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Re: CEBS Consultation Paper on technical aspects of diversification under Pillar 2

The Bank and Insurance Division of the Austrian Federal Economic Chamber representing the entire Austrian Banking Industry welcomes the opportunity of comment on CEBS' Consultation Paper on technical aspects of diversification under Pillar 2 as follows:

- The paper sets high standards for ICAAP model, verification, and validation. Given the fact that ICAAP is an emerging topic and in many respects industry standards are still in the development phase, we would propose to refrain to give too specific and ambitious requirements on the model side.
- As mentioned in the paper, data instability is a challenge all banks are facing. Even in the theoretical case of perfect data quality, there is still the statistical phenomenon known as bias/variance problem. A complex model might in theory very well describe the environment (low bias), but estimating the model parameters out of real world data might prove to be instable (high variance) due to data scarcity. In such cases, it could be better to stay with simple models which might not perfectly fit (high bias), but can be stably estimated (low variance). The regulators should keep this in mind, when complex models (e.g. copulas) are proposed.
- There is lot of requirements / expectation in the document or questions in the Annex concerning diversification, but it is not always clear whether they are related to intrarisk or interrisk diversification or both. Some requirements seem too strong in case of diversification among risk types.

Yours sincerely,

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