20 January 2006

Feedback to the consultation on CP10

1. CEBS published its tenth consultation paper on the implementation, validation and assessment of Advanced Measurement (AMA) and Internal Ratings Based (IRB) approaches (CP10) in July 2005. The consultation period ended on 30 October 2005. Twenty responses were received, all but two of which (who asked for their comments to be treated confidentially) were published on the CEBS website.

2. This paper presents a summary of the key points arising from the consultation and the changes made to address them. It includes an Annex which reflects CEBS' detailed views on the public comments.

3. For the purposes of assessing the comments received, CEBS has distinguished between

   - General comments on key issues relating to the concept and content of CP10; and
   - Specific comments, in particular on sections 3 and 4 of CP10.

General comments

4. A number of respondents welcomed CP 10 as providing substantially improved transparency on supervisors' objectives, concerns, expectations and approaches to advanced models issues. These respondents emphasised that this is of particular importance, as the avoidance of duplication and inconsistency is essential to the effective implementation of the Capital Requirements Directive (CRD).

5. Moreover, many respondents expressed the view that the framework proposed by CEBS for cooperation between home and host supervisors was well-reasoned. For example, one respondent expressed its strong support for the guidance set out, in particular in paragraph 35 regarding how supervisors should communicate with their fellow supervisors and with the banking group. Respondents pointed out that it will be necessary to see how the network mechanisms work in practice, but the early reaction of institutions regarding the growing level of cooperation between their supervisors within the colleges is positive.

6. Finally, a number of respondents were supportive of CEBS' intention to clarify practical validation and implementation issues related to the Advanced Measurement Approach (AMA) for the calculation of operational risk capital requirements. They said that the guidelines set forth in CP 10 represented a significant step toward the practical implementation of an AMA within the EU, and further clarify supervisory thinking in a number of areas. This is expected to contribute to the broader dialogue among the industry and supervisors concerning the evolution of operational risk measurement and management as well as in bilateral discussions among institutions and supervisors regarding implementation of the CRD.

7. However, for a large number of respondents:

   a) CP10 comes too late to serve as guidance for the initial application process and they felt it should therefore be understood more as a long-term goal. These respondents were in particular concerned that the preparatory work the institutions have already done with respect to the application procedure might now be considered inadequate as a consequence of CP10 and that supervisors might ask the industry for additional documents or to meet additional standards. (This is what the industry calls the "timing issue" and strongly believes that there should be no "backtracking" on the process in which they have previously been engaged.)

   CEBS agrees that a duplication of work is not desirable, neither for the institutions nor for the supervisory authorities. CEBS has therefore tried to accommodate these comments by introducing a good faith clause in the revised paper, allowing for flexibility in the application of parts of CP10 to institutions that developed their IRB and AMA models before final supervisory guidance was available (see paragraphs 8a and 14a) and by clarifying the complementary interrelationship between the application and the pre-application phase (paragraph 44a and 72).

   b) the degree of detail in the paper is too great and a top-down (principles based) approach would be preferable. This would hold especially true for internal governance guidance, where they see CP10 as not being consistent with CP03, which takes a more principles based approach in this respect. However, in contrast to this, a number of respondents have asked explicitly for more detailed guidance (e.g.: a set of common practices relating to specific businesses and admissible procedures for determining Probability of Default (PD), both of these relating to Low Default Portfolios, or with regard to predefined forms for the self-assessment by institutions in the application process). These suggestions have mostly (but not exclusively) been submitted by associations of small banks. Another request put forward was to have more guidance on the validation of AMA models.

   According to Article 2 of the Commission Decision of 5 November 2003 establishing the Committee of European Banking Supervisors, CEBS "…shall contribute to the consistent application of Community directives

and to the convergence of Member States' supervisory practices throughout the Community." This also covers the provision of detailed guidelines. CEBS cannot fulfil its objectives by employing exclusively a principles–based approach as the inherent high level nature of principles would make the goal of enhancing a level-playing field in practise very difficult to achieve. Therefore a more appropriate mix of more detailed guidelines and high–level principles has been adopted in CP10.

Moreover, CEBS does not believe that there are contradictions between CP03 and CP10. The provisions in CP10 relating to internal governance are more granular, however, reflecting the higher degree of granularity in the CRD as far as IRB and AMA approaches are concerned. In addition, given the important changes that the IRB or AMA implementation entail for the risk management of institutions, CEBS does not believe that an exclusively principles – based approach would be appropriate for the issue of internal governance. However, CEBS has carefully examined both the general comments and the detailed comments made on specific paragraphs of the CP10 in respect of internal governance, in order to consider which of them could be accommodated in the revised CP10. The result of this work is discussed further below (see letter i).

c) the proposals are "excessively conservative" and superequivalent to the CRD, since they include requirements going beyond the scope of the CRD.

Again it has to be emphasized, that CEBS' task, according to the Commission decision referred to above, is to further explain and clarify the CRD in order to promote convergence. On the other hand, notwithstanding the fact that CP10 was based on a consensus and thus reflects a common understanding of the supervisors, CEBS cannot (and does not consider it appropriate to) restrict the possibility of national supervisors setting stricter requirements than those described in CP10. This reflects the general approach of a European directive, in which the member states are free to impose stricter requirements. Moreover, as CP10 is a mix of details (mostly in the form of examples) and high level principles, it is inevitable that practical implementations at the national level will entail more detail or select those examples that are more appropriate for the national situation; however this should not be interpreted as being more strict.

As regards the criticisms regarding "excessive conservatism", it is apparent that, in most cases, these refer to explicit CRD provisions (that were only quoted or implicitly referred to in CP10) and not to additional guidance given by CEBS.

d) additional guidance on IRB and AMA matters by CEBS going beyond the issues already covered in CP10 (e.g. on Downturn LGDs) was undesirable. However, this clearly contradicts the outcome of the hearing with Consultative Panel industry experts on AMA in October 2005, which welcomed further guidance on quantitative aspects of AMA and called for principles-based guidance on Expected Loss and

Correlation aspects. Thus the industry feedback has been ambiguous in that respect.

CEBS considers it both useful and necessary to elaborate further at this stage on Downturn LGDs, on the assignment of equity, securitisation and purchased receivables exposures, and on quantitative AMA aspects. Moreover, parts of the issues covered (e.g. on Downturn LGDs, Expected loss for AMA) refer closely to work already done at the Basel level and should therefore not really be new material for the industry

e) CEBS should place more emphasis on proportionality.

CEBS believes that CP10 has already incorporated considerations of proportionality to a large degree, (see paragraphs 21, 356, 362 to 364, 379 to 381 and 484 to 485), but it has nevertheless clarified paragraph 21 and has added a "comply or explain" principle in paragraph 356.

In addition to these comments a few respondents

f) recommend clarifying the text in order to make it clear that the examples provided should be understood as only possible examples of what might be done, and not as exclusive approaches or as exhaustive lists. On the other hand, some respondents did not want any examples at all, especially in areas such as the use test.

CEBS agrees that it would be helpful to be clear on the status of examples and has provided in paragraphs 5 and 19a a general rule that CP10 will clearly distinguish between those cases where it is providing guidance and those where it is only providing indicative examples. The detailed text of CP10 has been amended in accordance with this rule.

g) want CEBS to develop a "qualification certificate" to facilitate communication between the various supervisors. This certificate should be produced by the home supervisor in dialogue with the group applying to use the IRB and/or AMA approach, and should include the main qualification points and the compliance assessment of the home supervisor. The host supervisor could then use the certificate as a basis for information requests to the home supervisor.

CEBS has considered this proposal but believes that the process described under Art. 129 (2) automatically generates a process similar to a "qualification certificate". This will be from the outset a common product of the consolidating home supervisor and host supervisors.

h) stated that there is an inconsistency between CP09 and CP10, which was identified by certain respondents as lying in the area of significance.

CEBS considered this to be a misinterpretation, as CP09 provides guidance on the significance of entities within cross – border groups and local markets (for the reason of supervisory cooperation) while CP10 provides guidance on the significance of business units and exposure classes for the reason of permanent exemption from the IRB.

Specific comments

8. As far as the more detailed comments are concerned, a large number of respondents

   i) see the Internal Governance elements (both in the IRB and AMA section) as being too prescriptive and restrictive, some putting forward as examples:

      a. The role of the management body (in particular the supervisory function) described in CP10

      b. The "unrealistic role of Internal Audit"

      c. The problematic emphasis of the independence of the Credit Risk Control Unit (in particular when validating models)

Following consideration of the industry comments, CEBS has substantially streamlined the internal governance parts (both in the IRB – especially paragraphs 355 to 375 - and the AMA sections – in particular paragraphs 469 to 475), has used wording that coincides more closely with the CRD text, has emphasised the possibility of tasks being delegated (especially as regards the management body) and has introduced a "comply or explain" principle in paragraph 356. Furthermore, the role of Internal Audit has been clarified, for instance in paragraph 389.

Apart from the specific issue of internal governance a comparably small number of respondents commented in more detail on individual paragraphs of CP10. These comments are concentrated on the use test, the definition of loss and the LGD estimation in the IRB sections, and on the data requirements, capital allocation and roll-out in the AMA sections.

A considerable number of these specific comments have also been accommodated by amendments to the text. However, CEBS does not believe that all of them justified changes in the text. The Annex gives a more detailed overview of how these comments have or have not resulted in changes and provides a corresponding CEBS analysis.

Summary of the CEBS response

9. In light of the responses received, CEBS does not propose significant changes in the framework as far as the issues covered above under letters c), d), g) and h) are concerned. CEBS task is to elaborate on EU directives and, similar to the construct of a European directive (as opposed to a regulation) the member states have the freedom to impose stronger or more detailed requirements (which does not necessarily mean, that they will actually do so). As regards the criticised conservatism, analysis of the specific comments has shown that this relates largely to CRD provisions, and not to additional guidance given by CEBS. The industry signals with regard to guidance on additional areas have been ambiguous and the additional guidance given simply fills gaps in subject areas that could not be accommodated in the timetable for the initial version of CP10 because of the imperative to publish before the summer of 2005. Finally, the process

described under Art. 129 (2) automatically generates a process similar to a "qualification certificate"

10. However, CEBS has taken on board the comments under letter a), b), e), f) and i). A good faith clause has been introduced into the text, a clearer distinction has been made between where CEBS is giving guidance and where it is only describing indicative examples, the proportionality principle has been emphasized and the internal governance parts have been substantially streamlined and oriented more closely to the CRD text. A purely principles based approach was not deemed sufficient guidance for the crucial area of IRB and AMA approaches and would have contradicted the aim of achieving a level-playing field (moreover parts of the industry have explicitly asked for a more detailed approach). However, several provisions in CP10 that were worded as guidance have now been changed into only indicative examples (e.g. paragraphs 196 or 204).

ANNEX: Feed-back table on CP10

Draft text CP10	Received Comments	CEBS Analysis	Amended text
TIMING	Many respondents argue that the timing of the paper is problematic, as already preparatory work has been done with respect to the application procedure and the interpretation of minimum requirements. General suggestions include that: The revised version of CP 10 should be understood as a long – term goal, rather than as guidance for the initial approval and validation process. Moreover, supervisors should show flexibility in the beginning of the CRD applications, particularly in the case when reasonable breaches of supervisors' expectations occur but institutions clearly demonstrate their willingness to improve and to cooperate. More specific suggestions relate to the approval process and include the following: CEBS and the national supervisors should confirm that institutions would not be expected to resubmit new applications.	In general, supervisors want to encourage institutions to apply AMA and IRB approaches, since this will mean a substantial improvement not only in their risk measurement but also in their risk management systems. If should be clear, however, that if an institution's risk measurement and management systems are not in a state that justify granting an approval (even under terms and conditions) supervisors still will have to reject the application. CEBS acknowledges the importance of this point for both the institutions and the	N/R See paragraph 44a.

		supervisors and therefore has tried to clarify the inter-relationship between the application and the pre-application phase.	
	A "fail safe" provision should be added to make it clear that institutions good - faith implementation efforts, necessarily undertaken before final supervisory guidance was available, should be respected and accepted, at least for a transition period lengthy enough to allow them to bed down their systems, recoup their development costs, and plan future enhancements in an orderly way. This may require recognition on the part of host supervisors of the necessity to accept informal arrangements worked out with home supervisors during the "pre-application" phase.	CEBS acknowledges the concerns of the industry on this issue and has included a relevant paragraph in the CP10.	See paragraphs 8a and 14a.
SUPEREQUIVALENCE (to the CRD)	Many respondents claim that CP10 is often superequivalent to the CRD, which could lead the national authorities to increase the complexity of compliance. Suggestions include the following: Guidance should stay closer to the spirit and letter of the CRD by enunciating principles – not specific examples especially in areas such as the use test. CEBS could set out mandatory minimum standards with parameters of acceptable divergence built into them, rather than to seek maximum harmonisation. Instead of increasing the requirements emphasis must be put in the clarification of the vague wordings of the CRD.	It is CEBS task to further explain and clarify the CRD in order to promote convergence. CEBS agrees that it is helpful to distinguish between guidance and general examples and has added a general passage clarifying this. Moreover, the industry must keep in mind that CEBS guidelines reflect the common understanding of supervisors. Therefore, if supervisors have come to a common understanding regarding the minimum requirements of the CRD, it is important that the industry is aware of this.	N/R (see paragraph 14). See paragraphs 5 and 19a.

		Finally, CEBS intention in the paper was indeed clarifying vague wordings in the CRD relating to IRB and AMA model validation.	
PRESCRIPTIVENESS	Many respondents expressed concern on the high degree of detail and conservatism prescribed by the CP10. Most of them stated that this will increase supervisory burden for institutions, while some of them made a specific mention to smaller institutions, which are considered to have to bear a comparatively higher cost burden. An additional concern related to the prospect that CP10 could result in a sort of "tick-box" behaviour by supervisors, instead of assisting them in performing a valuable assessment of the IRB systems in order to determine whether they are conceptually sound and give appropriate results (for example paragraphs 376 - 377). Finally, it was stated that in providing so detailed guidelines, CEBS goes beyond its mandate, which is interpreting the Directive. Some suggestion referred to the whole CP10, e.g.: CEBS should work on achieving principles – based requirements. The best way to achieve some form of common	The principle of proportionality is already mentioned at several points of the guidelines. However, this has been emphasized again in this version. CEBS objective is to encourage good supervisory practices that are implemented in a convergent and consistent manner. CEBS will continue to work with its members towards this direction, even after the final publication of CP10. As for some specific paragraphs (e.g. 437), where such a concern is expressed, they provide mostly indicative, non – exhaustive examples. See CEBS analysis above. See	See amended paragraph 21 where areas, in the CP10, to which proportionality predominantly applies are highlighted, and paragraph 356 (comply or explain principle). N/R N/R

	understanding on validation is to identify core principles, along the lines of those published by the AIG, both supervisors and institutions. Others stated that a dual approach is more appropriate: CEBS should endeavour to identify areas where granular harmonisation is necessary. In other areas, (e.g. internal governance) a principles based approach is more appropriate. Still certain respondents required more detailed guidelines certain issues. For instance it was stated that sections 3.3.3.1 and 3.5.3 only set forth the criteria applied with respect to disclosure, without making reference to admissible procedures that can be applied for assessment of the PDs. Therefore it was suggested that more detailed guidelines for supervisory authorities and institutions should be included on this issue.	also paragraph 8. This was the procedure employed by CEBS members. However, CEBS has strong commitment on the process of consultation and has attempted to accommodate industry comments when this was deemed appropriate.	N/R
PRESCRIPTIVENESS IN INTERNAL GOVERNANCE	Many respondents made a more specific reference to the issue of prescriptiveness in the area of internal governance. In particular they stated that CP10 imposes very burdensome requirements that go beyond the respective requirements of the Basel principles and the provisions of the CRD and even contradicts CP03. Moreover, they express the concern that if institutions were to follow the requirements set out in CP10, they may need to substantially modify board level and senior management committee terms of reference and spend significant board and senior management time on issues, which could be successfully dealt with either through delegation or at lower organisational level. Suggestions on this issue included the following:	CEBS does not believe that there are contradictions between CP03 and CP10. The provisions in CP10 relating to internal governance are more granular, however, reflecting the high degree of granularity in the CRD as far as IRB and AMA approaches are concerned. In addition, given the important changes that are expected to take place in the risk management of institutions, it does not believe that an exclusively principles – based approach would be appropriate for the issue of internal	See amended sections 3.6 and 4.3.5.

	CEBS should cross – reference CP10 and CP03 to ensure consistency between them. CEBS should avoid prescriptive requirements for institutions' senior management and corporate governance bodies and only provide high level guidance as follows: (a) Institutions are required to assess matters, which are relevant to their successfully governing and managing credit (and operational) risk and to assign responsibilities to their governing bodies and senior management. (b) Institutions are expected to be able to explain and justify their approach to credit (and operational) risk governance and management when subject to external review. In the area of internal audit CP10 should focus on defining the results that a sound governance and control structure should provide and perhaps procedures for supervisors in examining governance and control (particularly in the case of subsidiaries of cross – border groups). However CP10 should not define yet another set of corporate governance structures.	governance. Still, CEBS examined carefully both the general comments, and even more the comments made on specific paragraphs of the CP10 to investigate which of them could be accommodated in the revised CP10 and emphasised the possibility to delegate tasks.	
STATUS OF THE PAPER	Some respondents stated, although CP10, in its function as guidance paper, provides recommendations rather than imperative instructions its tone is confusing and even misleading. This could lead to a situation that although it may not be the case from a technical and legal viewpoint, in many aspects CP10 is likely to be interpreted as a further level of regulation. This could potentially replace understandings developed during other consultation processes (both at the international and national levels) or even limit institutions in choosing different solutions from the ones proposed by CEBS, despite being within the lines of the CRD and	CEBS acknowledges the concern of the industry and attempted to further clarify the status of the paper. Moreover it included provisions to (a) clearly distinguish between guidelines and indicative and non – exhaustive examples (paragraph 5 and 19a) (b) allow for flexibility in the case of institutions that developed their IRB and AMA	See paragraphs 1 to 24.

	clearly argued. Suggestions included the following: CEBS should state more clearly the status and objectives of the paper as well as CEBS expectations with regard to the implementation in national regulatory frameworks once its contents have been finalised. CEBS should reconsider its use of modal verbs ("could" rather than "should"). CEBS should highlight the key priorities and principles in some way to differentiate them from examples and clarify that the examples provided are to be understood only as possible and not exhaustive lists, especially in the area on operational risk.	models before final supervisory guidance was available (see paragraphs 8a and 14a).	
SUPEREQUIVALENCE II (to CP10)	Some respondents stated that national authorities should interpret CP10 in a consistent way that will ensure a level playing field without increasing regulatory burden. Moreover, they should not impose stronger or more detailed requirements that those set out in the CP10.	CP10 was based on consensus, which means that all supervisors have agreed and signed up to it. This enhances a consistent and successful application. However, CEBS cannot (and does not consider appropriate to) restrict the possibility of national supervisors to set stricter requirements than those described in CP10, as this is also provided by the Directives.	See paragraphs 1 and 23a.
	On the other hand a number of respondents supported the argument that the national supervisory authorities must continue to have sufficient discretion on matters of detail so that account may be taken of national specificities when transposing European Directives. Therefore it was claimed that CP10 overrides the basic principle that creating a single market is to achieve	CP10 does not attempt to cover explicit national discretions and provides for the necessary flexibility for national supervisors to go beyond the guidelines, after taking into consideration national specifics.	See paragraphs 7 and 23a.

	minimum harmonisation in areas of particular relevance to competition.		
CP10 & EXTRA EU NATIONAL SUPERVISORS	Some respondents mentioned that it is important for CEBS to make reference to the global perspective of the paper. More specifically CEBS should provide clarity on how it envisages the arrangements between EU and non - EU supervisors to work, focussing on how far there would be a commonality of approaches amongst supervisors from within and outside of Europe, especially in light of the recent announcement of a delay in implementation by the US regulators.	The CEBS guidelines do not make reference to possible arrangements between EU and Non – EU supervisors. If future negotiations between EU and Non – EU countries on matters of banking supervision should make this possible, CEBS would extend the guidelines correspondingly.	See paragraph 15a.
PROPORTIONALITY	Some respondents requested that further emphasis is given to proportionality. Some of them emphasised that small institutions should not be disproportionately burdened by the consistent application of regulations and the convergence of the supervisory practices in the EU that are beneficial especially for large banks. In relation to this, one respondent requested further clarification on issues such as outsourcing of systems to central units within a sector and assessment and/or inspection of these systems at such central unit, as it claimed that responsibility for the fulfilment of all requirements imposed by supervisors and appropriate use of systems may, as a matter of fact, lie only with the co-using institution. Others stated that size is not the only criterion, but supervisors should take into consideration the risk to their objectives posed by the complexity of managerial structures involved. Hence for larger institutions it should be recognised that senior management and the Board of Directors may distribute the responsibility for approving relevant risk policies, in particular the policies that have a high technical content, amongst the appropriate senior management levels within the	CP10 makes reference to proportionality at several points. However, the "comply or explain" principle in the internal governance section was further emphasized in paragraph 356.	See, for instance, paragraphs 21, 356, 362 to 364, 378 to 381 and 484 to 485.

	institution.		
THE APPROVAL PROCESS	In the area of approval process different opinions were expressed from different respondents. Some respondents stated that in order to establish a level playing field, it is only necessary to set targets that should be met within the approval process, while detailed steps might not be appropriate. Others stated that further elaboration is needed in the area of the application on sub – consolidated basis only (i.e. the basic or standardised method is used on the group level) concerning (a) the sender and recipient of the application and decision, (b) the cooperation between supervisors, between the members of the banking group and between the relevant supervisors and banks, (c) the exchange of documentation, responsibility of relevant supervisors, post approval process). The proposals include the following: CEBS should develop a "qualification certificate" for ease of communication between the various supervisors. The qualification certificate should be produced by the home supervisor in dialogue with the group and should include the main qualification points and the compliance assessment by the home supervisor. The host supervisor could then use the certificate as a basis for information requests to the home. This does not preclude the possibility of the host supervisor approaching the home supervisor on local issues. CEBS should also introduce this idea to the AIG to facilitate the work of the global colleges of supervisors.	CEBS thinks that the common understanding achieved with regard to the approval process in CP10 (including the details provided) will lower the burden and costs of the industry. Annex I of CP10 describes in detail the communication and cooperation procedures between supervisors and the group or its subsidiaries. CEBS has considered this proposal but believes that the process described under Art. 129(2) automatically generates something like a "qualification certificate". This will be from the outset a common product of consolidating supervisor and host supervisors.	N/R N/R N/R
SUPERVISORY	In the area of supervisory cooperation, some	Annex I of CP10 describes in	N/R

COOPERATION	respondents argued that there is lack of clarity around: (a) the division of duties expected of the home and host supervisors, and (b) the clearly defined areas of where the supervisors are expected to cooperate and agree. Moreover emphasis was put on the importance of sorting out divergences of opinion amongst supervisors themselves and not via the institution as an intermediary. It was also stated that CP10 contradicts CP09, particularly in relation to the determination of significance.	detail the communication and cooperation procedures between supervisors and the group or its subsidiaries. CEBS doesn't see any contradiction between CP09 and CP10, as CP09 provides guidance on the significance of entities within cross – border groups and local markets, for the reason of supervisory cooperation, while CP10 provides guidance on the significance of business units and exposure classes, for the reason of permanent exemption from the IRB.	N/R
COOPERATION BETWEEN THE SUPERVISORS AND THE INSTITUTIONS	Some respondents stated that in the CP10 there is lack of emphasis on the dialogue with the institution.	Annex I of CP10 describes in detail the communication and cooperation procedures between supervisors and the group or its subsidiaries. However, an additional paragraph has been introduced to highlight the involvement of the institution in the process.	See paragraph 43a.
INTERACTION BETWEEN CP10 AND CP05	Some respondents emphasised the importance of the Supervisory Disclosure Framework (outlined in CP10) in enhancing regulatory level playing field in the likely interpretations of the AMA and IRB approaches throughout Europe. Therefore they propose that CEBS should be clearer as to how it sees the two frameworks interacting (e.g. whether national guidance submitted	Guidance given by the national supervisor on the implementation, validation and assessment is already part of the Supervisory disclosure framework. However, this was highlighted in the	See footnote 2.

	as part of the Supervisory Disclosure Framework will be used to highlight areas of inconsistencies between supervisors in the implementation of the final provisions in CP10).	introduction of CP10.	
SCOPE OF APLLICATION	Some respondents suggested that CP10 should explicitly mention that it is also intended for banks active at a national level, to ensure the level playing field	Clarification has been given at this point.	See paragraph 21.
INCENTIVES TO MOVE TO MORE ADVANCED APPROACHES	A respondent suggested that the incentives to move from the Standardised Approach (SA) to IRB to AMA must be evident in the guidance CEBS sets out in relation to implementation, assessment and validation. Moreover, it was emphasised that there is a need for a consistent approach from European supervisors to the conditions under which an institution can move between approaches.	CP10 is not supposed to cover these aspects, since it clearly focuses on AMA and IRB matters.	N/R
FOCUS ON BACK OFFICE	A respondent stated that CP10 focuses too much on the back office with no explicit mention of front office and suggested that there should be a more balanced approach.	CEBS elaborates on the CRD, which itself is focussed on, as the comment phrases it, "back office" matters.	N/R
DOCUMENTATION FOR USE TEST	A respondent mentioned that the combination of documentation requirements arising from the use test and those related to the obligation of institutions to demonstrate to their supervisors that they meet minimum requirements at the outset and on an ongoing basis bear the danger of imposing excessive regulatory burdens if too much granularity is applied to that demonstration and if the use test is interpreted too literally.	The granularity of information asked for depends on the supervisors involved in the approval process and what they consider as an adequate level of detail	N/R
DOWNTURN LGDs – PILLAR 1	A respondent claimed that downturn LGDs should not be included in the Pillar 1 framework, as downturn periods are adequately treated through stress testing under Pillar 2.	Stress testing under Pillar II does not sufficiently cover the CRD requirements in this respect. LGDs appropriate for an economic downturn if more conservative than long-run average are an integral part of calculation of supervisory IRBA capital requirements (Pillar I).	N/R

	Furthermore it was stated that the calculation of downturn LGDs is an evolving process, which cannot advance until there is concrete data from real-life experience. Therefore it was suggested that supervisors should not release guidance on Stress LGDs in CP10, as it will inevitably constitute prescriptive guidance, which would not be based on the necessary data.	CP10 constitutes a tool for increased convergence reflecting supervisory experience and expectations with regard to AMA and IRB approaches at the beginning of 2006. However, this does not mean that this constitutes a final product; as evolving industry practices and the practical application of CP10 will increase supervisors' experience, these guidelines will be subject to review after an appropriate period of time following the CRD implementation and application.	See paragraph 4 and 9.
STATISTICAL / EXPERT SYSTEMS	Some respondents mentioned that in section 3.3.3 CP10 primarily refers to statistical systems, with the only reference to expert systems made to the low - default segments. However, many institutions use expert systems in segments with a large number of customers, as they do not want to assess their customer base only on statistical criteria only but also taking into consideration a subjective/qualitative evaluation of the customer's ability to repay loans. Therefore it was suggested that guidelines need to be included, e.g. for validation of expert systems.	Reference has been made to expert judgement systems already in paragraph 209.	See paragraph 209.
AMA – INVESTMENT FIRMS	One respondent stated that the competent authorities should allow investment firms to implement AMA under a specific set of rules that are less exhaustive than those applicable to large international institutions. For competent authorities, accepting an appropriate method is all the more justified since investment firms generally have only two or three business lines in which operational risk is already identified and managed. Moreover, because of their size and the nature of their business, these firms do not expose the	CEBS has stressed the proportionality principle several times throughout the paper and thinks that these concerns are addressed sufficiently.	N/R

	European financial system to systemic risk.		
FURTHER WORK	Some respondents stated that the industry objects to the preparation of additional detailed rules issued in the course of a further round of consultation as their implementation plans are already in place. On the other hand some respondents claimed that the industry would like clarity on if, when and by whom areas such as Securitisation and Exposure at Default. Finally, another respondent stated that CEBS should conduct further work to address the following issues: - Principles of assessing the minimum requirements of the collateral (Annex VIII, Part 2). - Calculation of the expected losses and their capture in banks internal business practices - Possibility of internal data adjustment (outliers, historical data, shared data in the banking group and others) - The definition of the loss threshold and its impact on the computation of expected and unexpected loss - External data and their scaling to the environment of the bank - The determination of soundness standards based on a 99.9% confidence interval The recognition of correlations and their incorporation into measurements system.	The industry answers were very heterogeneous in this respect. Some associations wanted CEBS not to start on any additional folders at all, others asked at least for further guidance on quantitative AMA matters. CEBS found it useful and necessary to elaborate further at this stage on Downturn LGDs, the assignment of equity, securitisation and purchased receivables exposures and on quantitative AMA aspects.	N/R
Comments on specific paragraphs			
1. Introduction			
Para 21	According to paragraph 21, supervisors are to view an institution which has opted to apply an AMA or IRB approach as a "sophisticated institution". Still they argued that there are good reasons why small and medium – sized institutions may decide to use internal rating systems without applying particularly risk – sensitive methods of measuring and managing risk in all areas. If this wording is retained, many institutions would be prevented from using a more advanced	CEBS accommodated this comment by eliminating the provision that institutions opting for IRB and AMA approaches will be viewed as sophisticated institutions.	See amended paragraph 21.

	approach, which would be at odds with the objectives of both Basel II and European legislators. Therefore it was suggested to delete the last sentence of paragraph 21.		
Para 23	It was claimed that according to paragraph 23, supervisors are only allowed to impose more stringent or more detailed requirements, however, as CP 10 is not legally binding, the industry objects to its implied status as yet another set of minimum requirements. One respondent claimed that additional requirements should be imposed only in cases where this is necessary, on the basis of parameters such as the national culture and legal environment and should be disclosed by national supervisors. In this context CEBS is encouraged to assess whether the stronger requirements imposed jeopardise the level playing field report its findings to the European Parliament.	This paragraph reflects the fact that the contents of CP10 constitute a common understanding among CEBS members. In addition, it mirrors the procedure of the CRD, under which member states have the possibility to impose stricter rules.	N/R
Para 29	A response stated that the implications of the last sentence of paragraph 29, i.e. "It may therefore be necessary to determine in each case which rules exactly apply for the retail exposure class" need to be clarified.	CEBS addressed this by rewording the last sentence of paragraph 29.	See amended paragraph 29.
2. Cooperation procedures, approval and post approval process			
2.1. Cooperation procedures between supervisory authorities under Article 129			
Para 34, 37 and 38	One respondent stated that CEBS' guidelines contain information about the new "pre – application process", which in essence prolongs the approval process as established by the CRD. Therefore it is suggested that this section is further structured.	The reference to the pre – application process is intended to provide flexibility to institutions and supervisors, as they will wish to take advantage of the time leading up to the application itself.	N/R
Para 35	In one response it was stated that CEBS may have missed an opportunity here to streamline the application and decision process by not including a formal requirement for supervisors to communicate the outcome of relevant "exploratory" discussions about	CEBS accommodated this comment by amending paragraph 35.	See amended paragraph 35.

	the use of internal models.		
Para 38	Comments on paragraph 38 include the following: The interaction between the pre – application phase and the application process is unclear. Therefore it was suggested that the formal application stage should only be the conclusion of the pre – validation work and not involve duplication of duties. All of the bullets in paragraph 38 refer to what supervisors are expected to do in the pre – application period, with the exception of the fourth bullet point, which refers to the need that "The group familiarises itself with the approval framework and the requirements and standards concerning the information that it will need to submit". As a result it is proposed that different sections are drafted,spelling out clearly what institutions are expected to do and what supervisors are expected to do (e.g. this bullet point could be moved to Section 2.2.1 "Application"). Reference should be made to the situation where the consolidated supervisor comes from outside the EU.	CEBS accommodated this comment by adding a new paragraph in the CP10. CEBS believes that the there is no need for further clarification regarding this point, since Annex I describes this in considerable detail. CEBS now addresses this point in the introduction of CP10	See paragraph 44a. N/R See paragraph 15a
Para 39	One response stated that the language in this paragraph leaves the roles and responsibilities of the home and host supervisors in Europe very open and suggested CEBS to provide more clarity over which supervisor is going to do what in relation to the IRB approach. It was argued that at a minimum a reference to the relevant sections of CP09 "Guidelines for cooperation between consolidating supervisors and host supervisors" is necessary.	A reference in the text has been set to Annex I of the paper, which is identical to the corresponding Annex in CP09	See changed paragraph 39
Para 40	Some respondents stated that it is not clear why the section on "host branch" responsibility is singled out, while responsibilities of a subsidiary are not referred to. Moreover they argued that CEBS need to make clear that this paragraph does not imply that host supervisors interfere heavily in the process and that	CEBS has amended paragraph 40 to take account of this issue	See amended paragraph 40

	appropriate division of responsibility needs to be provided.		
Para 43	One respondent declared that supervisors should have an ongoing dialogue with the banking group. Therefore, in the unlikely event that supervisors cannot reach an agreement, institutions should be kept abreast of the situation.	CEBS accommodated this comment (ongoing dialogue) by adding a new paragraph in the CP10.	See paragraph 43a.
2.2. Approval and post – approval process			
2.2.1. Application			
2.2.1.1. Minimum Content			
Para 47	Comments on paragraph 47 included the following: "The supporting material must be understood as an official and legally binding statement of the applicant" the word "legally" should be deleted because it is confusing, it does not add value and it could be interpreted as implying that institutions do not usually provide their supervisors with reliable or honest documents. If the application pack is to be legally binding, supervisors must accept a strong disclaimer for the fact that changes in institutions' portfolios, activities and organisational structure occur daily. Therefore only material changes during the six month application period should lead to an obligation on the side of institutions to update the application package.	CEBS accommodated this comment by deleting this sentence from paragraph 47. See CEBS analysis on the previous comment on this paragraph.	See amended paragraph 47. See amended paragraph 47.
Para 48	The official application form should be built on the outcome of the pre – validation phase and must not imply replicating what has already been done. Supervisors would get a more representative impression of the institutions' applications if they put more emphasis on dialogue rather than the compliance with a prescribed document request.	CEBS accommodated this comment by adding a new paragraph in the CP10.	See paragraph 44a.
Para 49	Some respondents suggested that the cover letter should state that the members of the group are applying jointly for the permissions referred to in the relevant articles of the CRD. In addition to this, since	The provisions, which the application should refer to, apart from the ones mentioned in Articles 84(1), 87(9) and/or 105	N/R

	permission to use internal ratings systems is given on the basis of national rules, the application should also refer to the relevant provisions in the member state of the consolidating supervisor.	of the CRD, will be communicated to the institutions at an early stage of the application process.	
Para 50 and 54	As far as the requirements for the IRBA application are concerned, only information that is relevant for the evaluation of the application should be required by the banks, with no prescribed manner of the presentation of the information. Requirements for the manner of the presentation of the information should be omitted, especially if it is different from the presentation already required at the national level.	Paragraph 54 gives only indicative examples. Paragraph 50 should deliberately be read as minimum standards.	N/R
Para 50 and 56	One response stated that these paragraphs are clearly related as paragraph 56 provides for a definition of terms used in paragraph 50. Therefore it is suggested that CEBS redrafts the requirements together or in some other way linking them both together.	CEBS accommodated this comment by subsuming paragraph 56 under paragraph 50 and 51.	See amended paragraphs 50 and 51.
Para 53	This paragraph states that documents, such as all internal documentation, have to be made available to supervisors upon request. With regard to this statement: One respondent stated that this paragraph requires institutions to provide all internal documentation to the supervisory authorities during the certification procedures of a rating system and suggested to amend this paragraph so that only documents, which are absolutely necessary for a proper judgement on the approval of the rating system, need to be provided to the authorities. Finally another respondent requested an exhaustive list of all documents and information necessary for approval of the application to be provided, so that institutions are able to identify in advance which documents are subject to inspection by the supervisory	This is not the meaning of this paragraph. Moreover, it is not expected that institutions will be asked for the entire documentation they have on their IRB and/or AMA approaches. Still, supervisors should not be unnecessarily restricted in asking for justified additional documentation. This would be against the principles – based approach of this paragraph. Its aim is simply to provide a set of minimum documentation that does not	N/R N/R

	authority.	have to be negotiated every time the home and host supervisors start the process.	
Para 54	In paragraph 54 one respondent mentioned that the information contained in the points 2 and 8 is the same. In addition, the information contained in point 5 does not bring light in terms of evaluating a rating system. Another respondent also suggested rephrasing point 5 from "... differences between the calculation of risk weights for regulatory and internal purposes" to "differences between the calculation of used parameters for regulatory and internal purposes", as economic capital does not work on the basis of risk weights.	CEBS accommodated this comment by deleting point 8 and amending point 5. See CEBS analysis on the previous comment on this paragraph.	See amended paragraph 54. See amended paragraph 54.
Para 57	Overall, some respondents expressed their concern that the required documentation list is excessive, resulting in increased administrative burden for institutions, and unclear. More specifically they requested clarification with regard to the third, fifth and sixth point. In the fifth point, the need to have a separate overview of the validation process was questioned in one response, as it was argued that this is more than adequately covered in the IRB and AMA sections of the paper. Furthermore, regarding the sixth point, it was suggested to make apparent that the information relating to IT elements should exclusively refer, in a material way, to advanced methodology applications.	CEBS acknowledges the need for further clarification and amended point three of paragraph 57. This explicitly refers to the internal governance structures, into which the validation process is embedded. CEBS accommodated this comment by amending the sixth point of paragraph 57.	See amended paragraph 57. N/R See amended paragraph 57.
Para 58	The implementation plan in paragraph 58 of CP10 should not be a "binding description of the institution's own implementation dates (…)" but should rather be a best efforts commitment that the institution will endeavour to respect. Furthermore, given that	CEBS accommodated this comment by amending paragraph 58.	See amended paragraph 58.

	institutions have to provide such a plan, the conditions under which supervisors may impose the roll out sequence should be made known in the CP10. It could be argued that an imposed roll out sequence should only be allowed if an institution is clearly not making sufficient efforts to respect its own time table.		
Para 59	The level of detail and the style of language here (e.g. "must" and "laid down") is inappropriate. The level of the breakdown and whether details of firms' staff training is a useful part of the implementation plan is questionable. The breakdown should be by whatever makes the greatest sense in terms of describing the implementation plan. For example, a breakdown by supervisory asset class is unlikely to be helpful to either prepare or rely upon. Moreover it is argued that it is too late to include the "preparation of the technical concept for IT implementation of the rating methodology" in the implementation plan.	CEBS substituted the words "must" and "are to" with "should". This paragraph reflects a common understanding among the CEBS members	See amended paragraph 59.
Para 60	It is not clear how "gross credit volume" differs from "credit aggregates in the exposure value" or what is meant by "risk content".	CEBS accommodated this comment by deleting these phrases in paragraph 60.	See amended paragraph 60.
Para 62 to 64	Comments on paragraphs 62 – 64 include the following: Some respondents stated that on the issue of self – assessment there should be no guidelines regarding the staff responsible for implementation, as these are internal assessments by the institutions themselves and they should be able to decide internally who should conduct the assessing. More specifically, it was argued that the "independent risk assessment function" may not be the most appropriate function to sign off on an assessment process. Therefore it was suggested to delete this text and replace it with broader guidance as opposed to a detailed process, avoiding the use of the word "should" to better reflect the status and intention of the guidance.	These paragraphs are worded in a way, that this should explicitly be the decision of the institution; the last sentence already uses could" instead of "should".	N/R

	Alternatively, paragraph 64 should not put the emphasis on the self assessment being conducted by "an independent risk assessment function". In contrast to this, one respondent requested that supervisory authorities make available predefined forms for the self – assessment of banks regarding the fulfilment of the minimum requirements set out in the CRD. This respondent also suggested that, if possible, such forms should be used EU – wide, or in case of differences, they should at least be recognised mutually. The requirements of these forms should be limited to the absolutely necessary but should include all information about the implementation status of the IRB in the different institutions.	See CEBS analysis on the previous comment on paragraphs 62 – 64. This would be against the principles – based approach of this paragraph and would constitute unnecessary regulation.	N/R N/R
2.2.1.2. Language and signatory			
Para 67	One respondent claimed that the costs of translation would imply a high level of burden for institutions, thus any translation should be at their discretion, while in case that the concept of a qualification certificate is introduced, it could be prepared in English. Two respondents state that the most basic documents could be translated in two languages at most while the more technical documents should only be provided in the working language of the institution. Only summaries and abstracts should be made available in a handily manner and only on site investigation.	CEBS acknowledges the concerns expressed by the respondents, however translations may be necessary for the participation of all involved supervisors on an equal basis.	N/R
2.2.1.3. The starting of the six – month period			
Para 69	Paragraph 69 states that "If the application lacks essential parts or is otherwise deemed incomplete, the supervisor will communicate this to the institution". CEBS should clarify that "otherwise deemed incomplete" refers only to the provision of the documentation stated in advance by the supervisory authority, as all other types of incompleteness can be identified during the assessment process.	No further convergence could be reached at this stage.	N/R

	Alternatively, this wording should be deleted from paragraph 69. Moreover, further clarification is needed with regard to the specification of the exact moment when the six - month period starts.		
2.2.2. Supervisor's Assessment			
Para 72 - 79	One response points out that there is the need for more recognition by CEBS of the informal work already underway in relation to the application process (e.g. UK FSA "shadow" application process). Given the amount of work that needs to be done on the part of supervisors and institutions to meet CEBS requirements, it was not possible to wait for the final CRD text to become available, and as a result many institutions and regulators will simply seek to update their application work rather than submit and review brand new documents. Moreover, it is mentioned that the language in paragraph 97 is more helpful than that of the earlier paragraphs.	CEBS has taken account of this comment by amending paragraphs 72 and 73.	See amended paragraphs 72 and 73.
Para 74	Employing external staff in the validation process by supervisors could lead to potential conflicts of interest, in particular if this external staff is sourced from consultancy firms.	This issue does not exclusively concern CP10. CEBS acknowledges that conflicts of interest may indeed occur. Confidentiality issues will be taken into account by supervisors in general and not only as part of an AMA or IRB application.	N/R
Para 75	One respondent made reference to the fourth point of paragraph 75 "Meet all other minimum regulatory requirements" suggesting adding "insofar as applicable", as not all requirements apply under all approaches or to all institutions.	CEBS accommodated this comment by amending paragraph 75.	See amended paragraph 75.
Para 79	With regard to paragraph 79, some respondents do not consider appropriate for supervisory authorities to use the institutions' own resources and/or external resources for the assessment of the IRB application.	In this paragraph CEBS intention was that the work already carried out by the institution can be used by supervisors. Thus	See amended paragraph 79.

	Their concern is that if no reasonable procedures are put in place to control supervisors' requests, the requirements for institutions will become unnecessarily demanding.	paragraph 79 was amended to clearly reflect this.	
2.2.3. Decision and permission			
Para 82	This paragraph states that a joint decision could be the dismissal of the application. One respondent stated that while this is indeed true, it should be clear that the rejection of an application at the decision stage should only happen in exceptional circumstances. If there has been sufficient dialogue with the institution in both the pre – application and application phases, it seems strange that an application would be rejected at the end of the application process without the institution having made the adjustments necessary to avoid this situation	CEBS considers this a valid argument, but has already mentioned in Paragraph 70 that the clock can be stopped as an alternative to rejecting the application.	N/R
Para 84	In the third point of paragraph 84 it was suggested to delete "suggestions for the possible improvement of any imperfections".	This bullet point was included to provide more flexibility for institutions (recommendations instead of terms and conditions).	N/R
2.2.4. Change in the consolidating supervisor			
Para 88	In the case of cross border mergers and acquisitions and other structural changes that may have an impact on the planning of the approval process, a restriction on admissibility of such modifications of the approval procedure should be included in the relevant sentence ("However, cross border mergers…") in the event that contents (such as, e.g., roll-out plans) have already been agreed in principle with the national supervisory authority by means of an advance consultation process. Such stipulations should continue to have binding effect also on a new consolidating supervisor. This refers to a type of merger that is not described in Paragraph 110.	The examples provided in paragraph 88 are meant to be non-exhaustive and this has been further clarified in the text	See amended paragraph 88.
2.2.5. Post - approval process			
2.2.6. Transition period			
Para 92	Paragraph 92 contains information in relation to the transition period and indicates that "preliminary	The intention of this paragraph is to make clear that the purpose	N/R

	applications cannot be considered formal applications at any time prior to the transposition of the CRD". In practical terms, this would result in a delay in the enforcement of the Directive.	of the transition period is to facilitate timely enforcement of the CRD.	
3. Supervisor's assessment of the application concerning the minimum requirements of the CRD - Credit Risk			
3.1. Permanent Partial use and roll – out			
3.1.1. Roll – out			
Para 99	Some respondents requested additional information regarding the proposed portion of the exposures to be covered by IRB in order to start the approval process and what happens in the case that home and host supervisors set different levels for coverage.	No further convergence could be reached at this stage regarding the portion of the exposures to be covered by IRB in order to start the approval process. Regarding the possibility that home and host supervisors set different levels for coverage, it will have to be solved during the pre – application and application phase.	N/R
Para 99 to 101	As a matter of principle the different approaches should have equal status during IRB roll – outs.	No ranking of different approaches is made in these paragraphs.	N/R
Para 101	Comments on this paragraph include the following: This paragraph recognises that supervisors are likely to apply different approaches to the "roll – out" and therefore it undermines one of the key objectives of CEBS stated in paragraph 14, i.e. "to reduce inconsistency in implementation and supervisory practices". The roll – out rules should be made publicly available and subject to convergence between Member States.	No further convergence could be reached at this stage. The roll-out rules may depend heavily on group specifics. Convergence in this area may therefore be more harmful than helpful	N/R N/R
Para 103	According to one response, paragraph 103 outlines further detail around the time horizon for institutions roll – out plans ("short enough to avoid…" and "long	No further convergence could be reached at this stage.	N/R

	enough to ensure…"), and yet in recognising the need to be flexible, rules out anything that might achieve further consistency.		
Para 104	With regard to paragraph 104 part of the industry required further clarification on what is meant by the "sequence of exposure classes" in the roll out of the IRB approach. One respondent stated that only the institution should decide, based on its business model, which parts of the portfolio will be rolled out first.	No further convergence could be reached at this stage.	N/R
Para 105	This paragraph seems to negate the possibility of ever extending the scope of the IRB approach to asset types that may grow in importance in the future.	This was not the intended meaning. However, to make this clearer, in paragraph 108 the word "situations" was substituted with the word "examples" to emphasise the principles – based approach of this paragraph.	See amended paragraph 108.
Para 106	Although in this paragraph CEBS recognises that it is the institutions' responsibility to meet the "minimum requirements", it is still unclear as to what those minimum requirements are. This could be further clarified by including a reference to the minimum requirements set out in the CRD (Annex VII – Part 4 for IRB credit risk and Annex VIII – Part 2 for CRM).	The following sentence of this paragraph makes reference to the CRD and the CRD requirements are mentioned at several points throughout the text.	N/R
Para 107	Comments on this paragraph include the following: In stating that some supervisors may introduce "supplementary binding milestones during the roll – out period" and in proposing three loosely defined options for supervisors to choose from in order to assess whether minimum standards are being met, CEBS has fallen along way short of achieving consistency in implementation of roll – out plans across the EU. Fixing a time horizon for the roll – out is questionable since the institutions' business strategy is not taken into account.	No further convergence could be reached at this stage. No fixed time horizon is set in the CP10.	N/R N/R

Para 108 to 109	Some respondents stated that strategic decisions that may require an alteration of the rollout plan should not be limited to the reasons mentioned in paragraphs 108 and 109. Institutions must be able to decide how to allocate their resources and as long as thresholds are met and the supervisor is informed, deviations should be acceptable.	Paragraph 108 was amended to emphasize the indicative character of the examples given.	See amended paragraph 108.
Para 109	In the event of a change in the business strategy it would not be expedient to stick to the "same old" time horizons for roll – outs since in such a case the sequences must first be established and the prerequisites for fulfilment of the IRB criteria must be created gradually.	The possibility for an institution to justify a change in the roll – out is provided for in paragraph 109.	N/R
Para 110	Part of the industry requested CEBS to explicitly mention that for newly acquired subsidiaries some leniency is provided in terms of time lines and use test.	This issue will be dealt with under the roll – out agreements between home and host supervisors.	N/R
3.1.2. Permanent partial use			
Para 112	Part of the industry requested to allow permanent partial use for certain exposures, such as real estate leasing exposures that make up low default portfolio of a small number of large exposures.	This would require a change of the CRD, which is beyond CEBS mandate.	N/R
Para 113 to 114	As exemptions are already subject to supervisory assessment, the bureaucratic burden of the required justification should be reduced. Cherry picking is already prevented by setting (low) thresholds and by the required supervisory approval.	These paragraphs do not prescribe requirements but set targets, following a principles – based approach.	N/R
Para 114	According to this paragraph the absence of sufficient default data is a clear key determinant of whether the IRB approach can be adopted or not. One respondent claimed that in the case of such a portfolio the *modus operandi* should be permanent partial use as laid down in the CRD and the choice to apply external data pooling should continue to lie with the institutions. Moreover, it was requested that CEBS explicitly states this in paragraph 114.	Paragraph 114 clearly provides for the possibility to prove that it would be unduly burdensome for the institution to implement a rating system, (cf. Art. 89(1)a and b of the CRD).	N/R
Para 115	One respondent inquired whether the "delimitable homogeneous groups of exposures within a group"	CEBS addressed these comments by inserting a new paragraph in	See paragraph 115a.

	covers the case where an institution that intends to implement IRB on retail exposure class and has an immaterial private banking exposure within the retail portfolio is allowed to use standardised approach on private banking exposures permanently. A more general question on this issue was posed by another respondent, who requested clarification regarding the possibility to apply the standardised approach for a part of an asset class otherwise covered by the IRB approach (e.g. clearly defined sub – portfolio of the corporate asset class).	the CP10 that provides further clarification.	
Para 116 to 119	One respondent requested CEBS to specify that any amount of investment in triple – A rated money market funds would be deemed an immaterial exposure due to their low risk profile, for the purposes of Article 89(1.c). It was argued that failing to address this issue would give rise to unintended consequences, namely: (a) that institutions using the standardised approach would have an advantage over institutions using the IRB approach in respect of holdings of triple – A rated money market funds; and (b) that interbank deposits would have an advantage over triple – A rated money market funds in respect of institutions using the IRB approach, notwithstanding that these two products are economically substitutable.	Paragraphs 116-119 are held in a high level, principles based approach style, going too much into details here could be overly prescriptive.	N/R
Para 118 to 121	Part of the industry requested CEBS to include a presumption that the consolidated supervisors' definition of materiality will be the one that counts.	This issue will be dealt with under the application and pre – application phase between home and host supervisors.	N/R
Para 119	On permanent partial use CEBS states that an additional measurement of materiality is appropriate at a national level, which introduces a new national discretion into the framework allowing national supervisors to set thresholds limiting the use of the standardised approach for immaterial portfolios.	"can be regarded doesn't mean "should be regarded".	N/R
Para 120	One respondent stated that a more convergent approach, whereby allowed immateriality percentages	No further convergence could be reached at this stage.	N/R

	are aligned would be preferable.		
Para 122	Some respondents argue that this paragraph seems to imply that for permanently exempted assets, a breach on materiality can only be remedied by a "remedial action plan", which then becomes a "roll out plan" a couple of lines later. This seems to say that once materiality has been breached then the appropriate response is to apply for IRB use on these assets.	This interpretation is not intended by CP10 and not conveyed by the text.	N/R
3.2. Use test			
Para 125 to 145	One respondent argued that the rules on the use test are unclear and sometimes contradictory and provided as an example the possibility of using different risk parameters internally to those used for regulatory purposes. Therefore it was suggested that the relevant paragraphs of CP10 should be deleted as the rule in Annex VII, Part 4, paragraph 55 of the CRD, which clarifies that differences must be documented and the adequacy of the assessments demonstrated to supervisors, is sufficient.	CEBS believes that the relevant passages must be retained as they reflect the common understanding of its members. Moreover, the possibility of institutions using different estimates for the calculation of risk weights and internal purposes was further clarified by changing paragraph 129.	See amended paragraph 129.
Para 129 and 133	Some respondents consider unclear what assessment of differences is, as in their view differences only need to be identified and explained.	CEBS accommodated this comment by amending paragraphs 129 and 133.	See amended paragraphs 129 and 133.
Para 132	Two respondents requested that the wording used in paragraph 132 should not be interpreted as restricting the way institutions intent to manage their risk and more generally their business. As an example they mentioned that the allocation of internal capital should neither be an obligation nor necessarily be based on regulatory capital and this is also valid for pricing. One of the above respondents requested the deletion of "e.g. between a pricing PD and the rating PD", arguing that the reference to pricing PDs should be taken off, as regulators should not look at pricing policies.	This is the meaning of the text already. Throughout the use test section pricing is mentioned as an explicit example for deviations allowed.	N/R N/R
Para 133	It should be clarified that the assessment of differences between internal and supervisory purposes is not an ongoing procedure, but only part of the approval	This refers to the use test and not the experience test and it thus not transitory but	N/R

	process. The use of technical language such as linear or homothetic is unnecessary for high – level guidance.	permanent.	
Para 134 and 140	In these paragraphs, CEBS requires the parameters used for internal purposes and for capital requirements purposes to be "strictly in line". However this is difficult to achieve in practice, as the parameters used for regulatory purposes are more conservative, due to regulatory requirements, and in addition are not adequate for internal uses such as pricing, economic capital allocation, etc.	CEBS accommodated this comment by deleting 'strictly" in paragraphs 140.	See amended paragraph 140.
Para 135	The requirements laid out in this paragraph could be further clarified. Where it states that institutions report "total capital requirements" before being granted permission to use IRB, CEBS should state whether it would expect this to include Pillar 2 charges or not. The last sentence of paragraph 135 is also unclear.	No further convergence could be reached at this stage.	N/R
Para 137	In paragraph 137 there should be some recognition to the fact that not all parameters are born equal, e.g. EAD is less well – defined and more difficult to validate than other parameters.	This is not related to the point made in this paragraph i.e. parameters need to be sufficiently consistent both for internal and regulatory use.	N/R
Para 138	This paragraph could state more clearly that parameter estimates used for Basel II regulatory capital calculations do not necessarily have to be used elsewhere within the institution.	This is the spirit of the entire use test section.	N/R
Para 140	There is a lack of clarity in this paragraph and possible inconsistencies with other areas of the text. In earlier paragraphs (129 &139) there are references to possible "differences" in ratings and estimates used for internal purposes. However, paragraph 140 then refers to the final parameters being "strictly in line". CEBS should acknowledge that in some circumstances internal estimates are likely to differ from those used for external purposes.	See CEBS analysis on the comment related to paragraphs 134 and 140.	See amended paragraph 140.
Para 141	Some respondents requested dropping the requirement for mandatory use in the corporate exposure class of risk factors, which can be derived from the financial statements. The reasoning behind this suggestion is	CEBS accommodated this comment by amending paragraph 141.	See amended paragraph 141.

	that although Annex 7, Section 4, Paragraph 19 requires all relevant and material information to be used when assigning ratings, this requirement can only refer to information which is available to the institution. If the institution has no information available from financial statements and is not legally required to obtain it as is the case in at least one Member State, it must be possible to assign a rating without using this risk data.		
Para 142	One respondent stated that a possible interpretation of paragraph 142 is that the use test of LGD and CF estimates is fulfilled if the institution establishes provision calculation that is based on risk parameter estimates that are broadly in line with minimum requirements.	This can only be decided during the approval process.	N/R
Para 146 to 149	One respondent requested a cleared definition of the experience test period and offered the following interpretation: the period before regulatory use is authorised, when (a) institutions may use rating systems broadly in line – and not fully compliant – with minimum requirements and (b) default and loss estimates do not yet play an essential role in the institutions' risk management, credit approval and internal capital allocation.	There are overlaps between the experience and the use test period. That is why paragraph 149 asks for a "a good mix…".	N/R
Para 147	According to paragraph 147 does not make reference to the use test of LGD and CF estimates in case of retail exposures. As paragraph 128 states the use requirement of rating systems can be reduced to one year, it follows that the use test of LGD and CF estimates may be reduced to one year as well in case of retail portfolios. This derogation should be stated accordingly.	This is explicitly stated in the second sentence of paragraph 147: "This provision applies to experience test for rating systems; it also refers to the retail exposure class".	N/R
Para 148	The reference to risk measurement and management is unspecific. Any topic might be covered by that (see also Article 84(2b)). The requirements are subsequently repeated e.g. in the sections on data and internal governance. There is no consistency between requirements.	No further convergence could be reached at this stage.	N/R

Para 149	One respondent stated that the use test consists in the requirement to fulfil the provisions of Article 84 (2b) (scope and use of data for internal purposes) and Article 84 (items 3 and 4) (experience test). CEBS should explicitly state that the time limit set with regard to implementation of an "experience test" must not implicitly be deemed a period for application of the "use test". Moreover, two respondents requested that the meaning of the "good mix" and the "use – test trade – off" is clarified.	See CEBS analysis on comment on paragraphs 146 - 149. No further convergence could be reached at this stage.	N/R N/R
3.3. Methodology and documentation			
3.3.1. Assignment to exposure classes			
3.3.1.1. Retail exposure class			
3.3.1.1.1. Individual persons and SMEs			
Para 151	CEBS could include reference here to the "reasonable steps" language of Article 86 (Para 4(a)), and thereby ensure consistency with the minimum requirements as set out in the CRD.	CEBS accommodated this comment by amending paragraph 151.	See amended 151.
Para 151 to 162	One respondent mentioned that only private individuals and SMEs are mentioned in relation with the retail asset class and suggested that it should be investigated whether exposures to other counterparties may also be, under certain circumstances, allocated to this asset class (e.g. retail – like exposures to municipalities).	The treatment of exposures not mentioned in this section of CP10 should be discussed on a case-by-case basis with the national supervisors.	N/R
Para 152	The definition of SMEs should take into consideration the situation faced by specialised institutions, to which financing files are brought by external "agents", when they grant financing for small amounts to large corporates. These files are treated according to the retail method, with particular recourse to scores or to highly automated tools, on both the levels of acceptance and management.	In paragraph 152 CEBS is only quoting the CRD. In addition, this section is supposed to provide only a principle based approach (153: institutions should have internal criteria …).	N/R
Para 153	This paragraph states that a borrower is a SME if it is "separately incorporated". It should be clarified in this context that "separately incorporated" does not include	CEBS didn't want to go too far into the details here. This is coherent to the second part of	N/R

	sole proprietors, freelancers, businesspersons or associations of sole proprietors. In addition, those for whom "the majority of his or her income is generated by the self-employed occupation" should not be excluded from requesting treatment as individual persons.	the paragraph, that provides only non-binding examples. However, the wording "separately incorporated entity" was chosen to avoid that sole-proprietors, freelancers, etc. have to be qualified as SMEs.	
Para 154	Two respondents claimed that the majority of the supervisory authorities assert that the risk weight curve for corporate exposures is to be used even for temporary and immaterial violations of the one million Euro threshold. However, it was suggested that the use of the risk weight curve for retail exposures should be allowed in such cases, because the risk of the exposures does not materially change while the short period that the threshold is exceed, excludes misuse.	Allowing the use of the risk weight curve for retail exposures exceeding the one million Euro threshold (even being in temporary violation) could encourage moral hazard, which is why CEBS recommends the corporate risk weight curve.	N/R
Para 155	Paragraph 155 does not reflect the most recent amendments to the CRD that exclude residential mortgages from the aggregation requirement.	CEBS accommodated this comment by amending paragraph 155.	See amended paragraph 155.
Para 155 to 156	Two respondents claimed that consumer credit exposures should not be aggregated, as (a) They are made to individuals while the one million Euro threshold and aggregation requirement applies only to SMEs under the IRB approach (Art 86, §4 (a) of the CRD). (b) This requirement must be applied to the total amount owed by the obligor to the entire group including any parent undertakings and their subsidiaries. Therefore, every institution would have to consolidate all exposures across the group for each individual retail loan exclusively for the purpose of defining the retail portfolio, independently of the scope of consolidation. This would seem to suggest that a credit institution would have to consider companies that are a part of a group of institutions or of a financial holding and therefore are not subject to regulation. (c) Consolidation of borrowers' exposures for the exclusive purpose of defining the retail portfolio would not be technically feasible due to partially non –	CEBS accommodated this comment by amending paragraphs 155 and 156.	See amended paragraphs 155 and 156.

	existent access for legal reasons as well as to different information system architectures and code systems. (d) The case of a client possessing exposures totalling more than one million Euro with several entities of a group is likely to occur only very rarely and should therefore be neglected from a risk point of view. Therefore it was suggested that paragraph 155 would be explicitly applicable to SME retail exposures only, while the methods provided in paragraph 156 are only illustrations of the ways an institution can deal with the aggregation task and are by no means mandatory. One respondent stated that paragraph 155 does not specify what a "connected exposure" is, therefore the connection could be as tenuous as a family relationship, or as specific as a declared interest as first named obligor on more than one exposures. On the other hand, paragraph 156 seems to favour the latter, more rigid definition.	The "group of connected clients" is mentioned in Art. 86 para 4 lit. a of the CRD and is defined in Art. 4 no 45 of 2000/12/EC.	N/R
Para 156	A number of respondents welcomed the introduction of minimum thresholds on individual exposures, but emphasised that there is the potential for practical problems arising with the guidance set out in the second bullet as regards how clients could accurately measure their exposures. Some of the above respondents requested the deletion of this requirement, as they argued that it does not reflect market realities.	CEBS accommodated this comment by deleting the second bullet of paragraph 156.	See amended paragraph 156.
Para 157	This paragraph should refer to exposures in general, rather than limit the scope to just "loans".	CEBS accommodated this comment by amending paragraph 157.	See amended paragraph 157.
Para 158	The degree of detail in paragraph 158 is excessive, as the situation described here, in the case of information passed from parent to subsidiary, is likely to vary from one case to the next.	CEBS accommodated this comment by amending paragraph 158.	See amended paragraph 158.
Para 159 to 160	In these paragraphs the minimum differences in processes required to differentiate retail and non – retail SME exposures should be described in more	The issue of "marketing activities" is covered in paragraph 159. A ranking of the	N/R

	detail. Differences in "marketing activities" should be mentioned in this regard. Ranking of the most critical components, practical examples and case studies could be helpful.	most critical components would be against a principle – based approach.	
Para 159 and 161	As regards the treatment of retail exposures, CEBS offers a good deal of flexibility in paragraph 159 but effectively retracts this in Paragraph 161. CEBS' intentions in this area should be clarified.	CEBS accommodated this comment by amending paragraph 161.	See amended paragraph 161.
Para 161	In this paragraph, CEBS comments on incentives for the institutions to adapt their risk management processes in order to fulfil the criterion in Article 86. In fact, the wording used in the CRD does provide the institutions with incentives to change their processes. As such, as long as processes are used as a basis for segmentation, such incentives will remain. The way to avoid such a situation is to focus strictly on the risks in the exposures and not on the processes.	This paragraph reflects the common understanding of CEBS members.	N/R
Para 162	One respondent requested a more specific explanation of the requirement "large enough to generate reliable estimates of parameters", while others argued that it is not true that "a significant number of exposures" implies that the number is large enough to generate reliable estimates of parameters and provided as an example "low default portfolios". Therefore they requested that this requirement is dropped. Finally, one respondent stated that an individual rating of a retail customer should not exclude by itself its classification as belonging to the retail sector. In addition, it should be included that individual ratings of retail customers are allowed.	CEBS accommodated this comment by deleting the two first sentences of paragraph 162. This was implied in the initial phrasing as well, but has been further clarified by changes in paragraph 162.	See amended paragraph 162. See changed paragraph 162.
3.3.1.1.2. Qualifying revolving retail exposures			
Para 167	One response stated that the volatility mentioned in paragraph 167 should be explained and added that the CRD does not require comparison with an institution's other retail asset classes. On this, another respondent claimed that the requirement to measure loss volatility for all three retail classes using the Qualifying	CEBS accommodated these comments by adding a new sentence in paragraph 167, allowing the use of alternative reference portfolios in the case that institutions cannot use their	See amended paragraphs 167 and 168.

	Revolving Retail Exposure class as benchmark is impracticable, as in practise the core customers have both QRRE and other retail products and it is problematic to make comparisons among them, as it is a matter of coincidence that may determine where the losses are booked. As a result it is suggested to compare the volatility of the loss rate of QRRE with the corporate exposures. Moreover, it was recommended to replace "any time on request" with "at least annually".	QRR portfolio and by amending paragraph 168 to mention the coefficient of variation only as an example of a suitable measure of volatility.	
Para 167 to 168	The coefficient of variation is not a proper mean for assessing the requirements according to paragraphs 167 and 168 as it is not based on robust estimators of location and variability.	CEBS accommodated this comment by amending paragraph 168.	See amended paragraph 168.
Para 168	Some respondents stated that as the QRRE is a new qualifying asset class within the CRD, it is not appropriate to mandate an approach to determining volatility and provide data, which is beyond the provisions made within the CRD. The definition is too prescriptive and would appear to prevent institutions that do not have loans in the other categories from qualification. Whilst this could be an approach institutions look to take, flexibility is needed to make a determination of the volatility through other approaches, to the satisfaction of the supervisor. Finally, one respondent suggested that this requirement should be deleted as it goes beyond the provisions of the CRD.	CEBS accommodated this comment by amending paragraphs 167 and 168.	See amended paragraphs 167 and 168.
3.3.1.1.3. Retail exposures secured by real estate collateral			
Para 169	CEBS should clarify the last sentence (i.e. if no collateral has been assigned, how can collateral value be included in the LGD estimate).	An institution may have various exposures to one obligor and a real estate may only be assigned to one exposure.	N/R
3.3.1.2. Corporate Exposure class			
3.3.1.2.1. SMEs in the corporate exposure class			
Para 171	Paragraph 171 states that "So far no industry has been identified where this applies". However, institutions	This phrasing was deleted from paragraph 171.	See changed paragraph 171.

	have identified countries for which they would like to apply total assets rather than sales. In certain Asian countries P&L statements are unreliable whereas balance sheets can be relied upon to reflect a company's reality. In such cases, institutions will indeed request their supervisors to apply the total assets indicator. Moreover, paragraph 171 states that "Substitution on a voluntary basis may be possible when the institution can present evidence that this is at least an equivalently conservative approach and is applied consistently over time and laid down in its internal rules". One response argued that the requirement to provide yet further evidence of conservatism implies that an institution choosing to substitute assets for sales on a voluntary basis (considering them to be a more meaningful measure) would have to maintain estimates based on both, in order to provide the relevant evidence of conservatism. This should be avoided.	How exactly this is done is up to the institution.	N/R
3.3.1.2.2. Specialised Lending			
Para 172 to 177	The document should contain some examples and case studies illustrating the problems of the specialised lending, e.g. types of exposures that are on the borderline between securitisation exposures and special lending exposures (see paragraph 175).	CEBS accommodated this comment by elaborating on a number of borderline cases between securitisation exposures and special lending exposures.	See newly incorporated Annex III.
Para 176	In many cases a SL borrower will not be a SPV, e.g. housing associations therefore this requirement should be dropped.	Paragraph 176 only gives an non-exhaustive example.	N/R
Para 179	One respondent pointed out that as some supervisors have already published their guidelines on the basis of the framework set in the CRD, the approach presented in paragraph 179 could cause a substantial amount of extra efforts, resulting both from the proposed definition and from the proposed capital calculation for specialised lending. Another response requested CEBS to reference the relevant national discretion item	Paragraph 179 only gives an non-exhaustive example.	N/R

	(including CRD reference). Moreover, it stated that as HVCRE is no longer referred to in the CRD the last two sentences should be removed.		
Para 182	One respondent agreed with CEBS that the Basel II slotting criteria for specialised lending exposures are a good starting point, but noted that in many cases these criteria need to be developed further, given that as they currently stand they are vague and difficult to apply.	CP10 constitutes a tool for increased convergence reflecting supervisory experience and expectations with regard to AMA and IRB approaches at the beginning of 2006. However, this does not mean that this constitutes a final product; as evolving industry practices and the practical application of CP10 will increase supervisors' experience, these guidelines will be subject to review after an appropriate period of time following the CRD implementation and application.	See also paragraph 4
Para 185 to 187	The approach proposed is overly prescriptive and could result in an excessive burden for institutions pretending to use preferential risk weights.	Annex VII part 1 paragraph 1 makes clear, that this slotting approach is for cases where a credit institution cannot demonstrate that its PD estimates meet the minimum requirements set out in Part 4. Therefore it should not be burdensome for institutions to use those risk weights instead of treating specialised lending exposures like other corporate exposures.	N/R
3.3.2. Definition of loss and default			
3.3.2.1. Definition of default			
Para 191	One response claimed that this paragraph is unclear and confuses risk quantification and rating assignment.	CEBS has taken account of this comment by changing paragraph 191.	See amended paragraph 191.
Para 192	Certain problems may arise from the requirement that	No further convergence could be	N/R

	the definition of default within the same country shall be based on regulatory definition of default. It is not obvious on what basis national authorities shall formulate one definition, how the requirement on materiality shall be unified in different institutions and mainly across countries (in case of banking groups). Therefore it is suggested that further clarification and consultation with market participants is required in this field.	reached at this stage.	
Para 193	This paragraph mentions that "Institutions should also take into account other indications of unlikeliness to pay that are suited to their obligors and facilities or the specificities of their market". This requirement should be dropped, as tracking additional indicators would require additional expenses and could be associated with competitive distortions.	This paragraph reflects the common understanding of CEBS members.	N/R
Para 195	Part of the industry claimed that since CEBS has not defined the materiality threshold, which will be defined differently across EU member states, the "minimum criterion" referred to here is unlikely to prevail. In addition one respondent requested a definition of what constitutes a technical arrears case if there is a distinction between arrears and technical arrears.	This may be addressed in future work of CEBS. No further convergence could be reached at this stage. A typical example for technical default events are circumstances short of payment default e.g. a covenant violation.	N/R N/R
Para 195 to 196	One respondent stated that analysing the "cure rate" seems overly burdensome, and therefore it would be preferable that the supervisor sets thresholds.	Paragraph 196 has been rephrased and uses a principle-based approach.	See change in paragraph 196
Para 197	Comments on paragraph 197 include the following: CEBS mentions in this paragraph the possibility to rate groups instead of legal entities, as opposed to what is stated in Annex VII part 4 paragraph 23. Although the opportunity to base ratings on consolidated figures as opposed to individual legal entities is welcomed, the divergence from the CRD is confusing.	Annex VII, part 4, paragraph 23, stated that "each separate legal entity to which the credit institution is exposed shall be separately rated", not that the rating should be based on a solo balance sheet. In addition to that, treating a group as a single	N/R

		rating object does not exempt institutions from assigning a rating to each separate legal entity.	
	The term "consistent" used in this paragraph should be defined in detail. Rating: A group rating may under certain conditions (e.g. liability) be assigned to an individual group company. This means that within a group of banks the rating will be made top - down (if appropriate with regard to credit rating). Default: A group of companies (which is not a legal entity) cannot be in default, but only the companies belonging to it. It has not been clarified yet whether default of one subsidiary means that all companies belonging to the same group are in default. As the case may be, default of a subsidiary could result in default of the entire group (this would mean an automatic bottom – up effect of default). This would lead to far reaching financial consequences. However, such "passing on" should not be determined generally because there may not always be economic reasons.	This should not be considered by the industry as an automatic bottom – up approach. There should be consistency in the level of consolidation were the rating is assigned and default is decided. As a result the institution has to demonstrate to the supervisor that the default of a small subsidiary will not affect the group.	See amended paragraph 197.
	Furthermore, it is not clear how to interpret "…legally bankruptcy remote..." in this connection, i.e. what criteria justify separate treatment of parent and subsidiary.	The term "legally bankruptcy remote" has been removed from the text.	See changed paragraph 197.
3.3.2.2. Definition of loss			
Para 198 to 199	The requirements in these paragraphs are too granular, especially as regards the data required to calculate economic loss. In this area there is a reflection of indirect costs in industry practice and the high level of granularity adds little value. Furthermore, it would be essentially impossible from a technical viewpoint to capture all recovery costs at an entity level. The granularity could in fact lead to an arbitrary inaccurate measurement. The requirements also do not reflect the	The requirements in paragraph 199 reflect the common understanding of CEBS members.	See changed paragraph 199.

	development of PDs in relation to LGDs and could act as an obstacle to evolution towards best practices in this fast developing area. This is a typical example of where the CP10 guidance could result in supervisory practice driving banking practice.		
Para 199 to 200	The definition of realised loss and loss in LGD is unclear and not obviously consistent with paragraph 168.	Paragraphs 168 and 200 were amended in order to provide further clarification. 'Losses' described in paragraph 168 are explicitly meant to not be necessarily identical to the realised LGD in terms of paragraph 217.	See amended paragraphs 168 and 200.
Para 202	Since institutions have a keen interest in accurately estimating the loss given default, the best way to take into account that certain outstanding amounts are paid at a future date should be left to their judgment. As further assumptions are needed to calculate the contribution of future cash flows to the loss given default (e.g. date of cash flow, recovery amounts) there will be estimate errors. Prescribing how to determine the appropriate discount rate thus only appears to enhance precision.	This paragraph was amended and has indicative character now.	See amended paragraph 202.
Para 203	The language in this paragraph is confusing. No clear distinction is made between "realised LGDs" and "estimated LGDs". Clarity is essential given concerns about data capture and the level of granularity between what is known and what can be inferred. CEBS should be as flexible as possible in this area to allow institutions to develop suitable methodologies around the data available.	The paragraph has been reworded.	See amended paragraph 203.
Para 205	This does not acknowledge or accommodate operating models where costs are held centrally rather than being allocated back to each "defaulted exposure" or "pool", and it is not desirable to introduce cost allocation that is for good reason not part of the normal business / risk model. Moreover, the concept of indirect cost is highly debatable (e.g. if one wanted to sell the	Paragraph 205 was amended so that institutions do not need to include these costs, if they can demonstrate that they are not material.	See amended paragraph 205.

	loan, a fair value may not include these types of costs) and the inclusion of corporate overhead is very arguable and not a standard practice. Finally, part of the industry disagrees on the detailed definition of work out and collection cost and wishes to know whether in the case of evidence that all costs of the work out are included, the "appropriate percentage" could be zero (as long as institutions are able to justify this).		
Para 206	Here CEBS introduces another concept of materiality (in the allocation of costs) that institutions are expected to define and document, without providing further guidance on what might be considered acceptable / unacceptable or how this definition of materiality might interact with others required. Requirements in this paragraph oblige institutions to collect information on "non – material" costs as if they were material. Whereas it is reasonable to expect a documented policy for the consideration of "materiality", keeping track of these costs would represent an excessive burden. Moreover, there is some concern around the inclusion of indirect costs in the estimation of LGDs. The requirement to allocate corporate overheads with a high level of granularity is not in line with operating models where costs are held centrally. The prudential benefit from such a high level of capture would be disproportionately low to the costs of putting in place the necessary systems on a group – wide basis. CEBS must consider its guidance in the context of cost to the industry where the added – value is low.	The paragraph follows a principle – based approach, allowing institutions to define materiality based on their individual characteristics. Paragraph 206 has been changed accordingly. This paragraph reflects the common understanding of CEBS members.	N/R See new wording of paragraph 206. N/R
3.3.3. Rating systems and risk quantification			
3.3.3.1. Probability of Default (PD)			
3.3.3.2. Loss Given Default (LGD)			
Para 215 to 217	The requirements for LGD estimation will lead to two different processes: one for internal use and a second	This is addressed in the new downturn LGD section.	See paragraphs 239a to 239e.

	for supervisory use (e.g. downturn LGD), which is impractical.		
Para 217	Comments on paragraph 217 include the following: The requirement to record realised LGDs at as granular a level as possible is burdensome and does not reflect requirements in some jurisdictions where it is generally more appropriate to record loss at the level of the operation. Paragraph 217 would appear to refer on losses and as such could be captured as part of the Loss Event database.	CEBS accommodated this comment by amending paragraph 217. This comment is not quite clear in the context of credit risk and may be related to operational risk.	See amended paragraph 217. N/R
Para 218	Some respondents argued the requirement in paragraph 218 does not match with the important questions of calibration and validation of LGD parameters, as a statistical estimator cannot fit with the requirement to estimate downturn LGD if there is not a permanent economic downturn period. Another response stated that the guidance provided by CEBS regarding what LGD estimates must be based on, including economic downturns, long run default weighted average estimates and long run forward looking recovery rates, remains unclear on the relative importance of each of these concepts and how they are likely to interact. Therefore it is suggested that where downturn estimate is relevant and is the appropriate estimate to use, appropriate adjustment will be made to the forward looking estimates. The paragraph seems to allow for institutions to "adjust either the measurement of the realised LGD or the estimation of the final LGD", which may have resulted from the earlier confusion over the distinction between the two concepts, but only adjustments to estimates make sense, as observed losses should be what they are, namely observed, and not altered.	This is addressed in the new downturn LGD section. CEBS accommodated this comment by deleting the relevant sentence in paragraph 218.	See paragraphs 239a to 239e. See amended paragraph 218.

Para 218 to 219	CEBS should provide more specific guidelines for calculating "stressed" value of LGD and estimate of LGD for defaulted exposures as well as for calculation of the "average realised LGD".	This is addressed in the new downturn LGD section.	See paragraphs 239a to 239e.
Para 219 and 220	Comments on these paragraphs included the following: CEBS is requested to add "…where necessary" after "…adjusting them to reflect their own positions". This paragraph may need updating following the publication of the Basel guidance on the estimation of LGD. CEBS should not seek to duplicate CRD text, if this is a repeat of the Basel framework paragraph 471 requirements. In paragraph 219 CEBS expresses one specific approach to model uncertainty. It should however be noted that modelling from other perspectives does create other ways to get hold of the uncertainty factor in default cases. Such an approach could be as appropriate as the approach put forward by CEBS.	CEBS accommodated this comment by amending paragraph 220. This has been addressed in the downturn LGD section. The approach described in paragraph 219 is mentioned in Annex VII Part 4 para79.	See amended paragraph 220. See paragraphs 239a to 239e. See amended paragraph 219.
Para 222 to 225	Here CEBS lays out the detailed requirements for the Reference Data Set (RDS), including the need for this to be updated "when necessary" (Para 224). This suggests that institutions should change their base historical data set to reflect changing circumstances. In reality if the data set shows an experience, which is no longer representative of the future outlook, institutions are more likely to make an adjustment as part of the modelling process rather than through changes to the original data. As a result of the above, the following suggestions were made by different respondents: The requirements for the RDS should reflect that changes should be made to the data set used for	CRBS has accommodated this comment by amending	See amended paragraphs 222 and 224.

	modelling LGD (the accredited loss history) and not the actual historical baseline data. Paragraph 225 should be dropped, as it is not part of the CRD framework. A RDS should not be adjusted, but the model into which it feeds.	paragraphs 222 and 224. Paragraph 225 refers to zero LGD and addresses the "cross check" of possible gaming as regards the definition of default.	 N/R
Para 225	Comments on paragraph 225 included the following: Reference needs to be made to collateralised exposures, and in particular derivative positions where often the exposure is over –collateralised. Moreover, the definition of default is provided for in the CRD, therefore it is not possible to use an "inappropriately early definition of default". If a credit institution has not been collecting indirect costs so far, the level of indirect costs is deemed to be immaterial and the amount recovered from the collaterals fully covers the exposure owed, then the institution could have the possibility to calculate with 0% LGD. In this case it would not be required to adjust the recovery with the immaterial amount of indirect costs and calculate with e.g. 1 – 2% LGD instead of 0%.	 The 90 days example is only indicative, general description of situation with positive or zero LGD is clear to describe the point. This is an issue to be decided by the national authorities.	 N/R N/R
Para 228	Although it is recognised that this paragraph reflects the requirements laid out in the CRD in not permitting estimates based purely on judgemental considerations, CEBS should avoid introducing requirements which may restrict developments in business or risk management, particularly in the area of new products and / or client types and the use and availability of external data and other external proxies. These are typically areas where institutions would expect to be allowed to use a significant amount of expert judgement, and the industry would look to the regulatory work on low default portfolios to gain some comfort (both in the principles published by the AIG	As it is clearly stated, paragraph 228 only includes the CRD requirements.	N/R

	and in the work of the UK FSA Expert Group on low default portfolios).		
Para 230	Further clarification is needed regarding the meaning of "appropriate adjustments".	It is up to the institution to define this (principle-based approach).	N/R
Para 231	A definition of "default - weighted average of realised LGDs" would be helpful.	This is defined in detail in the Definition of Loss and the LGD section.	N/R
Para 231 to 233	There were conflicting comments on this paragraph, with some respondents requesting that no prescription is provided and other asking for further clarification. Comments received include the following: There should be no prescription on how, or whether, institutions should incorporate incomplete workout cases into LGD estimates, as long as they can justify their approach. This flexibility is needed as any requirement for inclusion would make no sense for workouts with binary payments, e.g. the liquidation of mortgage loans. It is not clear how institutions should incorporate incomplete workout information: as part of their cash-flow estimates or as part of the collateral basis? Moreover further clarification is needed for the following requirement: "If institutions are using recovery rates not higher than the already collected recoveries, then the estimated LGD will be based on a measure of average realised LGDs." Is it possible to omit some incomplete work – out cases (e.g. cases defaulted just recently)? If yes, under what conditions?	Paragraph 232 allows for the necessary flexibility by the sentence "unless they can demonstrate that the incomplete workouts are not relevant". CEBS accommodated this comment by amending paragraph 233, allowing a principle-based approach. See previous comment on paragraph 232.	N/R See amended paragraph 233. N/R
Para 233	The meaning of "costs and recoveries that are likely to occur beyond the initial time frame considered" need to be clarified.	This is no longer included in paragraph 233.	See amended paragraph 233.
Para 234	The statement about the use of "direct estimates" and	In this paragraph CEBS describes	N/R

	derivation of "quantitative estimates" is unclear. It is also unclear from this paragraph what the expectations and requirements are for both "pooled" estimates and the averages of "individual direct estimates".	market practices.	
Para 235	The "two-step procedure" was not very helpful. The distinction between the borrower grade and facility grade is considered largely confusing and potentially inaccurate.	In some countries the two-step approach is quite common	N/R
Para 236	This paragraph states: "Current market prices of collateral on current exposures will influence their estimated LGD." However this is not the case if a liquidation value approach is followed, which is common in many institutions. Moreover there is concern on how this might be interpreted locally, as rules or guidance, if the current drafting is maintained. CEBS should reconsider the wording in order to achieve greater clarity and give better direction to both firms and supervisors.	Paragraph 236 presents non – exhaustive examples.	N/R
Para 237	"Use of market prices for defaulted exposures for LGD estimation in case of scarce internal loss data" enforces the use of probably unrelated information. This is unacceptable. The use of market data may be useful in some cases and inappropriate in other cases.	CEBS accommodated this comment by changing paragraph 237 ("relevant" external information).	See amended paragraph 237.
3.3.3.3. Conversion Factors			
Para 240 to 260	Regarding CF, only undrawn amounts of commitments are dealt with in the text. Nothing is said about the way to calculate own estimates of CF on guarantees given by the institution.	CEBS amended paragraph 261 in order to provide further clarification.	See amended paragraph 261.
Para 245	"Potential future drawdowns" are not CF's, surely. The definition of CFS is given in paragraph 246.	CEBS accommodated this comment by changing paragraph 245.	See changed paragraph 245.
Para 245 to 247	The guidelines should be adapted to the wording of the CRD for CCF. EAD modelling is very restrictive by using CF on the undrawn amount – a common but very questionable modelling approach, which is not suitable for aval lines, for example.	The meaning of this comment is not clear enough to come up with adequate changes.	N/R
Para 247	The "momentum approach" (to calibrating CF) is mentioned here but only defined later in Paragraph	CEBS accommodated this comment by amending	See amended paragraph 247.

	253. The two paragraphs should at the very least be cross – referenced.	paragraph 247.	
Para 253	Favouring the fixed horizon approach over the cohort approach (to calibrating CF) is setting a wrong incentive as the latter does not restrict the information employed.	There is no preference for any approach in paragraph 253.	N/R
Para 258	It is not clear why institutions will not be allowed to mix internal and supervisory estimates in a single legal entity. Without intent of regulatory arbitrage, one must consider differently CF on undrawn amounts of commitments and CF on guarantees given by the institution, and it should be possible to mix internal estimates for one category and supervisory estimates for the other.	The section on CF was rephrased, to be in agreement with the final text of the CRD.	See amended paragraph 258.
3.3.4. Quality of internal documentation			
Para 271	It would be very difficult for a third party to replicate all or part of the institution's validation" or indeed "fully understand the reasoning and procedures underlying the development and validation" of an institution's rating system.	CEBS accommodated this comment by removing the word "fully".	See amended paragraph 271.
Para 273	Elements of this paragraph refer to the minimum requirements for validation and not "Quality of internal documentation". As a result, for clarity sake, the first two sentences should be removed.	These two topics are interlinked in paragraph 273.	N/R
Para 277	The text appears to refer only to PD-ratings and is not appropriate as a requirement for LGD / CF calibrations / modelling. However, in paragraph 276 it is stated that section 3.3.4 applies to all kinds of model development and validation, including PD, LGD and CF estimation.	These principles apply to all parameters.	N/R
3.3.5. External vendor models			
Para 279 to 283	The requirements for the use of external models are too onerous. Vendor models cannot fulfil the exact same requirements as internal models. CEBS should recognise that vendors are likely to have to restrict what information can be shared with institutions regarding their models, especially for smaller institutions. Therefore vendors should be allowed to	These paragraphs reflect the common understanding of CEBS members.	N/R

	approach supervisors directly where they believe evidence required is confidential / propriety.		
3.4. Data			
3.4.1. Data accuracy, completeness and appropriateness			
Para 302	Paragraph 302 seems to say nothing more than an institution should have a competent, efficient IT department. This should not be a requirement for any specific assessment.	This paragraph follows a principle – based approach.	N/R
Para 303	This states that "Internal Audit of data quality should include at least the following: an annual review of controls…" which should be changed to "a regular review of controls".	This paragraph reflects the common understanding of CEBS members.	N/R
3.4.2. Data quality standards and consistency with accounting data			
Para 306	Comments made on this paragraph include the following: Paragraph 306 could be understood as an internal control standard practice recommendation (data quality controls and internal audit review); however, institutions would be concerned if supervisors translate this recommendation into a requirement for specific controls and validation process, involving systematically an independent party still to be identified. An appropriate wording would be: "All data referred to in paragraph 292 should be subject to appropriate quality controls, according to their criticality." Mentioning an independent party, which is supposed to review the data quality is unclear. There should only be a reference to the internal controls of the institution.	CEBS recognised the need for further clarification on this point and included the proposed phrase at the beginning of paragraph 306. CEBS replaced in the CP10 the phrase "review by an independent part" by "independent review" to allow for institutions that don't have a separate organisational unit responsible for this review.	See amended paragraph 306. See amended paragraph 306.
Para 308	Some of the language employed by CEBS is not consistent with language intended to be guidance, and therefore not considered to be helpful. For example,	The paragraph was changed to reflect a principles – based approach.	See amended paragraph 308.

	"The following types of documentation are essential:"		
Para 308 to 309	These guidelines are too prescriptive to be practical. The particular approach (and minimum requirements for documentation) to verifying systems compliance should be left to the discretion of individual regulator in the context of existing national guidelines.	Paragraph 308 was changed to reflect a principles – based approach.	See amended paragraph 308.
3.4.3. Representativeness of data used for model development and validation			
Para 311	The multiple references to conservatism are unhelpful. The approach should be based on maximising the data available given the level of conservatism already built into the CRD.	This paragraph only quotes CRD requirements. The respective reference to the CRD text was made to clarify this.	See amended paragraph 311.
Para 312	Representativeness and / or comparability analyses require all key characteristics to be similar. Criteria suggested in paragraph 312 comprise distribution of the population according to the key characteristics and the level and range of these key characteristics. This is impractical as not every single driver can be representative in a development or test sample.	The paragraph was amended to reflect the industry concerns	See amended paragraph 312.
Para 313	The second bullet point is unclear. Also the last bullet point is a little confusing, as the industry is under the impression that the definitions that are required to be used were provided in the CRD and "deviations" were not permitted.	The last sentence of the last bullet in paragraph 313 was deleted.	See amended paragraph 313.
Para 315	The drafting could be improved to better express what CEBS had in mind. Data history requirements for each of the parameters are laid out in the CRD, with specific minimum requirements for the number of years of coverage. Estimates are also required to be forward looking however paragraph 315 does not provide any insight into how this is supposed to be achieved.	In this paragraph CEBS follows a principle – based approach.	N/R
3.5. Quantitative and qualitative validation and its assessment			
3.5.1. High level principles on validation			
Para 320 to 344	The principles of qualitative validation should be mentioned more explicitly. In the current wording the principles concern only quantitative validation.	Principle 5 elaborates extensively on this issue, but qualitative validation is now already mentioned in paragraph 332.	See amended paragraph 332.
Para 321	One response claimed that it is unclear as to how the second half of this paragraph (i.e. "Thus, when	This paragraph constitutes a helpful introduction to the text	N/R

	considering the appropriateness of any rating system as the basis for determining capital, there will always be a need to ensure objectivity, accuracy, stability, and an appropriate level of conservatism") relates to the first half. Moreover its value added to the CRD text was questioned and it was suggested to remove it altogether.	that follows.	
Para 323	The credit risk parameters mentioned in paragraph 323 are "PD, LGD and CF". This is ambiguous since a CF could mean either an estimate of a future Exposure at Default or the empirical parameter expressing historical drivers of EAD. In the case that the latter is meant, it must be pointed that out that one parameter is insufficient for observing the drivers of EAD. In reality, two drivers (two primary credit risk parameters) exist: Empirical EAD's are determined by (a) the propensity of obligors to use open credit lines prior to default (so-called "K-Factor") and (b) the empirical behaviour of conversions from Non – Cash EADs into Cash – Equivalent EADs in case of non – cash products (so – called "CEEFW). Since these drivers do not behave in parallel, they should be incorporated into the EAD methodology separately.	Paragraph 323 is restricted to the risk parameters mentioned in the CRD.	N/R
Para 324 to 326	The distinction in Principle 1 between risk estimates and ratings is unclear.	Paragraph 325 makes clear that the respective paragraphs refer to both rating assignments and risk estimates.	N/R
Para 325	This paragraph requires the verification of rating systems to be characterised by an appropriate level of objectivity, accuracy, stability and conservatism. The requirement of objectivity / accuracy, however, cannot be met with a conservative estimate.	CEBS accommodated this comment by amending paragraph 325.	See amended paragraph 325.
Para 326 to 327	These paragraphs go into too much detail. A firm's analysis is likely to use both point – in – time and through – the – cycle models and expectations for the future which are neither point – in – time nor through – the – cycle. Notwithstanding what types of models are used, institutions will endeavour to employ the most	CEBS accommodated this comment by amending paragraph 326.	See amended paragraph 326.

	reliable data possible and to oversee that this is the case. CEBS should avoid putting in place requirements, which would prevent innovation and evolution of these systems. Flexibility is, therefore, essential.		
Para 329	Paragraph 329 states that historical data must be the basis for the calibration of credit risk parameters, while adjustments may be necessary in order to make sure that the parameters are forward – looking. However, it does not define situations in which adjustments are required and explain how to quantify the adjustments. It does not define how an institution can prove that deviations from historical experience are appropriate. Furthermore, the guideline does not define how institutions can demonstrate that their estimates are representative of likely long-term rates. Clarification would be helpful.	This paragraph uses a principles – based approach.	N/R
Para 329	The meaning of "more stable estimates" in the fourth bullet point is not particularly clear. Furthermore, the last bullet point states that in assessing the performance of a rating system institutions should have policies covering what "action should be taken when acceptable levels are breached". However, it must be pointed out that institutions' ratings will often target longer – term performance, such that it may not be appropriate to take any action due to a breach in performance over the short – term (thus, "no action taken" should be an acceptable policy).	Standards should include a tolerance for divergence.	N/R
Para 333	A validation concept that includes the assessment of qualitative factors is excessive, as this is part of the use – test and self – assessment. The rating system is again focused very much on the rating tool itself, but not the extensive interpretation of all IT systems and processes that are used (leading to a probable too extensive interpretation).The requirement to use the rating system as a core element in the risk management system already requires institutions to assess qualitative factors. How this issue is addressed does not need to be specified (except the guiding	A rating system is defined much more broadly in Annex VII Part 4 para 1. The assessment of qualitative factors cannot only be done via use test and self – assessment.	N/R

	principle to validate the system).		
Para 334	Some respondents claimed that an unrealistic role to Internal Audit is assigned, which would essentially equate to super – validation. No institution, even the most complex, has access to sufficient experts with equivalent skill sets to replicate the modelling capabilities in the Internal Audit function. This unrealistic approach to Internal Audit is apparent throughout the paper (e.g. paragraphs 389, 392, 363 etc.). One respondent suggested an alternative, stating that, in order to avoid duplication of resources and still comply with the principle of independent review, it would be preferable to apply a "four – eyes" methodology, meaning that in each case at least two persons from the development team are involved in the process. In order to strengthen the validation processes, the "four – eyes" methodology would be supported by strict internal validation rules.	Paragraph 334 was changed to put emphasis on the oversight responsibility of the Internal Audit, focusing on processes.	See amended paragraph 334.
3.5.2. Validation tools: Benchmarking and Backtesting			
Para 335 to 337	One respondent stated that the use of external data for benchmarking in order to ensure consistency of the rating system is problematic, since it is not possible to ascertain without further ado whether resulting differences between the rating system and the benchmark are caused by the internal rating system or the system generating the result of the benchmarking. Therefore it was suggested that benchmark analyses should only be carried out voluntarily, i.e. that institution should be granted the option to choose whether to carry out a benchmark analysis or not. If, however, a mandatory benchmark analysis will be required the institutions' obligation should, due to lack of information value of the benchmark analysis, be limited to the documentation and no binding conclusion should be drawn with respect to validation on the basis of the analysis.	The CRD requires a comparison of the reviewed risk-rating systems with relevant external data sources.	See amended paragraph 337.

Para 337	Here CEBS refers to a higher margin of conservatism. This concept should be defined in more detail. Moreover, supervisors should not repeatedly call on banks to use arbitrary measurements when there is no evidence to suggest a problem with the existing data.	CEBS substituted "higher margin of conservatism" by "appropriate margin of conservatism" and made an additional provision in the case of data collected under economic downturn conditions.	See amended paragraph 337.
Para 341 to 344	The requirements to benchmark against external data are superequivalent to the CRD. These requirements are unachievable for many portfolios and more so for LGD and CF estimates. The points listed in paragraph 344 will be very difficult for institutions to obtain for external data.	Annex VII part 4 paragraph 111 already requires the use of external data in the validation process. It is far more strict than 341 as 341 does not include the requirement to benchmark against external data but the sentence "potentially using other data sources".	N/R
3.5.3. Low – default portfolios			
Para 345 to 364	One respondent emphasised the need to investigate in section 3.5.3 certain real estate exposures that make up low default portfolios of a small number of large exposures. It was stated that due to the characteristics of these exposures, little data is available and institutions performing this business would like to be guaranteed indefinite partial use. If the same data issues effect every institution granting such real estate finance, it would be worthwhile once and for all to have such portfolios approved for permanent partial use. The alternative would be the costly option of each institution having to justify themselves separately to their own supervisors, thus replicating the process for businesses with similar risk profiles as many times as there are institutions, with the risk of the outcome being potentiality different in each case.	Paragraph 346 gives a few indicative examples of what Low Default Portfolios could be. It is still up to the institution, however, to prove in each case, that the portfolio affected can be classified as a Low default portfolio in the sense of paragraph 346.	N/R
Para 352	Comments received for this paragraph include the following: "Limitations in the dataset" will always call into question the value of performing quantitative validation techniques for Low Default Portfolios (LDPs).	CEBS recognises that there may be problems with quantitative validation based on internal data, but approximation techniques could be applied and external data used (e.g. benchmarking).	N/R

	Paragraphs 353 and 354 seem to shed a little more light on the problem, but do not exclusively refer to "Quantitative Validation", so CEBS should amend this paragraph and review the title for this section. Further clarification is needed with regard to the quantitative validation for LDPs. Benchmarking could be understood as one possible technique for "quantitative validation". However, benchmarking is possible only if institutions make relevant data public, which is usually not the case. No validation should be required for LDPs.		
3.6. Internal governance			
Para 360 to 364	Two respondents argue that this is an unnecessary discussion with regard to CRD Annex VII, Part 4, Paragraph 127, as the detailed organisational set – up should be up to the institutions. Moreover, the statement in paragraph 364 that the "coexistence of both functions (model development and model review) in the same unit should not be seen as an obstacle" is sufficient. This requirement for independence is not found in the CRD.	This is of high importance for the supervisors; independence of the CRCU from the business lines it monitors is the rule, while other solutions constitute the exception.	N/R
3.6.1. Role of the management body			
Para 365	The management body in larger complex institutions will delegate the modelling of the IRB and AMA systems to the appropriate senior management and committees. This should be noted in the guidance.	The whole former section 365 t0 370 has been reworded in order to accommodate the industry comments in this respect.	See changed paragraphs 365 to 370b.
Para 365 to 366	The first bullet point requires the approval also of the supervisory board for all material aspects of the overall Risk Control System. This should be reduced to an obligation for the board of managing directors to inform the supervisory board. Explicit approval should only be required from the managing board. The third bullet point requires all rating systems to be approved by the management body. The management body should be able to delegate responsibility and approval authority for technical details.	See above	See above

Para 369	Comments on this paragraph included the following: It is mentioned that among other things, the management body should have a comprehensive understanding of the credit policies, the underwriting standards, lending practices, and the collection and recovery practices, and also understand how these factors affect the estimation of relevant risk parameters. These requirements exceed the guidelines, according to which the management body should merely have a general understanding of the rating systems and a detailed comprehension of the associated management reports (Appendix VII, part 4 number 123). A detailed understanding is required only for the "senior management". CEBS should not provide this level of detail. Attempting to define what a "management body" is for large diversified banking groups across the EU runs the risk of creating a work stream that could go well beyond the scope and timeframe of implementing the CRD.	See above	See above
Para 370	The envisaged allocation of functions to the supervisory function of the management body is not in line with national requirements and should be dropped (see also comments on previous paragraph).	See above	See above
Para 371	Comments on the paragraph include the following: The requirements in paragraph 371 are not in line with all national European laws. For example, in Germany national law already defines information responsibilities of the board of managing directors to the supervisory board. The primary recipient of internal reporting should be the board of managing directors. Information to the supervisory board (or its committees) should be based on those reports, but does not have to be identical or contain as much detail as required by this paragraph.	CEBS acknowledges that it should be clarified that the contents of the reporting will differ according to the recipient.	Paragraph 374 has been shifted immediately after paragraph 371.

	In addition to the members of management body, all persons responsible for the credit process should be recipients of the risk reports. This exceeds the requirements of the guidelines.	This reflects the common understanding of CEBS members.	N/R
3.6.2. Independent Credit Risk Control Unit			
Para 376 to 377	These paragraphs constitute an example for excessive prescriptiveness. In Annex VII part 4 paragraph 128, the CRD lists the areas of responsibility for a credit risk control unit. In the guidelines provided by CEBS, a somewhat modified list is presented, which in practice results in less freedom for the institution in the organisation of its credit risk control.	This reflects the common understanding of CEBS members.	N/R
Para 377	The management body is already required to ensure the appropriateness of the control mechanism and measurement system on an ongoing basis (paragraph 369). It is claimed that this paragraph is inconsistent with that requirement in that the credit risk control unit is now called on to report in detail twice a year. Therefore different respondents suggested that the reporting requirement stated in paragraph 377 should be dropped and that a more "framework-orientated" guideline would be more appropriate in this context.	Paragraph 377 has been changed accordingly.	See changed paragraph 377.
Para 385	To fulfil these requirements it is necessary to subordinate the head of the control function to a person who has no responsibility for the activities that are being monitored and controlled. This technically implies that risk methodology and validation units may not be part of the risk management function, which is common practice in many institutions. Moreover, in the last bullet point, remuneration depending partly on the overall performance of an institution should be possible. The absolute character of this requirement should be avoided and only mentioned as an example.	The second bullet point has been amended to provide some clarification here; apart from that the "comply or explain" approach could be applied This possibility is already given in the last bullet point.	See amended paragraph 385. N/R
Para 388	The decision on how to develop rating models and who should be involved should be up to each individual institution. This is an example of the inherent over-	CEBS tries to give the institutions more leeway here.	N/R

	regulation of the guidelines, as the quality and application of rating methods within the credit process are already part of the directive and are even assessed by supervisors in the approval process.		
3.6.3. Role of Internal Audit			
Para 390	Where it states "Internal Audit will report at least annually to the management body (both supervisory and management functions) on the institutions compliance with the IRB requirements", the wording should be changed to "Internal Audit or an independent risk management function" will report regularly to the management body.	Paragraph 390 has been changed.	See changed paragraph 390.
Para 389 to 392	The tasks of the internal audit defined in paragraphs 389 - 392 go far beyond the requirements of Annex VII, Part 4, Paragraph 130. These tasks require employees with strong mathematical expertise in the Internal Audit function, which is not necessary. It is the industry's understanding that the internal audit function needs only a basic understanding of mathematical and statistical methodology. The sole task of the internal audit should be to examine (a) the processes of model development and review, (b) the processes of technical implementation of rating systems, (c) the processes which should guarantee the quality of input data and (d) the processes for inclusion of model output in the internal risk management systems.	Such a requirement for internal audit was not mentioned at all in CP10, but CEBS decided to further clarify this by adding a sentence in paragraph 389 emphasising that Internal Audit should have an appropriate understanding of all the processes related to the rating systems.	See amended paragraph 389.
3.6.4. Independence/conflict of interests in rating assignment			
Para 396	Comments on this paragraph included the following: The definition of "rigorous controls" should be deleted as it is too extensive. It should be clarified that the requirement stating that the rating recommendations made by relationship managers should be reviewed by risk control functions applies only for corporate exposures, banks and	CEBS accommodated this comment by changing paragraph 396.	See changed paragraph 396

	sovereigns (not retail exposures).		
400	It is not helpful for CEBS to attempt to describe what borrower information is likely to be available to credit officers or rating committees. In practice this is likely to differ across institutions and for different scenarios within institutions.	CEBS is not trying to describe what borrower information is likely to be available to credit officers, only mentions that it is important that credit officers have this information.	N/R
3.6.5. Reliance on the work of external auditors in the review process			
Para 407	IT audits are conducted at regular intervals by Internal Audit, using a co-source partner. This is a general inspection, not done as part of any particular agenda. There should not be a specific requirement here that goes beyond the proper administration of an internal IT department.	Independence is crucial in the assessment of vendors' technology.	N/R
4. Supervisor's assessment of the application concerning the minimum requirements of the CRD - Operational Risk			
4.1. Partial use combinations			
Para 418	Comments on this paragraph included the following: In almost all cases the combinations presented in Table 2 are deemed unacceptable, as they represent an inappropriate restriction for the transition during the roll – out. During the discussions, however, it was indicated that a temporary partial use would be possible as long as the bigger part of the legal entity was covered by AMA and the AMA roll – out plan indicated the completion of AMA implementation to a predefined degree within a certain time period. During the transition period, the AMA capital would be part of the institution's overall capital. Clarification is needed on whether paragraph 418 refers to permanent partial use or temporary partial use pursuant to paragraph 428. Table 2 should be modified to allow for partial use of the AMA at the business line level along with use of the Basic Indicator or Standardized Approach at the legal entity level. Moreover, the rational for the various permissions and restrictions should be clearly spelled	A combined use of AMA and BIA at legal entity level could be acceptable in cases where certain "branches" (the BIA does not make use of the concept of business lines) use the BIA. This proposal cannot be accepted as it would present opportunities for cherry picking.	See amended paragraph 418 – Table 2. N/R

	out.		
4.2. The simpler approaches (BIA/TSA/ASA)			
4.2.1. Entry criteria and use of TSA and ASA			
Para 422	According to this paragraph, the use of the ASA should require a prior ex – ante authorisation from the authorities, in addition to the actual authorisation. The purpose of the requirement is unclear and exceeds the requirements of the CRD, therefore it should be dropped.	This reflects the common understanding of CEBS members.	N/R
4.2.2. General and specific conditions for the use of ASA			
Para 424	It may be helpful to clarify what the consequence would be of ceasing to qualify for the ASA. Ideally, this should allow a move to the approach that made most sense for the individual institution, but in any case some clarity and consistency on this point would not be a miss.	This is part of an ongoing review process and will not be covered by the guidelines.	N/R
Para 425	This paragraph states that ASA institutions must have well – documented demonstration methods, in order to prove to the authorities the high interest rate margins and the holding of a risky portfolio Suggestion with regard to this paragraph include the following: As in the CRD the only proof required is that the ASA provides an improved basis for assessing operational risk, this requirement should be deleted and the appropriate way to convince the supervisors should be left to the institution. CEBS should provide further clarification on whether the measurement of riskiness is based on probability of default, default rate or other measure, as probability of default may not be a proper measure in case of a credit institution, which is going to implement standardised approach on credit risk.	This paragraph is already held in a principle-based way. As non-IRB institutions could have problems on this point an additional sentence was added in paragraph 425.	N/R See amended paragraph 425.
4.2.3. Relevant indicator: three – year average			
Para 427	As it is questionable whether it should be the "method"	CEBS changed the wording of	See amended paragraph

	of calculation that would change, or the amount (of gross income) by reference to which the capital charge would be calculated, the term 'indicator' would be the more apt.	paragraph 427 from "calculation method" to "calculation".	427.
4.3. AMA			
4.3.1. Rollout			
Para 428	Where a subsidiary is calculating a standalone AMA, the coverage of operational risks that this affords should count towards coverage of the group's operational risks, in satisfaction of the requirement in this sub – paragraph. This is a nuance of interpretation, but potentially an important one.	This issue will be dealt with by national supervisors.	N/R
Para 428 - 429	The necessity to include the guidance set forth for a "materiality assessment" of institutions' AMA roll – out plan is questionable. Institutions should provide an overview of their use of the AMA for all or part of their operations as part of the application process, and it should be up to them to demonstrate compliance with the AMA roll – out and partial use provisions of the Framework (paragraphs 680 – 683).	No further convergence could be reached at this stage. This issue will be dealt with by national supervisors.	N/R
Para 429	Comments on paragraph 429 include the following: According to Annex X, part 4, paragraph 2 of the CRD, the authorities should be able to impose additional requirements for Partial Use of an AMA (minimum threshold upon introduction and obligation for complete roll – out) on a case by case basis. However, in paragraph 429 CEBS expresses the expectation that the additional requirements are to be imposed in most cases. This proposal cancels the guideline purpose, is not covered by the CEBS mandate and therefore should be dropped. The phrasing "Regardless of the methods used by competent authorities, all business lines and operations should be captured by one of the operational risk methodologies" does not adequately reflect the principle of materiality. Some non – material areas of	This paragraph is making reference to a national discretion that all supervisory authorities want to use in the way described in this paragraph. The authorities are therefore exercising their right to impose stricter requirements than the ones listed in the CRD and make this public via CP10. Regulators expect that all business lines and operations are captured by one of the OR methodologies. The wording has the flexibility to allow for the	N/R N/R

	the institution would be implicitly covered by the methodology applied to the group. The sentence suggests that, even for these areas, the operational risk methodology has to be explicitly applied. Therefore the following alternative wording is suggested: "…, all material business lines and operations should be captured…". Moreover, clarification is requested on whether prudentially prescribed business lines are meant here or whether a institution's own internal definition may be applied.	point made by this comment. It should be interpreted as institutions' internal business lines. However, in order to avoid confusion, CEBS amended this paragraph to accommodate this comment.	See amended paragraph 429.
Para 430	The recommendation to start the roll – out plan with "the riskier of the remaining operations" should be dropped, as the sequence of the roll – out plan is based on a number of criteria and not only on the level of risk of operations but especially in dialogue with the consolidated supervisor.	This is only an indicative example.	N/R
Para 431	Comments on paragraph 431 include the following: Paragraph 431 states that "Once a decision to grant AMA approval to a firm is taken, no further formal Article 129 process will be required as a result of roll – out of the AMA". It should be clarified that this applies even for a roll – out of the AMA at the level of the individual firm. Moreover, option 3 is at odds with the recommendation that no further formal authorisation should be necessary on roll – out. It is unclear why a further procedure needs to be created in relation to assessing an AMA roll – out, in the form of the three options set out. Paragraph 431 could achieve essentially the same effect by ending at the sentence that begins "To facilitate this process, institutions should…"; with that sentence amended to read "….should work with supervisors and review the	CEBS does not see any contradiction in point 3 of this paragraph. No further convergence could be reached at this stage.	N/R N/R

	roll – out periodically." It should be made clear whether this paragraph is only applicable to partial use institutions or whether it is intended for all AMA banks. If this paragraph applies to any AMA bank that is still in the process of incorporating non – core business line(s) in its framework, the suggested alternatives are complex.	 No further convergence could be reached at this stage.	 N/R
4.3.2. Use test			
Para 435 to 437	There is some concern that the examples could become a "check list" for regulators when evaluating an institution's compliance with the use test. The focus of the supervisors should be whether the AMA framework (including model inputs) is being used in the day – to – day management of the institution rather than whether an institution meets a specific example that may not be applicable to its particular business model and management framework. As a result, a number of the respondents suggested that the examples are deleted. Furthermore, principles 1, 2, and 4 should be modified so that "operational risk measurement system" is changed to "operational risk framework", as described in principle 3, since, while the outputs of an AMA model may not be used in the daily management of operational risk, the inputs that go into this model are an essential component of operational risk management. The word "continually" should be deleted from principle 2. While banks support the concept of an evolutionary operational risk framework, this should occur when changes are warranted, which may not necessarily be on a continual basis. Additional comments on paragraph 437 include the following:	This is not CEBS intention; in order to clarify this paragraph 437 was amended to emphasise the non – binding and exhaustive nature of the examples. "Operational risk measurement system and framework" was replaced by "advanced measurement approach", as framework and measurement system are part of an AMA. Paragraph 437 was changed accordingly.	See amended paragraph 437. See amended paragraph 437. See amended paragraph 437

	The use test is deemed an important element in the supervisory review and the model approval process. The principles, however, are described as non – exhaustive. In order to avoid expectation gaps, in – depth discussions between supervisors and industry should be launched. In consequence, the text could be amended as follows: "… are neither meant to be exhaustive nor exclusive". This would clarify that institutions can apply different approaches to meet the objectives of the use test.	CEBS accommodated this comment by amending paragraph 437 (see the first CEBS analysis for points 435 – 437).	See amended paragraph 437.
	Furthermore the use – test requirements still leave a lot of room for supervisory discretion. It is crucial that supervisors assess use test compliance in a consistent manner, and where non – compliance is penalised, this should be done in a consistent manner by EU supervisors.	This paragraph already introduces a principles – based approach.	N/R
	Clarification is needed on whether the term operational risk measurement as used here covers both input parameters as well as the result, that is to say the amount of the value at risk ratio, for example.	Operational risk measurement system and framework" was replaced in paragraph 437.	See amended paragraph 437.
	Finally, concerning principle 4, the close relationship between the information resulting from the operational risk measurement system and management actions exists at lower organisational levels. Reports to the board, however, have more an informational character, since actions have been triggered already.	CEBS accommodated this comment by amending principle 4 – paragraph 437.	See amended paragraph 437.
	Delete the examples as they could be retained as local requirements	The examples are deemed as helpful.	N/R
4.3.3. Data			
Para 438	Suggestions for paragraph 438 include the following: This paragraph seems acceptable, provided it is taken together with paragraph 439, which makes clear that it is left to institutions to determine the exact structure of	See below	N/R

	the IT designed to deliver the results required under paragraph 438. The list in paragraph 438 should be deleted, as it confuses rather than clarifies and offers no real additional information.	The list in paragraph 438 was deleted.	See amended paragraph 438.
Para 440	It is preferable to simply require adequate and appropriate IT to support the management of operational risk. We particularly question the intent and functioning of the requirement (in the second bullet) to have capacity "at all times". This appears to be poorly conceived and potentially impossible to guarantee or police.	CEBS accommodated this comment by changing paragraph 440.	See changed paragraph 440.
Para 442	Many respondents stated that they believe that it is not possible to reconcile operational risk losses to the general ledger. The reason for this is that operational risk losses (a) are not always booked individually (e.g. salaries will be integrally booked; overtime compensation due to operational risk will not be itemised), (b) are not always adequately reflected in the general ledger (e.g. loss of assets which have depreciated), (c) can be booked in a number of accounts and it will be difficult to filter all out, (d) sometimes need to be based on estimates, that will not be booked. Therefore the following rephrasing is suggested: "a review for cross – checking **material** operational risk loss data with accounting data…".	CEBS basic idea is indeed a cross – checking. A reference to materiality has therefore been inserted.	See amended paragraph 442.
Para 443	Comments on paragraph 443 include the following: High – level standards on data consistency would be more in keeping with the AMA, where different models may make use of different forms of data in different ways. They would also be more consistent with the approach outlined in the US "ANPR", thereby avoiding an uneven level playing field at the global level. The requirement should focus not on the movement of data but its quality.	The aim of CEBS in this paragraph is to provide more than high – level principles. CEBS has taken account of this comment.	N/R See amended paragraph 443.

Para 445	Comments on paragraph 445 include the following: This paragraph requires institutions to develop their own standards for quality assurance for data loss and constantly improve them. In doing so, institutions should prove a high level of coverage, completeness and correctness with respect to data input. It should be clarified that it only targets material losses. The final bullet of paragraph 445 raises serious concerns, as it embodies (albeit without using these exact words) the notion of reconciling to the general ledger, which constitutes an especially burdensome requirement (which is the same issue that arises in relation to paragraph 442, second bullet point). CEBS should take into consideration that the various forms of internal sign - off will already offer assurances as to coverage of risks, notably sign – off related to internal audit and to compliance with corporate governance codes (such as the Sarbanes – Oxley requirements).	CEBS accommodated this comment by amending paragraph 445. See CEBS analysis for comments on paragraph 442.	See amended paragraph 445. See amended paragraphs 442 and 445.
Para 448	Some respondents stated that they consider it is superfluous to spell out specific requirements concerning the way data is stored and documented in operational risk management. Institutions have general guidelines on recording and documenting data. These also apply to the area of operational risk management and should therefore be sufficient. Therefore this section should be focused on the requirement to appropriate document data standards and systems. Moreover it was argued that the proposals for investment firms' data collection and storage policies are far more restrictive and detailed that those provided for in the CRD. CEBS should rework this paragraph in order to bring it in line with the CRD.	A list of documentation is helpful to guarantee a minimum understanding and homogeneity across the members on the material that will be used, at first instance, for the assessment of AMA models. However, CEBS considered helpful to clarify what the data policy refers to and to amend paragraph 448 so that it includes examples of good practice instead of requirements. This reflects the common understanding of CEBS members.	See amended paragraph 448. N/R

4.3.4. Parameter estimation and validation			
Para 450	In the first bullet the words "if any" or "if relevant" should de added after the word "methodologies" (for scaling).	This paragraph was replaced in CP10 revised.	See new section on Guidelines for AMA quantitative issues, internal validation, risk transfer mechanisms and allocation.
Para 451	Comments on paragraph 451 include the following: "Minimum loss threshold ... impact on the computation of expected and unexpected loss". This is not a feasible assessment requirement. Impact studies on lowering the threshold are impossible due to the lack of data. The list, on issues related to quantification, is highly appreciated and could be complemented by adding to it, noting the importance of the issue of allocating capital to subsidiaries, taking into account the diversification effect that these bring. In this context, the practical importance to risk assessment of proxy data, possibly from other parts of the same group, where internal data is not plentiful in relation to an individual subsidiary should be noted.	This paragraph was replaced in CP10 revised.	See new section on Guidelines for AMA quantitative issues, internal validation, risk transfer mechanisms and allocation.
Para 452	The comments made on the reference made in the paragraph to section 3.5.1 include the following: Transferring the application of principles for IRB to the AMA is not the right approach, as on one hand CEBS refrains from providing more concrete guidance in view of the challenges of operational risk validation and on the other reference is made to a set of general principles essentially developed with credit risk in mind. It would be helpful to see some examples for these high level principles like those shown for IRB in Section 3.5.1, since these examples cannot be easily projected to operational risk. It is difficult to translate standards relating to internal	This paragraph was replaced in CP10 revised.	See new section on Guidelines for AMA quantitative issues, internal validation, risk transfer mechanisms and allocation.

	ratings into the context of operational risk. At the very least, there should be a health warning about trying to attempt this, but the more logical solution would appear to be to abandon this attempt at parallelism.		
4.3.4.1. Combination of the four elements			
Para 455	A reference is made to scenario analysis providing "information on extreme events". In the Basel International Convergence document and in discussions with national supervisors, however, the term "tail – events" was used. It was understood that real extremes were not meant if applied to the capital requirements for operational risk.	CEBS accommodated this comment by amending paragraph 455, using the term of the CRD.	See amended paragraph 455.
Para 455 to 456	Two respondents stated that they do not intend to combine the four elements of operational risk using a weighted average as there are other possible methods. The words "weighting" (paragraph 455) and "weighted" (paragraph 456) should be removed, "combined" is enough.	The combination could be done in the model exercise in one step, if so, there are no elements which can be weighted.	See amended paragraphs 455 and 456.
Para 456	The second bullet point in paragraph 456 does not add anything material on the use of the four elements, especially in light of the last sentence of paragraph 455. In fact, the second bullet of paragraph 456 constitutes a potential source of confusion. Therefore it should be deleted, or alternatively radically revised to bring out the intended meaning.	The reference to process modelling is deemed necessary.	N/R
4.3.4.2. AMA four elements: qualitative inputs			
Para 460	The use qualitative data and the resulting limitations when it comes to measurement can be problematic. This makes the proposed requirements unclear and unhelpful.	This paragraph stresses, that qualitative judgements have to be taken into consideration with care.	N/R
4.3.4.3. Insurance haircuts for policies with a residual term less than one year			
Para 463	The requirement of "automatic renewal option with terms and conditions similar to the current terms and conditions, and ... a cancellation period on the part of the insurer of no less than one year" cannot be adhered to under current market circumstances, as conditions cannot be given for a period over one year. As a result paragraph 463 should be modified to	This paragraph was replaced in CP10 revised.	See new paragraphs 462g to 462j.

	specify that a haircut is not required as long as an institution has a defined process in place to renew existing insurance policies Moreover the usage of the term "cancellation period" is not clear. If the notice period is meant, the insurer is not able to grant a notice period of one year. This wording does not exactly reflect the CRD (policies with a residual maturity of 90 days) and, under a pessimistic view, most of the banks will not be able to use the risk mitigating effect in their risk capital calculations.		
4.3.4.4. Allocation methodology for AMA institutions on a group – wide basis			
Para 464	Suggestions made for paragraph 464 include the following: Paragraph 464 states that "Institutions are strongly encouraged to move towards allocation mechanisms that properly reflect the operational riskiness of the subsidiaries and their actual contribution to the consolidated capital charge." Some interpretations of this requirement imply that the capital allocated to a subsidiary should be determined by the delta between the total group and the group without the particular subsidiary in question. This raises concern over the unreasonable computational burden for institutions using Loss Distribution Approach based calculations and may make some AMA group level calculations invalid, which is not in the spirit of the AMA. The requirements set out here go far beyond the wording of the CRD therefore this paragraph should be reworded. Diversification and correlation effects are deemed to be synonyms in the context on the section. After having calculated the risk capital on a group level, it is almost impossible to recognise the correlation effects in the allocation, since a retrograde approach is not possible. The final phrase should therefore be deleted.	Institutions wishing to benefit from diversification effects would need to face some computational burden. CEBS accommodated this comment by deleting "including diversification and correlation effects" in the last sentence.	N/R See amended paragraph 464.

	The requirements set out in paragraph 464 go far beyond the wording of the CRD and therefore it should be reworded. Paragraph 464 should be broadened to make clear that allocation within the EU will also be allowed for those EU subsidiaries that are part of banking groups headquartered outside of the EU.	This paragraph gives the clear and necessary message that institutions must have a rationale basis for allocation. See paragraph 15a in the introduction.	N/R N/R
4.3.4.5 Internal governance			
470 - 476	CEBS should modify CP10 guidance to focus properly on the oversight role of management rather than on the details of the day – to – day functions carried out by the ORMF.	The paragraphs 470-476 on internal governance were made consistent with the respective passages in the IRB part of CP10 and have therefore undergone substantial redrafting	See changes in paragraphs 470-476
473	Suggestion regarding the requirement provided for in paragraph 473 that "The management body (management function) should take responsibility for ensuring that the operational risk inherent in new products, activities, processes, and systems is adequately assessed before they are introduced" include the following: CEBS should broaden the statement beyond "new products" to reflect that the management body is responsible for identifying and appropriately managing risks tied to new product development and other significant changes to ensure that the risk profiles of product lines are updated regularly. This requirement should be removed. It is not clear to the industry why this particular activity (new product review) is highlighted, when no single activity should be.	CEBS accommodated this comment amending paragraph 473. The term "new" refers to all the areas (products, activities, processes and systems) and not just to products. CEBS amended paragraph 473 to clarify this issue.	See amended paragraph 473. See amended paragraph 473.

474	It is inappropriate to set "tasks" for a management body, when its proper role is oversight. Moreover, in paragraph 482, the paper provides a perfectly good outline of the responsibilities of the operational risk management function.	The paragraphs 470-476 on internal governance were made consistent with the respective passages in the IRB part of CP10 and have therefore undergone substantial redrafting.	See amended paragraph 474.
477	The last sentence should be removed as such reports would appear to be available to supervisors in any case.	CEBS accommodated this comment by deleting the last sentence in paragraph 477.	See amended paragraph 477.
481	Suggestions on paragraph 481 include the following: This paragraph should only read "The design of the reporting framework is the responsibility of the institution". With regard to the fifth bullet, external loss experience should not be systematically included in the reporting. The following rephrasing is suggested: "internal loss and external loss when appropriate"	 This paragraph encompasses useful guidance reflecting the common understanding of CEBS members. CEBS accommodated this comment by amending the fifth bullet in paragraph 481.	 N/R See amended paragraph 481.
482	Suggestions on paragraph 482 include the following: The activities of "Operational Risk Management Function" include the "design, develop, implement, execute, and maintain the measurement methodology". It should be clarified that tasks can be delegated, as is common practice. Furthermore "back testing and benchmarking" are listed as a task of the operational risk management function. While benchmarking is a useful validation technique in the context of operational risk management, traditional statistical back testing cannot be performed due to a lack of data. Therefore, the reference to backtesting should be removed. In this paragraph opt for "could" instead of "should" in recognition of the various combinations of tasks and responsibilities that the ORMF might carry out	 CEBS partly accommodated this comment by amending paragraph 482. This paragraph constitutes a common understanding of all CEBS members of the minimum	 See amended paragraph 482. N/R

		tasks of ORMF.	
489	The first sentence should be reworked, to bring out the meaning more fully. (This meaning is viewed as being linked to what is set out in the preceding paragraph, 488.) The following wording (with the emphasis added for clarity) would result: "**Internal Audit** should develop a programme for reviewing whether the operational risk framework covers all significant activities…."	This is not the only possible activity of Internal Audit.	N/R