



**Mailing list Supervision/ Accounting/ Money Laundering**

Brussels, 27 November 2014  
BL

**EBA consultation on draft Regulatory Technical Standards on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach**

Dear Madam or Sir,

The European Banking Authority (EBA) has published on 12 November 2014 a consultation on draft regulatory technical standards on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach.

According to article 107, article 142 ff. of the regulation on prudential requirements for credit institutions and investment firms (CRR) credit institutions can choose to apply the IRB approach for the calculation of their risk-weighted exposure amounts for the credit risk. However, the competent authority shall assess the institution's compliance with the minimum requirements of the IRB approach and permit the application (article 143, 144 CRR).

For more harmonization in this assessment, EBA has been mandated in the CRR to concretize in regulatory technical standards the methodology to determine if an institution complies with the requirements to use the IRB approach. The regulatory technical standard comprises:

- The permission for the first application of the IRB approach pursuant to article 143, 144 CRR (article 144 (2) CRR).
- The permission to implement gradually the IRB approach for different types of exposures (article 148 CRR).
- The permission to undertake material changes to the IRB approach (article 143 (3) CRR).
- The permission to revert to the use of less sophisticated approaches (for example to the use of the standardized approach or to the use of the regulatory loss given default (LGD) and the conversion factors according to article 151 (8) CRR after using the own estimates and conversion factors) (article 149 CRR).

Furthermore, the competent authorities shall assess continuously the compliance of an institution with the requirements of the IRB approach (article 169 ff. CRR). According to article 101 of the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms the assessment shall take place at least every three years.

In detail, the competent authority shall also assess the compliance with the requirements of the use of own estimates for the potential default (PD), the LGD and the conversion factors. For risk-weighted exposure amounts for retail exposures (article 154 CRR) the institutions apply their own estimates of the PD, LGD and conversion factors. When it comes to risk-weighted exposure amounts for exposures to corporates, institutions, central governments and central banks as well as equity exposures, credit institutions shall indicate to the competent authority when asking for permission if

they intend to apply the regulatory LGD and conversion factors (pursuant to article 155 (3), 153 CRR) or the own estimates of the LGD and conversion factors as foreseen in article 151 (9) CRR.

According to the principle of proportionality, the extent of the assessment methodology shall depend on the type, size and complexity of the business model of the relevant credit institution as well as its organizational structure (cf. particularly article 1 (2) and recital 4 of the draft regulatory technical standards).

The regulatory technical standards shall replace section 2.2.2. and 3 as well as annex 3 of the guidelines of CEBS (Committee of European Banking Supervisors, the predecessor of EBA) called "Implementation, validation and assessment of advanced measurement (AMA) and Internal ratings based (IRB) approaches" of 4 April 2006 (GL-10 CEBS).

In the CRR, EBA has also been mandated to harmonize the requirements of the advanced approaches to own funds requirements calculation for the operational risk and the market risk with regulatory technical standards. According to EBA the draft methodology for the operational risk is almost completed. The elaboration of a regulatory technical standard for the market risk has not been terminated yet. The three documents will later be adjusted to each other.

After its publication in the Official Journal of the EU, the regulatory technical standard will be directly applicable and binding as a regulation in the member states. If you consider necessary for EFBS to raise a concern relevant to the Bausparkassen, we would be grateful if you send them to the EFBS office. Please find enclosed as an annex for your information the consultation paper.

If you have further questions, please contact us at any time.

Yours sincerely



Andreas J. Zehnder  
Managing Director

European Federation of Building Societies

**Annex:**

- Consultation paper on a Draft Regulatory Technical Standards on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach in accordance with Articles 144(2), 173(3) and 180(3)(b) of Regulation (EU) No 575/2013