

Report on the implementation of the EBA Guidelines on AMA extensions and changes

Introduction

1. The European Banking Authority (EBA) published its Guidelines on AMA extensions and changes on the 6 January 2012. The aim was to harmonise processes regarding the supervisory approval of such changes and to assist institutions using the Advanced Measurement Approach (AMA) to further develop their AMA models.
2. The Guidelines provided institutions with guidance on how to communicate AMA extensions and changes to the competent authorities and on how to define internal policies for AMA changes in line with supervisory expectations. Changes to the AMA were categorised according to their severity as significant, major or minor change. While extensions and significant changes require a prior approval, major and minor changes need to be notified to the competent authority. Supervisors will review the AMA change policies and ultimately approve or object to any proposed change or extension.
3. The EBA expected that the EU competent authorities implemented the Guidelines on AMA changes by 6 March 2012. After that date, members should ensure that institutions applying the AMA comply with them effectively.

Implementation study

4. The implementation study was conducted via a questionnaire, which was sent to competent authorities on 15th May 2012 and should have been returned to the European Banking Authority by 15th August 2012, cob. As of today, the EBA has received 29 of a possible 30 responses (27 EU and 2 EEA member states responded). Four member states, namely Belgium, Spain, Netherlands, and France, chose to anonymise the responses made with regard to the AMA institutions and their AMA change policies.
5. The study aimed to collect information when, to which extend and how the guidelines have been implemented by competent authorities and institutions and whether additional information had been published to assist the implementation. Based on the responses received, the implementation study revealed that only 29 institutions or groups of institutions from eleven countries use an AMA. This study refers to the highest level of consolidation and does not count the subsidiaries using an

AMA, which are usually covered within the approved group AMA. Hence in the majority of member states the relevance of the Guidelines is limited.

Results of the Implementation Study

6. Most answers to the questionnaire have been handed in on time. However, as of today, the answer from Liechtenstein is still outstanding. However, we are not aware that any banks (other than subsidiaries of AMA institutions) based in Liechtenstein currently apply the AMA approach.
7. Of the responds, most members have implemented the Guidelines into their national rulebooks as of today. The exceptions are Belgium, Finland, Iceland, Poland, and Sweden. The actions taken to achieve this vary from making applicable all CEBS Guidelines in general, integrating them in rulebooks, publishing applicable translations and circulars. Most members implemented the Guidelines by 6 March 2012 as required, but some authorities (ES, HU, LV, PT, NO, RO and UK) implemented the guidelines after the deadline, with implementation dates ranging from April to October.
8. Overall, members did not opt to change the definitions provided within the Guidelines. Minor changes to AMA are reviewed annually by most respondents, although three member states (BG, SI and SK) with host institutions using the AMA noted they require immediate notification if the entity operating in their jurisdiction is affected. The UK also requires more regular notification on a quarterly basis. BE organised the notification process by requiring that the AMA institution records minor changes in a file accessible to the competent authority. On the threshold approach one member (DE) noted they had classified major changes as those impacting the own funds requirements for operational risk by 10% to 20%, and significant changes as those impacting by more than 20%. Another (UK) classifies major changes as those impacting the own funds requirements for operational risk by more than 1% and significant changes as those impacting own funds requirements for operational risk by more than 10%. In one member state (FR), specific local guidance provides a framework that firms should follow in implementing their own classification of AMA changes.
9. Of the institutions using the AMA, all but three have implemented the Guidelines within the time frame provided by the Guidelines. In the first half of 2012, across all institutions, there were only six extensions of the AMA, three significant changes, thirteen major changes, and nine minor changes. Prior to 2012, and since 2009, AMA institutions made a total of 74 changes to their models (ranging from minor to significant). The nature of the changes prior to 2012 is not in all cases sufficiently detailed to provide a comprehensive break down.
10. The sign-off process varies significantly between the institutions. Without further investigation into the corporate governance structures of the AMA institutions, it is not possible to draw robust conclusions. It can be noted however, that in most cases the sign-off for policy and changes involves a senior management committee (only in three cases was an individual banking function responsible for sign-off of policy or changes) and that internal audit or an internal validator provides the independent review (only in nine cases was the review carried out by another firm function).

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11. With regards to the additional criteria applied by AMA institutions to classify changes, again these vary widely. Whilst a number of entities defined business additions as significant changes, some other defined it as an extension to services, and others as major change. Changes to data sources are defined as significant by some, but as major changes by others. The harmonisation of the conditions for assessing the materiality of extensions and changes, including the classification criteria will take place within the regulatory technical standard according to article 301 (3b) of the proposed Capital Requirements Regulation by the end of 2013.
12. On the thresholds, whilst a number of firms (namely the German institutions) defined major changes as those affecting the own funds requirements for operational risk by more than 10% and less than 20% in line with their supervisory guidance, one firm set the threshold of 5 % for significant changes, one at 7% for major changes, and another introduced an absolute capital threshold of €200m (ca. 10 % of its own funds requirement for operational risk) for major changes and €400m for significant changes. UK institutions classified major changes as those affecting own funds requirements for operational risk by more than 1% and significant changes as those affecting own funds requirements for operational risk by more than 10% in line with their supervisory guidance. French institutions follow the guidance provided by the local regulator (ACP) and apply the respective criteria in classifying their AMA changes.
13. Overall, the implementation study clearly shows that the level of harmonisation is lower than desired and that quantitative backstop measures are applied with a broad range of thresholds. More detailed examples or criteria would be needed to ensure a consistent categorisation; this will be provided in the above mentioned regulatory technical standard on model changes where both qualitative and quantitative criteria are envisaged.
14. The annex of this implementation study shows the content of the responses received in some more detail.

Conclusion

15. Most Member States have fully implemented the Guidelines; please refer to the Annex for more details.
16. Members have mainly opted to implement the guidelines without issuing significant additional guidance or changing the content. The most prominent exception is France which issued additional guidance for the classification of changes. UK and DE provided explicit thresholds for a backstop measure. In the context of implementing minor changes, we have observed some stricter guidance from some member states that require immediate, or at least timelier, notification than annually.
17. The internal sign-off mechanism for AMA changes within the credit institutions was difficult to assess in the absence of detailed knowledge of corporate governance structures but most institutions appear to have a sufficiently robust and senior sign off process in place. Regarding the classification of changes, the study revealed inconsistencies between the model change policies of institutions. Hence further regulatory guidance is necessary and will be provided via a regulatory technical standard according to article 301 (3b) of the proposed Capital Requirements Regulation.