ČESKÁ BANKOVNÍ ASOCIACE

Set up in 1990, the Czech Banking Association (CBA) is the voice of the Czech banking sector. The CBA represents the interests of 37 banks operating in the Czech Republic: large and small, wholesale and retail institutions. The CBA is committed to supporting quality regulation and supervision and consequently the stability of the banking sector. It advocates free and fair competition and supports the banks' efforts to increase their efficiency and competitiveness.

We appreciate the opportunity to comment on 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) 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] (EBA/CP/2013/02).**

Summary

In general it seems that almost all changes in internal models will be classified as material and therefore will require permission from the relevant competent authorities. We assume that it can lead to overburdening of the local regulator. Therefore we challenge both quantitative and qualitative criteria.

CREDIT RISK

Mainly related to original

EBA 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?

EBA 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?

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

We do not support the proposal. In our opinion, the definition of material change is too large and will generate too many "material changes" requiring permission from the regulator. This will cause an important workload (both for the bank and for the regulator).

We propose to adjust the condition defining material changes in TITLE 2 / Article 3, par. 1 in the following way:

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Current situation: In order to be considered as material, it is sufficient that the change satisfies any of the three listed conditions a) or b) or c).

Proposed situation: Only changes satisfying the condition c) would be considered as material. The changes which satisfy a) or b) but not c) would not be considered as material and will be moved to the category "Other extensions and changes which require notification" (treated in TITLE 2 / Article 4, par. 1).

It is not clear how the threshold should be defined - Title II, Article 3, point 1 (c) (i)

Threshold should be defined based on the overall EU parent institution's consolidated RWA. How can we understand this overall EU parent institution's consolidated RWA?

a) Is the basis for calculation of the materiality threshold the ultimate parent's RWA including all its daughters or

b) Is the basis for calculation of the materiality threshold daughter's RWA based on the daughter's solo basis RWA calculation?

To give an explanatory example: for CSOB Group, is the basis for calculation of the materiality threshold RWA kept under CSOB Group or is it RWA kept under KBC Group, which would include all its daughters, including CSOB?

Quantitative criteria

In case that the b) is correct we specifically propose to change the materiality threshold from 1.5% to 8% in the paragraph on page 13, TITLE II, Article 3, point 1(c) (i) and we propose to add one more condition to be satisfied within this paragraph.

In particular, we propose following wording of the paragraph:

(i) ...in a decrease of 8% or more of the EU parent institution's consolidated..........nor a subsidiary; **and at the same time for exposures which are not of low default type (to be defined by the entity and confirmed by competent authority).**

Qualitative criteria

Criteria described in Annex 1, should be formulated unambiguously, more clearly and the number of the criteria shall be definitely reduced.

General remark from the credit risk point of view

The document proposes creation of excessive environment inevitably leading into overload of the regulator which would result into substantial slow down of model development / improvement. Such situation would lead into worse ability of the financial institutions to react to markets development and in case of late model reviews due to capacity constraints on the side of the regulator, also application of substantial capital penalties which could not be avoided.

We consider the 3 month period as not appropriate and desirable as it may delay the process of implementation of important changes. We recommend 1month notification period as a maximum.

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(TITLE 4 / Article 9 requires that the bank presents several documents together with the notification: the audit review, the documents on internal validation of the change by the corresponding committee, etc. This means that no change could be implemented sooner than 3 months after the internal validation of the change on Credit Risk Management Committee and/or Expert Committee. Such a delay seems to us as not reasonable and counter-productive.)

MARKET RISK

Mainly related to original

EBA 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?

EBA 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)

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

EBA 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?

The scope of application at market risk is overly excessive and the thresholds are too strict. Almost all changes would fall into category “requires approval” or “requires ex-ante notification”.

As all changes needs to be tested against materiality threshold it would lead to permanent simultaneous computation of two internal models (three month testing period is required).

It means significantly higher capacity of infrastructure.

Furthermore, 5% threshold implies frequent requests to the regulator for approval of model changes, inevitably requiring also higher assessment capacity of regulator. As market environment is changing quickly, financial institution has to also adapt quickly and market models needs to be changed quickly. Thus quick reaction of regulators to proposals is vital. Constrained capacity of regulators can lead to incorrect capture of market risk by financial institutions.

5% change means almost average daily volatility of model outcome due to changes in positions and risk factors.

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We hope that our response to EBA Consultation Paper is sufficiently clear and our views are helpful for preparing regulatory technical standards.

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