relevance to the main objective.

It is unclear what is meant by “aggregation scheme” in annex 3, part II, title I (2) where it is stated that changes in the aggregation scheme, such as where a simple aggregation scheme is replaced by an improved one is classified as material.

The definition of the scope of application remains unclear as stated in response to question 1.

10. Do you support the calculation proposal of the quantitative thresholds for the IMA in terms of design of the metrics and level of thresholds?

The proposed thresholds for the consideration of materiality of all extensions and changes, namely 10% in the model and 5% at the group or stand-alone level, are deemed too low. In our opinion, there is room for increasing the mentioned levels to, for instance, 20% and 10% respectively, without putting at risk the degree of supervisory control. Even these higher percentages can still trigger an ex-ante workflow, even though the impact on total RWA may be negligible.

The 60 days average (see question 12) does not find support among the EBF constituency.

For less material changes, we would suggest that EBA introduces a level of immateriality (say 1% of the Group own funds requirements for market risk) below which any extensions or changes will require only annual notification.

Also, the methodology used for market risk should be aligned with the proposed methodology for credit- and operational risk, i.e. the quantitative threshold for market risk should only consider a decrease in capital.

11. Do you support for the IMA the one month period for notification of the changes before implementation?

We believe that a notification on release should be sufficient. A month prior notification will bring no benefit and will unduly delay extensions or changes.

The role of the independent validation teams has proved to save a lot of time and resources on the side of supervisors and has largely brought confidence to the supervisory

framework. We believe that EBA should promote, in these RTS, further and better use of this tool.

12. Do you support for the IMA the 60-day observation period for the purpose of comparing the modelling result before and after a proposed change?

Parallel calculations with old and new model settings for a period of effectively three months pose considerable operational challenges and would significantly increase infrastructure requirements to support additional quasi-productive IT environments. This is further aggravated by the broad scope of ex ante notifications. For real system wide changes the 60 day observation is understandable. Furthermore, a three month parallel run followed by a period of supervisory review delays the implementation of a model improvement too much, leading to an extended period of inappropriate capitalisation for market risk (being either too high or too low). In our experience, much shorter observation periods (e.g. two weeks for essential changes or a few sample days for minor changes) are sufficient for a reliable impact assessment of longer-term model results in most cases. Next to this, historical data could be used to calculate the impact of the changes applied to the risk model. This approach will significantly speed up the approval process, which will benefit both the supervisor and the institution. Depending on the kind of change, the bank should be given some room to estimate the impact of the changes. A parallel run should only be required in cases with substantial materiality. The impact estimation should be satisfactory from the perspective of the competent authority.

In case relevant positions have fluctuated significantly over the last three months, a pragmatic approach can be taken e.g. by estimating the impact on different sample dates over the previous quarter.

13. Do you support that for the IMA for those modelling approaches which are only required to be calculated once a week (stressed VaR, IRC, CRM) to compare only twelve numbers for Article 7 paragraph 1(c)(iii)?

For models requiring only weekly calculation, the assessments could again be made on a 5 measures average allowing for point in time assessments for smaller extensions or changes.

For institutions performing the calculation daily, even though only weekly figures are used for the own funds requirement, the assessments could be done on 5 consecutive days on average or, in case of significant position moves, on several sample dates in the past quarter. We would like to reiterate that additional flexibility should be granted.

14. Do you support that for the IMA no quantitative differentiation between changes requiring notification prior vs. post implementation is made?

We believe that EBA should better introduce a level of immateriality below which only annual notification is required in all circumstances. As we do not see the benefit of prior notification and believe that on implementation notification is sufficient, there is no need for such a distinction.

15. Are the provisions included in this draft RTS on the documentation requirements sufficiently clear? Are there aspects which need to be elaborated further?

EBF members at large deem the documentation requirements too detailed notably in the case of changes that only have to be routinely notified to supervisors. In their case, it should be sufficient if the requirements are confined to those set out in Article 9 (1) (a) and (b). On a case-by-case basis, the regulator could request additional information necessary to facilitate an appropriate review.

Along with the increase in staffing costs, the investment in technology infrastructure and software should also be taken into account when defining the depth of the documentation requirements.

EBF members have identified a series of specific issues to be considered:

Article 9 (1) (b): It should be specified as implementation date “target / expected”.

Article 9 (1) (e): It is unclear what is meant by “independent review or validation”. Does this refer to a prior review that has already been carried out or to standard validation and testing during the development of models? In our view, standard validation and testing during the development of models should be sufficient.

Article 9 (1) (g): It should be specified as quantitative impact “when available”.

Article 9 (1) (h): This documentation requirement should be deleted on the grounds that supervisors should already have at their disposal all the records relating to certification and past extensions/changes. A requirement to submit these again would lead (particularly in the case of non-material changes that have to be notified ex post annually) to an unnecessary duplication of documentation without delivering any additional information value. Supervisors will, where necessary, specifically request any documentation they may need again, so that this point does not have to be regulated separately.

Article 9 (1) (i): The documentation requirement for material changes (“details of all extensions planned ... over the next 12 months”) is completely at odds with standard

industry practice. Planning horizons for model changes (particularly in market risk, but also in the other types of risk) are usually much shorter. Any prospective schedule of changes planned over a full year will inevitably always be incomplete and will in most cases soon be made obsolete by new requirements and market developments.

16. Do you support the view that costs arising for institutions from the documentation requirements included in the draft RTS are not expected to be material?

The costs will be material in terms of:

- Additional staff.
- Operational cost due to increased need for coordination of many actors from several functions of a banking group (reporting, model, IT, business lines, etc.). The problem of costs will be compounded if it also affects other entities within the group if the documentation concerns the whole application perimeter.
- Software developments and IT related costs.
- More documentation will imply longer supervisory approval periods.

17. Do you support the view that the additional costs, for institutions, of computing the quantitative impacts of the implemented model extensions/changes are expected to be non-material, given that institutions already carry out impact analysis in the current framework?

Given the diversity of portfolio covered by the IRB approach and the diversity of systems used to support the implementation of IRB, it is not always possible to compute capital/RWA impacts to infinite accuracy in advance of a change. In this regard, costs will depend upon the pragmatic implementation of the rules concerning this assessment. We urge that supervisory authorities are encouraged to implement this assessment as pragmatically as possible. Notwithstanding, the costs will be material, in particular, in terms of:

- Considerable IT costs to produce impact studies as the regular staff cannot cope with the new requirements. The IT infrastructure capacity will have to be enhanced. It will be particularly costly to compute full scale impacts on all changes in market risk. It will require the setup of a new environment replicating in its entirety the live production environment implying a duplication of IT equipment.
- Additional staff costs: To service this new environment, additional staff will be required, in number equal or nearly equal to the number of staff servicing the existing live environment.
- Coordination of activities will also require additional resources overall.

- With regards to IMA, the very broad scope of changes that will require ex-ante notification will result in material additional costs.

18. Do you support the view that, for institutions, the costs of ex-ante/ex-post notification of extensions/changes are expected to be non-material?

We think that the workload for institutions will increase substantially, because of the numerous significant changes expected. Consequently, a large number of obligatory notifications shall follow. We expect this to be the case in all risk categories.

Anyways, the costs of documentation, as the proposal stands now, may be a multiple of the costs of notification.
