INTESA SANPAOLO

Intesa Sanpaolo Group Position Paper on EBA Discussion Paper “Future of the IRB Approach”

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We generally agree on the approach adopted by EBA in order to enhance robustness, comparability and transparency of the internal risk estimates and capital requirements of European institutions and we appreciate the efforts dedicated to the development and implementation of the regulatory framework.
The aim of this Discussion Paper built on previous works and setting out an agenda for further improvements and clarifications is very welcome.
We just list below some specific comments related to few questions.

Q3. Do you consider the proposed timeframe reasonable? In particular do you consider reasonable the proposed timeline for the implementation of the changes in the area of:
a. definition of default;
b. LGD and conversion factor estimation;
c. PD estimation;
d. treatment of defaulted assets;
e. CRM?

In our opinion the proposed timeframe is reasonable, but we strongly recommend the introduction of a transition period and of some grandfathering rules in order to manage discontinuity in definitions, especially regarding the "definition of default" topic.
Changes in this area will require historical data series reconstructions: as in some case this could be impossible or it could lead to meaningless results, a certain degree of discontinuity or approximation should be allowed: the compliance with new provisions and data quality should not be achieved at expense of the time series length requirement, which is as important to ensure robustness and stability to the overall framework.

Q4. Are there any other aspects related with the application of the definition of default that should be clarified in the GL?

It would be useful to address the issue related to the coherence among different definitions of default used in different phases of risk evaluation: models development, backtesting and regulatory requirements calculation.
A particular focus should be put on the so-called "technical defaults".

Q6. To what extent is it possible to adjust your historical data to the proposed concept of materiality threshold for the purpose of calibration of risk estimates?

Even if quite burdensome, it will be possible to adjust historical data referred to the last 2/3 years; further back in time, data reconstruction, where possible, could lead to meaningless results, even adopting approximations and compromise hypothesis.
That's the reason why we highly recommend the search for a good balance between time series length and data accuracy.

Q9. Are there any other aspects related with the estimation of risk parameters that should be clarified in the EBA guidelines?

It would be useful to have guidelines about how to maintain coherence in methodologies chosen for rating backtesting and rating system development (PIT vs TTC).

Q10. Do you have dedicated LGD models for exposures in default that fulfil the requirements specified in section 4.3.4.(ii)?

In Intesa Sanpaolo LGD models for exposures in default are under development at the moment (expected end 2015).

Q22. Do you see merit in moving towards the harmonization of the exposure classes for the purpose of the IRB and the Standardised Approach?

We are favorable to moving towards harmonization in IRB and Standardized exposure classes, as it could certainly simplify calculation procedures, in terms of costs and elaborating complexity, and make regulatory reporting more transparent and easier to compare across different approaches.

Q23. Would the requirement to use TTC approach in the rating systems lead to significant divergences with the internal risk management practices?

While adopting TTC approach in rating systems is required to ensure stability of capital requirements, a more PIT oriented can be needed for specific managerial needs, e.g. provisioning under IAS 39 and IFRS 9 rules. Such differences in approaches shouldn't be considered as discrepancies and violation to the use test requirement.