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EBA consultation regarding RTS on Materiality Assessment for Extensions and Changes of Internal Approaches (EBA/CP/2013/02)

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the EBA Consultation Draft Regulatory Technical Standards (RTS) 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].

We would like to submit the following position:

General remarks

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.
Furthermore we would like to draw the attention on the importance of an achievement of harmonization on consultation of linked EBA RTS as part of the Single rule book.
Given that the requirements for the IRB assessment methodology will be covered by a separate EBA RTS it would be essential for the industry to get an idea of the corresponding requirements for assessing material changes by the competent authority in parallel, because the EBA RTS 2013/02 and the planned EBA RTS (IRB assessment methodology) are strongly connected.

Title I – General rules for the assessment of the materiality of extensions and changes

Article 1 point 1 lit (a): permission of the relevant competent authorities

- Is it planned to have a harmonized decision period time over all countries or is this depending on the local regulation?

Article 1 point 2 lit (b):
The separation of changes (and extensions) requiring notification into changes requiring notification before vs. after implementation (Art. 1) is not consistent with the expressed intent to reduce the supervisory burden on both the competent authorities` and institutions` side. This should be analyzed further in the light of the internal processes that would be caused (or changed) by such classification within the banks. Adding a new category where notification on a collective and regular basis is sufficient, might reduce the burden, however this potential advantage is at the same time being threatened and, at least, outweighed by the efforts required for the notification of other changes before the implementation. An alternative could be to have just a single category where notification is sufficient after implementation – in this case, the reporting frequency could be increased from annual to e.g. semi-annual or quarterly; more frequent reporting would be demanding for both supervisors and institutions.

Article 2 point 2 lit (b):
It is unclear what exactly regulators expect regarding an “assessment of the impact based on a representative sample” or based on “other reliable inference methodologies”, as stated in Art. 2 (2b). Expectations should be clearly pointed out to avoid inconsistencies in expectations among regulators and should be simple enough to avoid excessive methodological (or data-related) burdens for both financial institutions and authorities.

Article 2 point 3: aggregated impact
The requirement to assess the aggregate impact may in some cases be problematic. E.g. in a case that the changes based on a particular finding are planned in several phases (possibly spanning several years) and the impact of the later phases cannot be estimated at the beginning. Hence the assessment of the combined impact cannot be done at the beginning (before the first phase). It should be clarified how to proceed in such cases (expert estimates of impacts,…).
Art. 2 (3) should help avoiding a situation where one change is sliced into several changes of lower materiality to avoid materiality. While it is clearly highly important to avoid any such circumvention of the rules by institutions, the described calculations on aggregated level are likely to increase the volume of effort and process-related complexity at the same time. From our experience, the competent authorities are fully aware of this topic and are used to interpret model changes from this perspective. To reduce the computational burden for banks, it should therefore be discussed whether this requirement can be removed (perhaps in favour of giving the competent authorities the option to ask for such analyses on a case-by-case basis).

Article 2 point 4:
We suggest that in case of doubt regarding the assessment at first a discussion between the regulatory authority and the credit institution should take place. This could potentially reduce the burden of additional work on both sides.

Article 2 Point 5:
We think that a required new permission for an already permitted but not implemented change is too strict. We do not see a practical reason why a new permission is needed and we would suggest that in these cases the later implementation should proceed as an „other change“ reported ex ante.

Q 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?

We refer to the given answers and questions in conjunction with Titel I of the draft RTS (see statements above) and have additional the following remarks/questions.

- What is the connection between the treatments on single-entity level vs. on consolidated level?
- For example, if there is a material model change in a subsidiary (which has its own local internal model for market risk) – how should this be treated on consolidated level / in comparison to the consolidated model?

Title II – Conditions for classification on IRB approach changes

Article 3 point 1 lit (a) in conjunction with Annex 1 part I, titel I, point (1) lit (a):
The term “range of application” should be defined in a clearer way.
We do not see a reason why extending a range of application of models to additional business unit is treated as material. In our opinion the model coverage should not be mixed with organisational split of the entity. The primary criterion taken into account should therefore be homogeneity of covered clients / products. We propose to move extending a range of application of models to additional business unit to other changes announced ex ante.

Internal Ratings Based Approach (IRB)
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?

Article 4 (1 b) – other changes (ex-ante notification):
The considerable burden associated with the ex-ante notification process could be alleviated if an additional category (complete list) of other changes that do not require notification would be included.

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)

Article 3 (1) – Material changes:
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 (6 month period) 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. Furthermore EBA shall report (f.i. by the end of 2015) to the Commission on IRB approach in terms of principles of categorization of extensions and changes (e.g. metrics and level of thresholds). On the basis of this report, the Commission my submit proposals for amendments to this RTS.

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

Article 4 1 a – changes notified at least three months before their implementation:
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. In practice a period of two weeks is feasible in terms of flexibility – as also shown in our current practice of notification of changes to supervisors. In addition, notifications are sent when changes are internally approved and right before implementation, in order to show the final version to the supervisors.
We would propose to shorten the period to one month and to set a timeline for supervisors' feedback.

We suggest reducing the period between the notification and the implementation to a time frame of 14 days. This should be enough time also for the competent authorities to have a first detailed look at the documents (as the scope of these documents shouldn't be so large as compared to material extensions and changes which require a permission from the relevant competent authority) and if necessary to stop the planned implementation and to launch a detailed discussion with the credit institution.

IRB Models are an integral component of risk management; it can be assumed that changes e.g. in the lending process and lending standards are subject to constant change. A three month period for notification of the changes before implementation will limit the institution flexibility of necessary risk management actions needed. 3 month additional period for waiting for supervisory action is very long, and would jeopardize smooth and efficient functioning of an institution's internal processes and risk methods.

Title III – 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?

Generally the quantitative thresholds incl. their calculations are clear, but the criteria described in Title III/Article 5 /paragraph 1(c) led to the following question:

1. What is meant by consolidated own funds requirements for operational risk? Does this refer to the consolidated AMA figures on Group level or to the consolidated figures of all OpRisk approaches (AMA+BIA+TSA)?

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)

The quantitative thresholds seem to be rather low as a change of 1% needs at least a prior notification of three months before implementation. A change of more than 5% within AMA even needs an approval by regulators.

Advanced Measurement Approaches (AMA)
Q7: Do you support for the AMA the three month period for notification of the changes before implementation?

As in the case of credit risk we are of the opinion that three month is a too long period for banks to wait until implementation of changes.
We would propose to shorten the period, at least to one month and to set a timeline for supervisory feedback.

Article 6 b) should be specified in more detail in order to exclude irrelevant changes, e.g. ongoing activities with regard to IT or loss data collection. This could be done by adding the following statement:
(a) Extensions and changes falling under Annex 2, Part I, Title II, and Part II, Title II, shall be notified competent authorities at least three months before their implementation;
(b) All other extensions and changes ***that have an impact on the ability of the operational risk management function to oversee and inform the decision making processes of the business and support units they control*** *shall be notified to the competent authorities after their implementation least on an annual basis.*
Annex 2, part I, title 1, point 5 introduction of the AMA within parts of the instiutition or group: Regarding the threshold of 5%, in our view it is unreasonably low, this could result in lengthy waiting periods for approval (6 Month period) and delay in introduction. Therefore a 10% threshold should be set for extensions requiring competent authorities' approval (material)
Annex 2, part II, title II, point 1 should be enlarged in analogy to part II, title I, point 1a) to distinguish here as well between changes in the Operational Risk framework that have a positive impact and the ones that have a negative impact:
Annex 2, part II, title II, point (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 CRR, if they change any of the following* ***and reduce the ability of the operational risk management function to oversee and inform the decision making processes of the business and support units they control;***

According to Annex 2 (Part II, Title II (8)) a quantitative differentiation between prior and post notification is made. Only changes, which do not lead to a decrease of more than 1%, are allowed to be notified after implementation, hence a quantitative differentiation is applicable. If this refers to something else, what kind of quantitative differentiation is meant?

Title IV – 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?

Art. 7 Paragraph 1(c), letter (ii) is not sufficiently clearly defined. Does this mean that it is not applicable at all to banking groups where the parent has its HQ in the EU? Please elaborate more in detail on that.
As described in the first paragraph of the "Text for consultation purposes" on p. 18, an extension/change of the market risk model that only falls either under one of the categories described in Annex 3 or under one of the quantitative threshold requirements described in Art. 7, paragraph 1(c), must be considered as material. We suggest requiring the fulfillment of both conditions at the same time to consider a model change material, as this would strongly enhance clarity for institutions when evaluating any type of changes in the model. In particular, the

institutions could first check the list of categories according to Annex 3 and only perform extensive quantitative testing for those adaptations that fulfill one of those categories.
In Annex 3, Part II (“Changes to the models”), Title I (“Changes requiring competent authorities` approval”), we suggest that an exhaustive list is defined, in order to leave no room for unclarity. In addition, for each of the listed categories, to avoid an excess of micro-reporting it should be added that only comprehensive changes are referred to (like in the current version of (6) which refers to “comprehensive technical or methodological changes”).
In the current version, for instance the following topics are not pointed out with sufficiently clarity:
In (3): What exactly does “beyond those necessary” mean?
In (4): It should be made clear that minor adaptations (e.g. changing the hierarchy of data sources for a specific product or position) are not in scope here.
Without such clarifications, the efforts are likely to “explode”.
The regulatory capital requirement calculation with the internal model for market risk implies the calculation of a 60-day average VaR. If for the proposed threshold another 60-day average has to be taken, this means a use test of 120 days before application. Taking into account a notification period of one month before implementation, this would mean a use test of up to 150 days. To reduce this very long use test, it would be appreciated to require only a real 60-days use test; for this purpose, it would be sufficient to replace the term “capital” in the formulas on p. 18 by the term “VaR”.
In the second formula on p. 18 (“Clarification to Article 7(4)”), the term “capital” is not used anymore. We understand that by e.g. “Outcome approved model” again capital is meant; otherwise this would mean VaR, which however would be inconsistent with the other formula. As stated above, in any case we suggest replacing “capital” by “VaR” in both formulas.

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?

We evaluate the classification of all changes resulting in a change of 5% or more of the overall own fund requirements as material, as extraordinary strict. In particular taking into account that market movements may result in substantial moves of VaR and Stress VaR figures, resulting in a direct increase in own fund requirements. Additionally an internal model that calculates VaR with less scenarios may have a large statistical model error . For these models it would not be possible to sufficiently separate effects from model changes or from statistical errors of the nature of the model.

In practice the implementation of the proposed thresholds might lead to non-material changes being classified as material, resulting in that competent authorities cannot focus*their* attention on extensions and change of great significance. We would expect the number of material changes to rise significantly without giving an advantage to the risk management process. This would slower the implementation of best practices in the risk management process, and would weaken banks capability to efficiently measure market risk.

In our opinion, 5% is a too small threshold for the impact of internal model changes on own funds requirements for market risk. In fact, there may be a variety of changes which can (often very slightly) exceed this threshold, causing an excessive burden for documentation and reporting to financial institutions, leading to a time delay of several months of implementation for these small model changes within institutions, and essentially causing too much information with relatively limited relevance to be analyzed by the competent authorities with limited own

resources. As stated correctly in the draft RTS document, higher thresholds reduce the probability that changes or extensions might cause inefficient supervisory workload for the processing of applications. Given the immanent issues of low thresholds, higher thresholds would not only decrease the overall costs of implementation on the competent authorities` side but clearly also within institutions. In line with the 10% suggested in 1(c), letter (iii), we would thus suggest to consistently use a threshold of 10% for all proposed metrics.

We appreciate the fact that for Art.7 1(c), letter (i) the focus is on the average of changes over the 60-day time window. However, consistently with that also in letter (iii) the average of changes should be the relevant metric. Assessing the impact of any model extension or change as the highest value of the comparison over 60 days would also place too much importance on outliers, which can certainly occur in extreme cases even for those model changes that under normal conditions do not significantly change the model calculations.

Regarding the 2 options discussed in Table 2 on pp. 33f., we suggest another option where both qualitative and quantitative conditions have to be fulfilled to consider a model change material, as this would strongly enhance clarity for institutions when evaluating any type of changes in the model and facilitate to standardize internal processes for model changes accordingly. If pure quantitative backstops suffice to make a model change material, this would strongly increase the number of changes or extensions subject to approval, and result in additional supervisory costs for the competent authorities and in additional efforts for the institutions. This is particularly true for modelling activities which have to be performed for any possible model change, if there is no limitation by an exhaustive list of qualitative criteria.

As for the scope of consolidation discussed in Table 5 on pp. 35f., for market risk internal models we suggest to apply merely two levels of consolidation for banking groups whose parent company is headquartered in the EU, namely the consolidated view for Group models and the local entity view for purely local models.

We strongly recommend considering the proportionality in the new rules. In particular, one bank may have much a smaller trading book than another (or lower market risks in general), and as a consequence a change in an internal model may be material for market risk but only relatively immaterial compared to the overall risk-based capital requirements (i.e. the overall capital requirements arising from credit, market and operational risk altogether). To avoid problems with small numbers when calculating relative numbers, an absolute threshold with respect to total capital requirements (including all risk classes) of the bank would thus be appreciated (e.g. if the impact of a model change is less than 1% of total capital requirements, the change would be considered immaterial and not necessary to notify ex ante).

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

The one month ex-ante period for notification of changes is considered too strict. In practice a period of two weeks is feasible in terms of flexibility. Additionally, the classification of "ex-ante" changes according RSA Annex 3; Part II, Title II, is not completely supported. See below "Comments to Annex 3".

As stated in the answer to Q1, we recommend elaborating again on the proposed differentiation between changes which require notification before implementation and changes where notification after implementation is necessary. An e.g. quarterly cumulated report for all of these changes would be sufficient after implementation.
If the classification is however maintained, we suggest to reduce the one month period for notification to a time period of 2 weeks. Given the relative immateriality of the concerned model changes, we expect this to be sufficient for regulators to be informed. At the same time, time for implementation could thereby be reduced for banks which are trying to improve their systems and methodologies in a continuous way.

Internal Models Approaches (IMA)
Q12: Do you support for the IMA the 60-day observation period for the purpose of comparing the modeling result before and after a proposed change?

Article 7 – "Material change - highest value of the comparison over 60 days"
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. 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.

Q13: Do you support that for the IMA for those modeling 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)?

Comparison of the twelve numbers would be sufficient in our view. However, if the assessment by highest values can be replaced by an assessment of the average change of the relevant time period, extending the reference time period would be preferable to avoid that the calculated average is distorted by any outliers.

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

Yes, the classification of prior vs. post notification will be clear from the comprehensive list given in RSA Annex 3; Part I, Title II and Part II, Title II.

Title V – Documentation of extensions and changes

Article 9 point 1 lit (i):

Is it really necessary that for each change that needs an approval from the competent authority also details of all extensions and changes planned for internal approaches over the next 12 months are to be delivered to the competent authority?

It seems sufficient for both sides (competent regulatory authority as well as the credit institution) if an update about all planned changes within the next 12 months is sent once a year to the competent authority. If the credit institution cannot stick to a planned time line then

thecompetent authority should be informed as soon as possible; this would also enable the competent authorities to re-plan their working program respectively to plan their resources (e.g. for necessary on-site inspections).

Article 9 point 2:

With regards to the requirement 1(e) ["independent review or validation"] we cannot see the benefit regarding changes that are not material and this would produce an additional amount of workload, as these kinds of changes occur quite often compared to material changes.

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?

Article 9 (1) (e) – reports of the institutions´ independent review or validation:

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.

As internal validation is a part of our policy, the proposal to include reports of the institutions' independent review or validation, also for non-material changes is not supported. Our view is that this might lead to unnecessary resources being spent on non-material (and minor) changes and will weaken the banks resources and flexibility to react to changes in the markets sufficiently quick.

IRB:
Concerning Article 9 point 1 lit (i): What does the term "details" exactly mean in this context? Could you give an example how detailed the descriptions of the planned changes over the next 12 months should be (e.g. only half a page or 10 pages?)?
We would suggest that a more explicit and clear explanation of what is meant by submit "record of the institution`s current and past version of internal models" should be given.

AMA:
The required report of the institutions' independent review or validation (Article 9, 1e) even for major changes (Part I Title II and Part II Title II) prolongs the request of a change of the internal approach unnecessarily and increases the workload of a change for the applicant.
The same is with Article 9, 1i (details of all extensions and changes over the next 12 months).
Clarification of Article 9; 1h "record of the institution's current and past version of internal models" is needed.

- Shall all the current and past model documents provided or just the model description?
- To provide this even for major and minor changes is constitutes a high workload for the applicant.

IMA:
It is not exactly clear what is meant by "reports of the institutions' independent review". It should be made clear that the focus is on a general model validation but that e.g. internal audit documents or any documents from external persons or parties are not needed.

Regarding the requirement to submit “record of the institution`s current and past version of internal models”, we suggest to submit only updated documentation about the new (current) version of the internal model for market risk. Earlier versions of the internal model documentation have anyway been provided on a regular basis to the competent authorities before, so re-sending all the old versions of the internal model documentation to them would not be efficient. In general, a more explicit and clear explanation of what is meant by submit “record of the institution`s current and past version of internal models” should be given. Regarding the details of the planned changes or extensions over the next 12 months, it should be clearly defined how new changes are treated that were not planned and communicated in advance to the competent authorities. It should be avoided that an institution has to suffer very long delays in implementation of changes, which are added on top of the initial list, with the goal of further improving the internal modeling approaches.

Q16:Do you support the view that costs arising for instititutions 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 ongoing 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)

We expect that the costs arising from the documentation requirements on market risks that are included in the draft RTS can be material, due to the fact that documentation requirements are increased compared to the current situation, and that the complexity of the whole model change framework would increase considerably. Our assumptions are based on the experiences with similar reporting duties e.g. regarding credit risks, which imply significantly greater resources for this topic.While we very much appreciate the introduction of clear and consistent standards across all EU institutions, the costs should not outweigh the benefits.
Furthermore, we strongly expect the number of both requested authorizations and notifications to the competent authorities to increase sharply, causing potentially a lot of efforts on both Group levels and on local levels (which would obviously have an impact on group / local levels as well as on home and host supervisors).
The main cost driver would be the ongoing costs for additional ongoing staff / hours, resulting in an expected increase of FTE that have to be dedicated to these activities, along with the required additional IT equipment and infrastructure needed for them. While an indicative monetary amount related to those additional costs is difficult to estimate, it should be noted that the procedural complexity is likely to increase significantly with the discussed rules. Given a large number of regulatory driven projects and requirements that need to be fulfilled at the same time and in parallel within a lot of institutions, such additional complexity should be avoided unless it is really necessary for the creation of clear benefits. A large part of documentation however would not create a direct economic benefit for either affected institutions or authorities and may just increase the volume of documentation to be analyzed on an ongoing basis by the competent authorities. In an era where both regulators and institutions are facing an increasingly heavy workload due to new and deepening regulations, it is difficult to

imagine how such comprehensive documentation could be prepared and analyzed in an efficient and value-generating way.
In our response to Q1 we also mentioned several criteria which are not really manageable. This means that not only would excessive efforts arise for the whole documentation of model change; but even with very high efforts, it would be practically impossible to fulfill all the defined requirements on an ongoing basis.

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 ongoing 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).

We expect that the additional costs of computing the quantitative impacts can be significant regarding the ongoing costs for additionally required FTE and the IT equipment needed for them. While an indicative monetary amount related to those additional costs is very difficult to estimate, it seems evident to us that the workload needed to perform all the required quantitative analyses would be massive.
Given that the quantitative criteria are not directly linked to fulfilling well-defined qualitative criteria in the first place, it would be necessary to perform the whole work of quantification basically for every model change, as immaterial it would seem. Alternatively, e.g. quick general analyses could be employed for evaluating whether a model change may be truly material, and only for those changes which are likely to really be material a full quantification should be pursued in the way that is required for the competent authorities.

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 ongoing 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).

If only a regular cumulated notification after implementation would be needed, we would welcome this, since that would enable us to reduce the administrative burden from the formal notification of immaterial changes. However, the need to constantly monitor a long list of different criteria, to constantly evaluate them against a requirement for notification prior vs. after implementation, and to repeatedly prepare different documentations for all of these immaterial changes, can easily result in significant additional efforts and, thus, the need for dedicated FTE with all the corresponding costs.

Annex 1:
Part I, Title I, Point 1 lit (a):

We do not see a reason why extending a range of application of models to additional business unit is treated as material. The model coverage should not be mixed with organisational split of the entity. The primary criterion taken into account should therefore be homogeneity of covered clients / products. We propose to move extending a range of application of models to additional business unit to other changes announced ex ante.

Part I, Title I, point 1 lit (c) (ii):
The criteria for the exclusion are not formulated clearly enough. E.g. what exactly is meant by "other relevant characteristics with the ones of the additional exposure"? Could you please give some examples for a better understanding?

Part I, Title II, point 1:
Is it really necessary to announce the reduction of the range of application or the scope of the use of a rating system (especially taking into account the three months period)?

Part I, Title II, point 3 and 4:
Could you please give some examples which cases could fall under these changes (especially in conjunction with Annex 1, Part I, Title 1, point 1 and 2).

Part II, Title 1, point 1 lit (a) and (b) as well as point 2 lit (a), (b), (c) and (d):
It is too strict especially if no materiality threshold applies (effectively it would mean that any small change in rating systems would be treated as material). This would considerably limit the bank's flexibility allowing timely reaction to changing environment.
We suggest to add a materiality threshold or to move this type of changes to the category of other changes that have to be announced ex ante.

Part II, Title I, point 2 lit (d) (i) and (ii) and (f):
Is it defined somewhere what exactly is meant by „they significantly change the rank", „ they alter the distribution" and „change in the fundamental methodology for estimating" respectively we would suggest to have some examples here for a better understanding and/or a defined threshold for the clarification of „significantly".

Part II, Title II, point 4 lit (a) and (b):
An ex ante notification is not necessary for the case if only the position of the indepentend credit risk control unit and the validation unit within the organisation (risk management) is changed but not the responsibilities. In such a case we think it's sufficient if this change is notified to the competend authority after the implementation.

Part II, Title II, point 4 lit (c):
What exactly is meant with the term „... that have an important influence on a rating system"? Please provide some examples respectively a threshold for a better understanding when an important influence is given and when not?

Part II, Title II, point 4, 5 and 7:
We do not see a reason why these changes have to be announced ex ante. Especially in case of (4c-4e) it will be very hard to assess that the change is already significant enough to fall under „ex-ante" regime. We propose to move these changes to other changes announced ex post.

Part II, Title II, point 8 lit (b):

In conjunction with Art 182 (g) of the Regulation could you please provide an example what is exactly meant by this change?

Part II, Title II, point 8 lit (c):
What exactly is meant with the term „... that have an important influence an(?) internal models approach to equity exposure"?
Could you please provide some examples respectively a threshold for a better understanding when an important influence is given and when not?

Additional comments and questions also in conjunction with Annex 2:

1. Will the naming of different changes, which was introduced in EBA GL 45 maintained? Here, AMA changes were classified as minor/major/significant changes and extensions.

2. Head Count reduction of more than 10% has to be notified (Annex 2, Title II paragraph (2)(b)): 10% reduction on Group level or on local level?

3. Sometimes changes are described very generally: What should be reported in case of an approved method, which is simply improved. (I.e. instead of quarterly a monthly reporting is implemented; instead of applying either one method or the other, applying both for validation and enhancement of risk management)

4. Clarification of "relevant indicator assigned to those areas" as stated in the Annex 2 Part I Title I (5) and in Part I Title II. What is the relevant indicator for OpRisk (BIA, GI, Total Assets, etc.)?

Annex 3:
In general we see an extremely high risk that the long list of criteria in the Annex creates an explosion of effort, which is hardly controllable for the banks and even for the supervisors. We recommend reviewing the list systematically and to have a focus on:

- What can really improve the communication from banks to supervisors, and
- What is really relevant information, which supervisors are also realistically able to "digest" (in order to minimize the risk of producing merely piles of "paper work")

Several examples are given below for criteria which we regard as problematic, and which in some case are also rather unclearly defined:

Part I, Title I; (3):We find that integration of a portfolio (such as in cases of portfolio acquisitions and corporate takeovers) should be seen as material <u>only</u> in case of breaking the thresholds given in Article 7, 1 (c) (i),(ii) or (iii).

Annex 3: Part II Title I
Part II, Title II; (3):The proposal to classify a change in grid-points on an interest curve, or an extension of an implied volatility surface, as a change needing ex-ante notification is not supported. This suggestion might lead to unnecessary inflexibility when it comes to adapting to new market standards, and changes on evolving markets.
(5) out-sourcing or in-sourcing of components which are material to calculating risk or validating the model, such as obtaining market data relevant to calculating risk and P/L, or the switch from licence-based use of a system ('computational module') to use of an application service provider ('ASP');

We understand that this refers to e.g. outsourcing of a central reference data management system. Or do you refer also to changes in market data sources for P/L and risk calculations? In that case, the effort would not be manageable anymore.

Title II:
(3) changes in the assumptions or the modelling of risk factors incorporated in the internal VaR model according to Article 356(2) of Regulation (EC) No xxxx/20xx [CRR], including a move between zero rates, par rates or swap rates, or an extension of risk factors where there was previously only one risk factor such as more grid-points on a curve of interest rates or an extended surface of implied volatilities;
Does this really mean that an extension to more points in a curve or surface (which have been regularly in use before and accepted by the supervisor) would require notification?

(5) changes in the calculation of the effects of changes in market risk factors on instruments, including changes in pricing models used to calculate sensitivities to modeled risk factors or to re-valued positions for the value-at-risk model or for the purpose of back-testing, according to Article 356 of Regulation (EC) No xxxx/20xx [CRR]
Any change of a pricing function would have an impact on real back testing. Do you really expect that this has to be notified 1 month before implementation (including the need for the comprehensive use test before notification)?

(16) changes to the valuation method with regard both to the economic profit and loss and to the clean profit and loss, such as move from mark-to-model to mark-to market, or vice versa, according to Article 355(3) and 358(2) of Regulation (EC) No xxxx/20xx [CRR];
This would mean that any switch from Level 1 to Level 2/3 or vice versa (e.g. for bonds) would potentially trigger a notification. This is practically impossible, especially keeping in mind the ex-ante 1 month notification period.

(17) change to the organisational and operational structure of risk management and internal governance process, according to Article 357(1) of Regulation (EC) No xxxx/20xx [CRR] including any of the following:

(a) organisational changes;
(b) the limit setting framework;
(c) the reporting framework;
(d) stress testing changes;
(e) the new product process;
(f) internal organisation and staff changes;
This is a very broad definition of ex-ante notification (including staff changes).

(19) changes in the IT environment, including any of the following:
(a) applying vendor pricing models;
(b) Outsourcing of central data collection functions;
(c) Change of the market data provider for input data for the risk model;
(d) Opening or closing down of trading locations

Do you mean by this that a switch to another market data provider (like from Reuters from Bloomberg) would need 1 month notification? Or do you rather refer to any changes in the market data provider hierarchies (which would still be excessive in our opinion).

Kindly give our remarks due consideration.

Yours sincerely,

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