

Public Hearing: Consultation on RTS on Model Change

EBA Prudential Regulation and Supervisory Policy

Virtual meeting, 15 January 2025



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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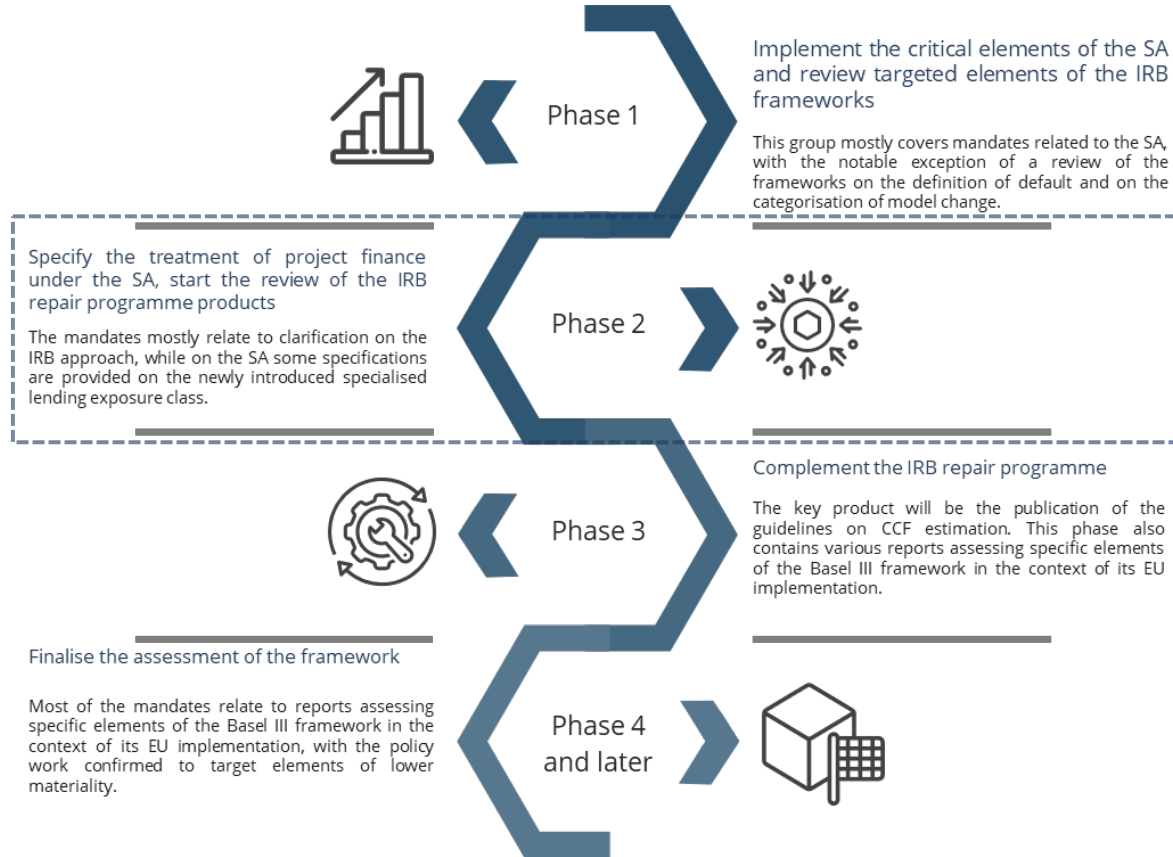
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01

EBA Roadmap on CR mandates under CRR3

EBA Roadmap – Overview CR



Legal Basis for revision of RTS

Article 143(3) and 143(4) differentiate between changes that are subject to approval ('material'), and all other changes that are subject to notification.

(3) Institutions shall obtain the prior permission of the competent authorities for the following:

'(a) material changes to the range of application of a rating system that the institution has received permission to use;

(b) material changes to a rating system that the institution has received permission to use.'

(4) Institutions shall notify the competent authorities of all changes to rating systems.

Article 143(5) provides a legal mandate to EBA to classify changes as material.

(5) EBA shall develop draft regulatory technical standards to specify the conditions for assessing the materiality of the use of an existing rating system for other additional exposures not already covered by that rating system and changes to rating systems under the IRB Approach. EBA shall submit those draft regulatory technical standards to the Commission by 10 January 2026.



02

Review of RTS and broader perspective of revisions needed

Review of RTS performed

- The review leverages on 10 years of CA experience + deep dive review of material model changes post-COVID to find misclassifications (i.e., material model change where a notification would have been sufficient).
- High number of applications for 'material' model changes, but no misclassifications identified:
 - No cases with only quantitative thresholds breached
 - In many cases, institutions bundled the model changes with several triggers, leading to significant updates
 - IRB repairs also triggered fundamental reviews of rating systems

Overview of changes and broader perspective

The proposed changes in the CP are of a technical nature, rather than a fundamental change in philosophy of the RTS, to ensure CAs have an overview of changes made by institutions.

- The revisions are not expected to have a fundamental effect on the number of material model changes.
- A diminution of material model changes could come from other sources, e.g. finalization of implementation of IRB repair program.

Area	Direction
Definition of Default	Reduction
Validation framework.	Reduction
SSCA & purchased receivables	Increase
Assignment to exposure classes and rating systems	Reduction
Reductions of range of application	Reduction

The EBA is assessing further the possibility to include more impactful revisions

- Together with the current approval process set up by competent authorities the process for model approvals is a significant part of the work of both institutions and competent authorities.
- A well-functioning process is key, as undue delays in the implementation of model changes by the institutions can lead to less effective model use and deter timely model improvements.



03

Set up of RTS

Set up of the RTS on changes and extensions

Type of changes under the IRB approach:

1. To the rating systems and related processes, e.g., changes in the ranking method or in the validation processes.
2. To the range of application of rating systems, i.e., extensions of rating systems to additional exposures and reduction of exposures in rating systems.

Categorization of materiality of changes:

1. Subject to approval of the competent authority ('material'),
2. Subject to prior notification to the competent authority before implementation ('ex ante' notification),
3. Subject to notification after implementation ('ex post' notification).

Categorization of changes and extensions through two methods:

1. A list of qualitative criteria; if the change meets a certain qualitative criterium → classified in a materiality category.
 2. Quantitative backstop criteria; if the RWA impact exceeds a certain threshold → classified in a materiality category.
- An institution should categorize the change according to the highest materiality category.



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Clarification of scope of the RTS

Scope of the RTS – recital 2/3/4

Recital 2: *Changes to rating systems as defined in Regulation (EU) No 575/2013 may have a potential impact on the internal risk estimates used for risk weighted exposure amount calculation, and as such include changes affecting the range of application of a rating system, the rating methodology for IRB systems, the definition of default and the validation framework as well as changes to relevant processes, data and the use of the models. Updates to the data used in the development and calibration of the rating systems should be covered by this Regulation. However, updates to the data used in the ongoing application of the rating systems in order to calculate the risk weight exposure amount for the application portfolio should not be covered by this Regulation.*

→ Changes to Maturity (M), Total Annual Sales (S) and the SA-CCF assignment to off-balance sheet items not in scope. The methodology for assigning exposures to exposure classes continues to fall within the scope of the RTS on model change.

Recital 3: *Changes not covered by Delegated Regulation (EU) No 529/2014 include extensions to additional exposures that were risk-weighted under the Standardised Approach before the extension or, where it relates to the extension of the range of application of an LGD model, additional exposures that were risk-weighted under a rating system without own LGD estimates before the extension.*

Recital 4: *New origination of facilities that are of a type of exposure already rated under the IRB Approach should not be seen as an extension of a rating system and should therefore not be covered by this Regulation.*

Consultation question 1: Request for comments on clarification of scope of RTS.



05

Updates to qualitative criteria for changes

Revised qualitative criteria for changes to rating systems

Definition of Default: **reduction of the scope of material model change**, through a positive list :

1. Changes to the method to identify if the obligor is more than 90 days past due.
2. Changes to the use of external data according to Article 178(4).
3. Changes to the level of application.
4. Changes whether an indication of Unlikeliness to Pay results in an automatic or a manual default reclassification.
5. Changes that impact the default classification of the exposures in the range of application of a rating system in a significant manner.

Other changes: ex ante notification, unless the change triggers an approval process through ex-ante criteria in the RTS.

Validation framework. **reduction of the scope of material model change.** Changes to validation methodology and/or validation processes considered material only when they lead to a more lenient judgment. When they lead to a stricter judgment, changes require an ex ante notification.

SSCA and purchased receivables. **Increase of the scope of material model change.** The derogation for changes to the supervisory slotting criteria approach and changes to the treatment of purchased receivables to be categorized as requiring ex-ante notification is removed. Changes to these approaches should follow the general criteria of the updated RTS.

Revised qualitative criteria for extensions and reductions

1. Types of extensions and derogation of representativeness are simplified.

The types of extensions is simplified, requiring approval for extensions to (any set of) additional exposures, irrespective of their nature, unless the institution can prove representativeness of the rating system for this set of exposures.

2. Representativeness linked to RTS on Assessment Methodology.

Representativeness in this RTS which needs to be demonstrated by the institution to apply the derogation is linked to the requirements on representativeness in the CDR (EU) 2022/439, namely to Article 37(2) pertaining to the risk differentiation capacity of the rating system, and to Article 42(2) pertaining to the risk quantification capacity of the rating system.

3. Changes to methodology to assign exposures to exposure classes and rating systems are ex-ante notifications.

Reduction of the scope of material model change. Changes in the methodology used for assigning exposures to different exposure classes, or to a rating system, are reclassified as requiring an ex-ante notification.

Consultation question 3: Request for comments on revisions to qualitative criteria for extensions.



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Updates to quantitative criteria for changes

Quantitative criteria for changes to rating systems

1. Two criteria maintained in the RTS to assess materiality of the change. Changes are material when they result in:
 - (i) a decrease of 1,5 % of the institution's overall (consolidated) risk-weighted exposure amounts*.
 - (ii) a decrease of 15 % or more of the risk-weighted exposure amounts* associated with the range of application of the internal rating system.

2. It is clarified that when one change (e.g., a change to the definition of default) affects multiple rating systems, the 1.5% criterium should be assessed aggregating the impact of the change across the affected rating systems.

Consultation question 4: Request for comments on clarification to quantitative criteria for changes to rating systems.

Revised quantitative criteria for extensions and reductions

- 1. Reduction of the scope of material model change.** The quantitative criteria do not need to be applied to reductions of the range of application of rating systems.
- 2.** Moving exposures from one rating system to another rating system should be classified as material when this results in a decrease of 1,5 % of the institution's overall (consolidated) risk-weighted exposure amounts*.
- 3.** An extension of one rating system with additional exposures should be classified as material when risk-weighted exposure amounts* covered by the rating system increases with 15% or more.

Consultation question 5: Request for comments on revision to quantitative criteria for changes to rating systems.



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Other updates to the RTS

Other updates to the RTS

Updates following CRR3

1. Under UFCP, changes from a modelling approach to a substitution approach and vice versa would entail an ex-ante notification.
2. References to (i) internal models for equity exposures, and (ii) the use of the Advanced Measurement Approach (AMA) for the operational risk, have been removed.

Documentation and reporting requirements

3. Where competent authorities have provided their permission in relation to a material extension or change, institutions should calculate under the IRB Approach the own funds requirements resulting from its risk parameter estimates and submit the reporting as required by Article 430 of Regulation (EU) No 575/2013.
4. All documentation should be submitted for extensions, irrespective of its materiality categorization.

Consultation question 6: Request for comments on revised documentation requirements.



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Next Steps

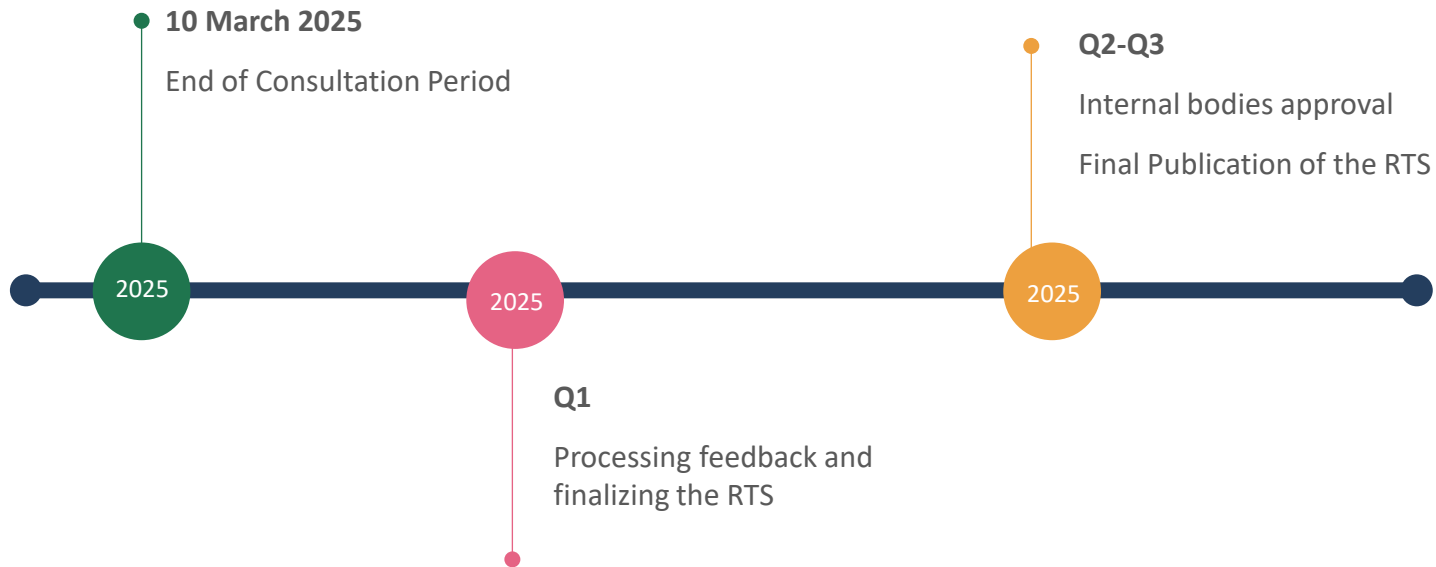
Industry feedback on functioning of the framework

Key will be to find a balance between sufficient information to CAs and an efficient process. The EBA is conducting a review to identify any potential unnecessary regulatory constraints on competent authorities and institutions leading to delays in the implementation of model changes by institutions.

Industry's view and concrete examples welcomed on

- Technical feedback on existing and revised quantitative and qualitative criteria, either by providing
 - Possible ways to carve out non-material changes from a specific qualitative criterium
 - Specific examples where changes classified as material were deemed not material by your internal assessment.
- The rebalancing of the regulatory categorization and supervisory resource commitment of particular changes, also in relation to the impact of the change on the capital requirements of the institution.
- Areas of the regulatory framework where a more proportional assessment by the competent authorities is needed for a certain category of changes (e.g. material changes or ex ante notifications).

Next steps





Thank you!



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