

**ECIIA Comments on the consultation:  
ECB guide to internal models**

**Consolidation of ECIIA Banking Committee comments on ECB guide to internal models**

Page	Para	Wording	Amendments / Additions suggested	Rationale/Clarification
9	26	The CRR requires internal models to be subject to regular review by the internal audit or another comparable independent auditing unit (hereinafter internal audit). In the understanding of the ECB, also taking into account EBA guidelines on internal governance, this regular review needs to be efficient and effective to meet that objective.	The CRR requires internal models to be subject to regular review by the internal audit or another comparable independent auditing unit (hereinafter internal audit). In the understanding of the ECB, also taking into account EBA guidelines on internal governance, this regular review needs to be efficient and effective to meet that objective. <b>It is based on a sample of models selected by the risk assessment</b>	In the ECB guidelines for IRB models review, it is stated that these reviews could be based on IVF assessment.
10	29 (b)	In the follow-up process to the internal audit conclusions and findings and to ensure that the internal audit reviews have a timely and effective impact, the following are considered to be good practice.  b) Where weaknesses are identified, action plans and related measures should be approved by the audit committee and/or the appropriate management level of the audited areas. The internal audit function should ensure that the audited areas implement the corrective measures in a timely manner. The  institution should use appropriate IT tools in order to ensure the effectiveness of the monitoring procedures.	(b) Where weaknesses are identified, action plans and related measures should be approved by the audit committee and/or the appropriate management level of the audited areas. The internal audit function should <b>ensure monitor</b> that the audited areas implement the corrective measures in a timely manner. The institution should use appropriate IT tools in order to ensure the effectiveness of the monitoring procedures.	Bullet 29/b and footnote 24: The appropriate level of management which should approve the action plans and related measures should depends on the severity of the finding. For findings with the highest severity the approval should be addressed to the senior management or management body, while for findings with lower severity the approval could be addressed to an adequate lower hierarchical level. Moreover, in the

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				EBAGL/2017/11, it is stated this way as well.
30	80 a	(a) An area showing signs of increased risk in the general risk assessment is subject to a thorough audit mission (“deep dive”). Reasons for the increased risk might include, but are not limited to, new processes, new regulatory requirements, new types of exposures in the range of application of a rating system, material model changes, findings by the competent authority or by any other function, open issues and areas with high risk identified in previous risk assessments.		The expectations on “deep dive” audit mission should be clarified (different triggers of “deep dives” in the “Guide to on-site inspections” and “ECB Guide on internal models”).  The term “mission” is unclear : separate audit, a range of audits or a theme of audits?
	80 b	(b) Areas not showing any sign of an increased risk are subject to a deep dive mission at least every three years in order to provide a thorough update of the internal audit opinion on them.	Areas not showing any sign of an increased risk are subject to a deep dive mission in line with the normal audit cycle at least every three years in order to provide a thorough update of the internal audit opinion on them.	It is inappropriate to impose a minimum frequency of three years, for models like for other areas; each bank should be consistent with its own approach combining audit cycle and risk assessment.
	81 c	(c) The process of the materiality classification, the impact and the compliance with regulatory requirements of all changes to the rating systems as well as their consequent implementation. The internal audit is informed of all changes to the rating systems.		The interpretation is that Audit has to regularly assess the process of materiality classification and impact evaluation. While, for the purposes of the general risk assessment, it can rely on validation assessment of the compliance with the regulatory requirements of all the changes of the rating systems.
31	81 g	(g) The process for calculating own funds requirements	<del>The process for calculating own funds requirements, the correctness of credit risk parameters for calculating own funds requirements</del>	The process for calculating own funds requirements relies on the rating system but it is independent from the performance of models and, therefore, should not be part of the general model risk assessment.

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				Anyway, we recognize as necessary to ensure that the correct credit risk parameters are used within the own funds requirements calculation process.
31	82	The procedures and results of the general risk assessment and prioritisation, the annual work plan, the different auditing techniques and guidelines, and the subsequent production of the internal audit reports are properly documented and approved by the management body.	The procedures and results of the general risk assessment and prioritisation, the annual work plan, <del>the different auditing techniques and guidelines,</del> and the subsequent production of the internal audit reports are properly documented and approved by the management body <b>according to the internal audit governance.</b>	The procedures and results of the general risk assessment and prioritization as well as different auditing techniques and guidelines should not be approved by a defined body. It depends on the internal audit process in place in the institution.
31	83	To avoid delays in the procedures related to an initial IRB application or an application to extend the IRB Approach to an exposure class or a type of exposure that is currently treated using the Standardised Approach, it is beneficial if the internal audit provides the competent authority with an independent assessment of the compliance of the initial IRB application or extension package with all applicable requirements. This applies in particular to compliance with the experience test requirements of Article 145 of the CRR. The benefit of carrying out an internal review of this nature is that shortcomings can be addressed by the institution before submitting the application, and the completeness of the initial IRB application or extension package can be ensured.	To avoid delays in the procedures related to an initial IRB application or an application to extend the IRB Approach to an exposure class or a type of exposure that is currently treated using the Standardised Approach, it is beneficial, <b>depending on its materiality level</b> if the internal audit provides the competent authority with an independent assessment of the compliance of the initial IRB application or extension package with all applicable requirements. This applies in particular to compliance with the experience test requirements of Article 145 of the CRR. The benefit of carrying out an internal review of this nature is that shortcomings can be addressed by the institution before submitting the application, and the completeness of the initial IRB application or extension package can be ensured.	<p>The word „beneficial“ should be defined to specify the requirement on auditing.</p> <p>Furthermore, an IRB application means a significant process change for the credit institution. In this case a new process/new product workflow starts with the involvement of the audit function.</p> <p>Audit function is an independent 3rd Line of defense advisory function for management body. The audit engagements are planned on basis of the risk assessment results. The third level assessment should follow a second level review by the independent validation function</p>

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32	84	For extensions and changes to the IRB approach, institutions shall submit, among other things, reports of their independent review or validation. Insofar as the internal validation function does not review material changes in the validation methodology and/or validation processes or process-related aspects of material changes, including changes in the definition of default, those aspects should also be subject to an independent assessment by the internal audit function before they are submitted to the competent authority for approval.	<del>For extensions and changes to the IRB approach, institutions shall submit, among other things, reports of their independent review or validation. Insofar as the internal validation function does not review material changes in the validation methodology and/or validation processes or process-related aspects of material changes, including changes in the definition of default, those aspects should also be subject to an independent assessment by the internal audit function before they are submitted to the competent authority for approval.</del>	The internal validation should be performed by the second line of defence. We should avoid overlapping between internal audit and the internal validation activities in order to make efficient the control function activities. The audit engagement is not mandatory in this case (only applicable if there is no second line of defence). Therefore, we suggest deleting point 84.

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44	109	<p>To ensure the accuracy of the impact assessment and the correctness and consistency of the resulting classification, the institution is expected to establish a four eye principle. This means that the assessment and classification are confirmed by a unit independent of the one responsible for the assessment and classification of the change/extension.</p>	<p>To ensure the accuracy of the impact assessment and the correctness and consistency of the resulting classification, the institution is expected to establish a four eye principle. This means that the assessment and classification are confirmed by <b>a second line</b> unit independent of the one responsible for the assessment and classification of the change/extension.</p>	<p>This paragraph is unclear about which unit would be considered independent for the role of confirming the assessment and classification of model changes. The more reasonable should be considering CRCU as initial responsible. The internal audit would only assess the material change in the case of no validation by the internal function.</p>