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UniCredit Group's reply
to the EBA CP49 on IRC changes

UNICREDIT CONSIDERATIONS

UniCredit strongly supports steps towards harmonisation and promotion of the level playing field, which has been negatively affected during the recent financial crisis.
UniCredit experts have undertaken a review of the proposed guidelines and are broadly comfortable with the EBA proposals. Nevertheless we would like to raise a few considerations or questions on a number of critical points.

A. Scope of application

Regarding the scope of application of the IRC, clarifications are deemed necessary with reference to the following aspects.

Point 4.2.iv.

We would deem appropriate a clarification on the treatment of positions in the shares of collective undertakings (CIUs) where the application of the look through approach is not possible due to the fact that the supervised credit institution does not have detailed visibility on the individual constituents.

In UniCredit's opinion it should be clarified that, in such cases, the positions are to be excluded from the IRC scope.

Point 5.2.b.

We would deem appropriate a clarification concerning inclusion in the IRC of positions in asset-backed securities where cash flows from the underlying pool are allocated to securities holders on a pro-rata basis and therefore have no tranching (e.g pass-through MBS). According to CP49, inclusion in the IRC model of such positions shall only be allowed where the IRC model is capable of accurately capturing the risks of these positions.

In UniCredit's opinion it should be explicitly specified that no charge has to be provided for these positions for which the implemented model is not capable of accurately capturing the risks.

Paragraph 7.1

An outstanding issue relates to the treatment of exposures to debt issued by other legal entities in the same group, where IRC is calculated on a stand-alone basis.

The proposed Guidelines specify that "Where IRC is calculated on a stand-alone basis (single entity basis), exposures to legal entities in the same group, where the group is not subject to supervision on a consolidated basis, or where the group is subject to supervision on a

consolidated basis but the relevant entities are not included in the scope of consolidated supervision, should not be treated as own positions."
We deem a clarification is needed in order to make it unequivocal that different legal entities that calculate IRC on a stand-alone basis, yet using a consolidated model, shall treat exposures to all the legal entities in the scope of consolidation as "own debt" (hence only accounting for migration risk)

In other words, it should be made clear that the concept of "supervision on a consolidated basis" is by no means impaired by the fact that the consolidated capital requirement is obtained as the sum of the stand-alone requirements of the Legal Entities in the scope of the consolidation as opposed to being a consolidated requirement itself.

Paragraph 7.3

We would find beneficial having a clarification of the rationale for explicitly mentioning credit index exposures among the position the can be accounted for buying protection on own name in 7.4 while not mentioning them among those through which protection on own name can be sold in 7.3.

UniCredit is inclined to see the omission as non impairing the general principle according to which these would be also subject to migration risk only. An integration of the paragraph would however be welcome.

C. Interdependence

Regarding the modelling choices affecting the co-dependence among migration and defaults events a clarifications on the following matter is deemed necessary.

13. Correlations between default and migration events

Concerning the correlations between default and migration events, paragraph 13.2 requires institutions to "use a time horizon for correlations between default and migration events of different obligors that is consistent with the chosen liquidity horizon (or capital horizon where an institution assumes a "one-year constant position") of their positions within IRC".

The rationale for this provision is – in UniCredit's view - not clear. In particular the need for a general consistency between;

- the time span in which issuers co-dependence is realised in the framework (i.e. the time horizons over which joint defaults and migrations events reflect the features sought for at calibration stage) and
- the actual Liquidity Horizon assigned to the individual positions

appears hard to obtain in the light of the fact that a same issuer can be linked to instruments with different liquidity levels.

Therefore we either propose to significantly amend the wording of the provision or of removing it altogether.

F. General matters

Regarding the frequency of the IRC calculation, paragraph 29.2 of the proposed Guidelines states that "The institution shall be able to prove that, on the day of the week chosen for IRC calculation, its portfolio is representative of the portfolio held during the week and that the chosen portfolio does not lead to a systematic underestimation of the IRC numbers when computed weekly."

Since the trading book by definition changes very frequently, such a proof could only be thoroughly provided by calculating IRC daily. However, daily calculation is not required by Directive 2010/76/EU for IRC. since IRC, at least to our best understanding, is meant to be a through-the-cycle measure and not a daily monitoring measure. Moreover a daily calculation would require a considerable technical and operational effort not justified by the scope of the measure itself.

Hence UniCredit proposes to remove the requirement for such a proof.

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