

## UniCredit Position on CP20

UniCredit Group strongly appreciates the effort undertaken by CEBS in order to provide an useful insight on one of the key issue of the Capital Adequacy Assessment.

With this regard we are glad to be able to provide our opinion to reach a sound and common view on diversification and, under a broader perspective, economic capital and its usage.

Our remarks are organised as follows: a section on the general topics and another one focused on specific sections

### **General Remarks**

- We would appreciate clarifications on how this paper is related to the wider scope of Pillar 2, as represented by GL03. In detail whether it is meant mainly to regulators to harmonise SRP or for financial institution for ICAAP purposes
- We would appreciate a stronger emphasis in the differences between inter risk and intra risk diversifications since often the former happens to be more relevant the latter
- We deem of the utmost relevance a greater focus on embedding diversification in the managerial processes, above all the allocation of diversification benefits to business units. This is a crucial issues for cross border groups, such as UniCredit, since business lines span across different jurisdictions
- In the paper diversification is related to internal capital, where the latter is taken for granted, therefore we would appreciate a its definition and differences to aggregated economic capital, if any.

### **Remarks on specific sections**

15. The economic capital assessment relies not only on well established statistical methods but on expert judgement as well. Therefore statistical testing on the assumption is not always possible
34. We would include consistency over the Group as one of the main criteria regarding the choice of time series to assess. As a matter of fact for Groups that underwent mergers&acquisition, building time series means mixing data stemming from the formerly independent entities and therefore the data have to be consistent enough to be elaborated properly
38. Since correlation is just one of the representation of the dependency structure between risk factors, we would appreciate if they could not be used as interchangeable. As a matter of fact on

one hand correlation could be misleading in the context of heavily-tailed distributions, on the other hand a dependency structure cannot be always represented by correlations.

39. We suggest specify this section by underlying its scope, i.e. the dependency amongst risks and not amongst risk factors. The former is expected to be exogenous to the business strategy while we assume that the section would mean that the business strategy steers the positions assumed and so the portfolio composition that is the other driver of diversification, for instance a greater exposure on large corporate is expected to increase the correlation between credit and market risks.
49. We deem risk management as a process aimed to control the risk exposure where models are a key element, even if not the only one. Therefore expert judgement is a approach often needed to overcome data scarcity or to consider information not embedded in the time series. Moreover expert judgement could be integrated with statistical estimates, e.g. through Bayesian estimates. Nevertheless expert judgement are to be within a sound framework that for instance foresees scenario analysis and back testing to check the assumptions.
- 56-58. The stress test is crucial tool for risk management purposes and therefore we think it would be worth underlying that the stresses on diversification could arise by both a worsening of the dependency structure, for instance a correlation increase, and by a change in the risk amounts. As a matter of fact a change in the levels of risks impacts the overall diversification
88. We assume that the comparison of economic capital to regulatory requirements is meaningful with regard internal models such as IRB or AMA. However large organisation have phased out their implementation and so portfolios could be under standardised approach and that has to be dealt with in the comparison
- 95-101. Notwithstanding the concerns expressed with regard the host perspective, we underline that consistency amongst the regulators is a prerequisite for an actual capital adequacy otherwise differences in the single countries could disrupt the consolidated approach that is the core of ICAAP.