



Public Hearing: Consultation on the draft revised ITS on JD process for internal model authorisation

EBA Prudential Regulation and Supervisory Policy

Virtual meeting, 18 September 2024



Ground rules for this virtual meeting

Mic and video off

Please keep yourself muted and the video off while listening

Questions/comments?

Please use the chat or raise your hand to ask for the floor

Slides on EBA website

The presentation used today will be made available on the EBA's website after this hearing

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EBA Roadmap – CR Phase 1

- The mandate to develop this draft implementing technical standards (ITS) is part of Phase 1 of the [EBA Roadmap on Strengthening the Prudential Framework](#), (i.e. to be fulfilled within 12 months after entry into force of the revised REGULATION (EU) 2024/1623 – CRR3)

Area	Product	Reg.	Article	Deliverable	Legal deadline
Phase 1					
Credit risk	Report	CRR	506	Report to the Commission on the eligibility and use of policy insurance as credit risk mitigation techniques	0 months after entry into force
Credit risk	ITS	CRR	20(8)	ITS on joint decision process for internal model applications	12 months after entry into force
Credit risk	RTS	CRR	111(8)	RTS on criteria that institutions shall use to assign off-balance-sheet items, constraining factors for UCC and notification process	12 months after entry into force
Credit risk	Guidelines	CRR	123(1)	Guidelines to specify proportionate diversification methods for retail definition	12 months after entry into force
Credit risk	RTS	CRR	124(12)(sub 1)	RTS to specify the term “equivalent legal mechanism” in place to ensure that the property under construction will be finished within a reasonable time frame	12 months after entry into force
Credit risk	Guidelines	CRR	126a(3)	Guidelines specifying the terms substantial cash deposits, appropriate amount of obligor-contributed equity and significant portion of total contracts	12 months after entry into force
Credit risk	Guidelines	CRR	178(7)(sub 1)	Guidelines on the definition of default, in particular for diminished financial obligation	12 months after entry into force



Legal basis, scope of the ITS and background (1/2)

Mandate: Article 20 - Joint decisions on prudential requirements – paragraph 8

EBA shall develop draft implementing technical standards to specify the joint decision process referred to in paragraph 1, point (a), of this Article with regard to the applications for permissions referred to in Article 143(1), Article 151(9) and Articles 283 and 325az with a view to facilitating joint decisions.

EBA shall submit those draft implementing technical standards to the Commission by 10 July 2025.

Scope of the ITS

The ITS is addressed to Competent Authorities (CAs) and details the process to be followed to decide whether to grant, or not, the permission and to determine the terms and conditions, if any, to which such permission should be granted (the so-called Joint Decision – JD) for the use of internal models for:

- credit risk,
- counterparty credit risk (CCR) and
- market risk.

for prudential purposes for an EU parent institution and its subsidiaries, or jointly for subsidiaries of an EU parent financial holding company or EU parent mixed financial holding

Legal basis, scope of the ITS and background (2/2)

- The mandate updates an existing one originally included in the CRR, which was fulfilled by the [EBA/ITS/2014/06](#) and later adopted by the Commission through the [Commission Implementing Regulation \(EU\) 2016/100](#)
- The main difference from the previous mandate arises from the revised scope for internal models outlined in the CRR III, which no longer allows the use of these approaches for operational risk (Advanced Measurement Approach - AMA)
- As a result, the EBA decided to amend the existing ITS to reflect the changes in the EU legal framework

Existing ITS Do's

- ✓ Establishes the process to help CAs work together while they are performing their assessments and preparing their contributions to the JD, including:
 - a) possible involvement of third-country supervisory authorities;
 - b) specification on the procedure for assessing the completeness of application;
 - c) planning of the JD process and elements of the JD document and more generally the cooperation between home-host authorities.

Existing ITS don'ts

- ✗ Provide details of the assessment methodology that CAs should follow when evaluating the adequacy of institutions' internal model settings, as these aspects are already covered in dedicated EBA products

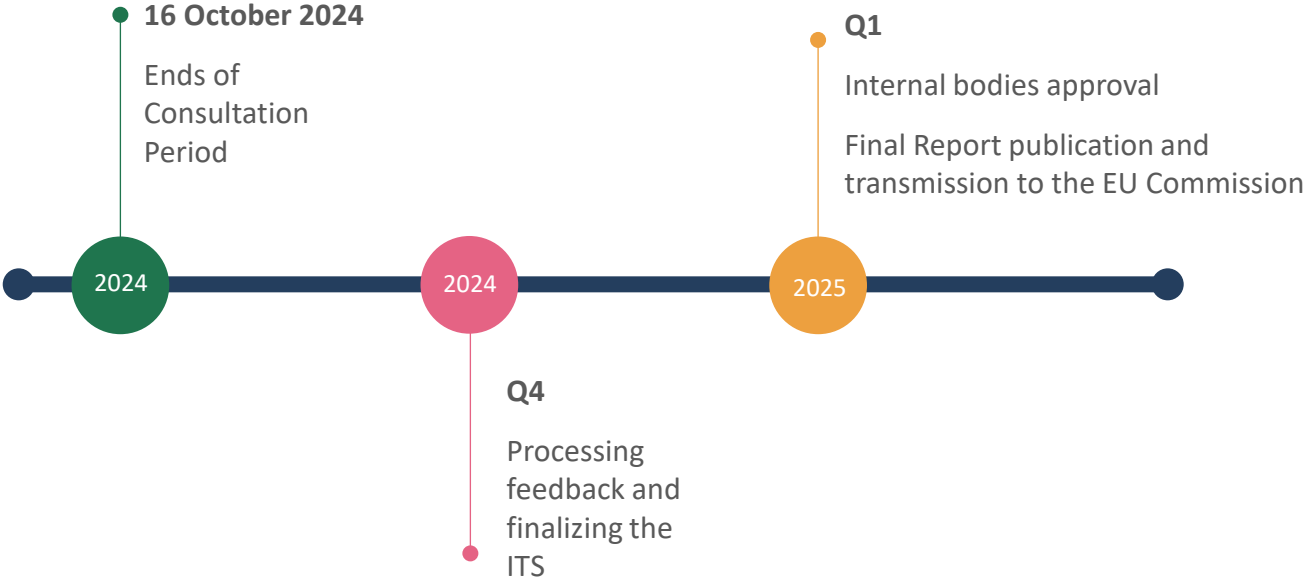
Proposed changes and question for consultation

- Along with the changes stemming directly from the updated regulation, the EBA assessed the need to implement targeted changes to the process currently set out in the existing product, based on the practical experience accumulated by CAs over the last decade (e.g. revalidation processes for internal models related to the EBA IRB repair program)
- Overall, the EBA deemed that the process designed in the ITS ensure an adequate cooperation between authorities, with no significant need for adjustments
- Consequently, the proposed changes are primarily legal in nature, such as updating and adjusting the revised legal references as needed
- In particular, the draft revised ITS reflect the changes in the EU regulatory framework, specifically regarding the reduced scope of application of internal models (with AMA removed from the scope of application) and the updated EBA RTS/ITS on the general conditions of functioning and operational functioning of supervisory colleges (i.e. [EBA/RTS&ITS/2024/01](#))

Question for consultation

- Q1. Do you consider that the changes proposed in the revised ITS are appropriate and sufficiently clear?

Next steps



Thank you
Q&A



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