

Intesa Sanpaolo Response to the EBA Consultation Paper

Draft Regulatory Technical Standards on the conditions for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for credit, market and operational risk

under articles 138(5), 301(3)(a) and 352(3)(a) of Regulation (EU) XX/XXXX of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms [CRR]

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Intesa Sanpaolo welcomes the opportunity to comment on the Consultation Paper published by the European Banking Authority on 13th March 2013.

In order to ensure compliance with regulatory requirements, it is self-evident that all institutions must be required to apply for permission to implement any material extension and/or change to their internal approaches for credit, operational and market risk. However, to avoid excessive supervisory burden on both the competent authorities' and the institutions' side, it is fundamental the CRR differentiation between material extension or changes, that are subject to approval, and all other changes, that are subject to notification.

With reference to extensions and changes subject to notification, we believe that it is crucial to provide any specification on the timing of notification (ante or post implementation) and we welcome the EBA consideration that those of minor importance need not be known to competent authorities in advance of their implementation but could be collected and notified at regular intervals.

We share EBA decision to classify (applying both qualitative and quantitative criteria) extensions and changes to the internal approaches into three categories:

- material, which require a permission from the competent authorities;
- of a lesser materiality, but still of a degree of materiality that requires notification before implementation; and
- of an even lesser degree of materiality, which need only be notified in regular intervals, after implementation.

However we disagree with the choice to provide three types of lists of qualitative conditions for classification of extensions and changes (for each of the credit, operational and market risk areas) into one of the above mentioned categories. We believe that classification should be based on clear but quite general Principles, able to ensure a consistent and effective assessment of the degree of materiality of the different extensions and changes. Moreover specific responsibilities (proposal, validation, decision) should be assigned to guarantee the accountability of the process.

In our opinion the list of qualitative conditions proposed by EBA is, at the same time, too detailed but also not exhaustive and could produce detrimental effects on both supervisors' authority and level playing field.

For instance, if we consider the list of "Changes requiring ex ante notification to competent authorities" provided by the draft RTS in Annex 2 "Extensions and changes to the AMA", some of the proposed categories seem to be at least questionable.

In particular we refer to bullet point (1)(a)-(b) and point (4)(v).

- (1) *relevant changes to the way the operational risk measurement system is integrated into the day-to-day management process through operational risk processes and policies according to Article 310(a) and (c) of Regulation (EC) No xxx/20xx [CRR], if they change any of the following:*
 - (a) *the extent to which the operational risk measurement system contributes to relevant information in the institutions' risk management and related decision making processes, including the approval of new products, systems and processes and definition of the operational risk tolerance;*
 - (b) *the scope, recipients and frequency of the reporting system for informing all relevant parts of the institution about the results of the operational risk measurement system and decisions taken in response to operational risk events.*

Since it is generally accepted that operational risk measurement system should be integrated into the day-to-day management process, we believe that, to further encourage this integration, institutions should not be unduly limited in their choices related to "daily usage". At least we judge that the list of categories that require notification before implementation should not include changes that (a) increase the extent to which the operational risk measurement system contributes to relevant information in the institutions' risk management and related decision making processes or (b) extends/increases the scope, recipients and frequency of the reporting system for informing all relevant parts of the institution about the results of the operational risk measurement system and decisions taken in response to operational risk events.

- (4) *changes to the calculation of the operational risk capital charge which change one of the following: (...)*
 - (v) *the number or the type of risk classes over which the operational risk capital requirement is calculated; (...)*

We consider inappropriate to require ex ante notification for changes to the calculation of the operational risk capital charge that modify the number or the type of risk classes over which the operational risk capital requirement is calculated, even if the criteria underpinning the definition of the risk classes remain the same.

With regard to the quantitative classification criteria proposed by EBA, we are aware that even extensions and changes which fall under one of the categories of lesser materiality can have the potential to alter the own funds requirements, therefore we understand the adoption (envisaged by the draft RTS) of quantitative thresholds to be applied as a "back-stop" measure in addition to the "qualitative criteria" when determining the materiality of an extension or change. Nevertheless we believe that in some instances the proposed limits are too low and of the same magnitude of ordinary variation of the risk measure over time.

General rules for the assessment of the materiality of extensions and changes

Q1: 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?

We believe that the assessment of the materiality of extensions and changes should be driven by more general Principles. In particular we think that the “qualitative” principles of categorisation of extensions and changes included in this draft RTS are too much detailed.

In our opinion the effort to classify any possible extension or change is intrinsically going to fail since it is very likely that it would produce problems due to incompleteness or ambiguous interpretation. For instance it is not so straightforward to distinguish between “change in fundamental methodology”, that require approval from competent Authority and “change in methodology” which need only ex ante notification.

Moreover the draft RTS does not provide clear guidelines regarding the decisional process that leads classification (namely assignment of proposal responsibility and internal validation of classification).

Conditions for classification of IRB approach changes

Q2: 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?

Additional guidance may be useful about the calculation of triggers for quantitative criteria, possibly with the help of examples.

Q3: 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? (Please also take into account the arguments provided in Tables 2 to 5 of the Impact Assessment)

We endorse the calculation proposal formulated in the draft RTS with reference to quantitative threshold for the IRB approach both in terms of design of the metrics and as concerns the level of thresholds.

Q4: Do you support for the IRB approach the three month period for notification of the changes before implementation?

With regard to notification of the changes before implementation (for the IRB approach), we believe that the three month period proposed in the draft RTS is quite reasonable and determines a good equilibrium between the competent authorities’ and the institutions’ needs.

Conditions for classification of AMA extensions and changes

Q5: 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?

We think that the draft RTS provides clear provision on the calculation of the quantitative threshold for the AMA extensions and changes. No further guidance is needed.

Q6: Do you support the calculation proposal of the quantitative thresholds for the AMA in terms of design of the metrics and level of thresholds? (Please also take into account the arguments provided in Tables 2 to 5 of the Impact Assessment)

We are quite comfortable with the design of the metrics proposed to calculate the quantitative threshold for the AMA, however we believe that the level of these thresholds is definitely too low.

In our experience the 10% limit falls easily in the normal time variability of the results and hence seems to be too low. Therefore we think that a 15% limit would be more suitable.

Q7: Do you support for the AMA the three month period for notification of the changes before implementation?

With regard to notification of the changes before implementation (for the AMA approach), we believe that the proposed three month period is quite reasonable and determines a good equilibrium between the competent authorities' and the institutions' needs.

Q8: Do you support that for the AMA no quantitative differentiation between changes requiring notification prior vs. post implementation is made?

We are quite comfortable with the proposal to make no quantitative differentiation between changes requiring prior vs. post implementation notification.

Conditions for classification of IMA extensions and changes

Q9: 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?

We support the introduction of quantitative threshold. However, we think that more emphasis should be addressed on the stressed conditions impact of a model change.

Q10: Do you support the calculation proposal of the quantitative thresholds for the IMA in terms of design of the metrics and level of thresholds? (Please also take into account the arguments provided in Tables 2 to 5 of the Impact Assessment)

We support any proposal to give a "quantitative" measurement of the threshold. Maybe qualitative issues should be clarified as for organizational issues (internal organisation and staff changes)

Q11: Do you support for the IMA the one month period for notification of the changes before implementation?

One month seems to be a reasonable time lapse.

Q12: 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?

No, we think that observations under current market conditions are not exhaustive of all the possible outcome for a model change. 60-day observation period might be changed in a shorter period if formal stress test is performed on the model change.

Q13: 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)?

Please refer to the previous answer.

Q14: Do you support that for the IMA no quantitative differentiation between changes requiring notification prior vs. post implementation is made?

We are quite comfortable with the proposal to make no quantitative differentiation between changes requiring prior vs. post implementation notification

Documentation of extensions and changes

Q15: Are the provisions included in this draft RTS on the documentation requirements sufficiently clear? Are there aspects which need to be elaborated further?

We think that the draft RTS includes clear provision on the documentation requirements. No further guidance is needed.

Impacts on Markets and Institutions

Q16: 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? If not, could you please indicate:

- the main cost driver: i) additional IT equipment, ii) additional on-going Staff/hours, iii) other (please specify).
- the % increase in total yearly costs of internal models management for credit/operational/market risk induced by the proposed documentation requirements (specify whether the costs arise only for some of the risk categories covered by the provisions).
- indicative monetary amount of these additional costs (specifying currency and unit).

The additional costs, which certainly will be faced to comply with the RTS, are not expected to be material in comparison with the costs related to the ordinary documentation exchange in the regular Supervisory process.

Q17: 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? If not please indicate:

- the main cost driver: i) additional IT equipment, ii) additional on-going Staff/hours, iii) other (please specify).

- the implied % increase in total yearly costs of internal model management for credit/operational/market risk induced by the quantitative impact analysis (specify whether the costs arise only for some of the risk categories covered by the provisions).
- indicative monetary amount of these additional costs (specifying currency and unit).

No additional costs are envisaged

Q18: 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? If not, please indicate:

- the main cost driver: i) additional IT equipment, ii) additional on-going Staff/hours, iii) other (please specify).
- the % increase in total yearly costs of internal models management for credit/operational/market risk induced by the notification requirements (specify whether the costs arise only for some of the risk categories covered by the provisions).
- an indicative monetary amount of these additional costs (specifying currency and unit).

No additional costs are expected for the ex post notification, whilst the ex ante would certainly give rise to administrative costs which again would not be deemed to be relevant.