

No. Question	Answer
<p>1 Idea / goal of pre-application: What is the goal of the pre-application?</p>	<p>The goal of the pre-application is to check an institution's readiness for a planned internal model investigation (IMI). The pre-application aims to identify potential roadblocks at an early stage before the institution formally applies for initial model approval or model change. The process requires the institution to complete a standardised self-assessment questionnaire (SAQ) to highlight potential non-compliance issues and assist supervisors in assessing the completeness and quality of the planned application.</p>
<p>2 Go-live date: When will the new pre-application process come start?</p>	<p>The standardised process and tools were already been used successfully for all relevant test cases in 2017 and 2018. As of 1 July 2018, all institutions are officially invited to follow the new procedure when submitting model application requests relating to internal models. Regarding the foreseen timeline, this date corresponds to the intended application date 1 November 2018. The pre-application package should in this case be submitted by 1 September 2018. For application dates before 1 November, institutions are invited to submit their pre-application package at their earliest convenience, on a best-effort basis.</p>
<p>3 IMIs in scope: Will all internal model investigations (IMIs) be subject to a pre-application?</p>	<p>Not all IMIs will be subject to a pre-application. As a rule of thumb, no pre-application is envisaged for, for example, IMIs concerning reversion to less sophisticated approaches, requests for permanent partial use (PPU) or less complicated missions. For all other IMIs, the depth of the pre-application will mainly depend on the complexity and RWA/EAD impact of a new model approval or model change.</p>
<p>4 Conduct of SAQ: Who is responsible for completing the SAQ on behalf of the institution? Is it risk management, internal validation or internal audit?</p>	<p>The institution should decide this for itself in line with the specifics of the questions in the SAQ regarding the institution's governance of internal models and risk management processes.</p>
<p>5 Independent internal review by validation or internal audit: Is an independent review of the self-assessment questionnaire (SAQ) required, e.g. by an audit function, before it is submitted to the ECB?</p>	<p>Supervisors do not require the SAQ to be reviewed by internal audit for material model changes. For a detailed overview of the documents for which an independent review is highly recommended, the institution should refer to the Guidelines on the pre-application and application forms Section 2.3.</p>
<p>6 Simplified SAQ and interpretation of the CRR: Can a simplified version of the SAQ be provided for different model changes? Is it left fully up to the institution, to determine the relevance of the Capital Requirements Regulation (CRR) requirements in the SAQ? It would help to have some guidance and assurance that all relevant aspects of the SAQ have been completed correctly.</p>	<p>There are many different types of model changes, which would lead to a large number of different SAQs. Moreover, under such an approach, institutions would be provided with a large number of documents, and a significant amount of time would be needed to decide which SAQ is the most appropriate for the proposed model change. It would be quite difficult for supervisors to determine what is appropriate at this early stage, as we would not have precise knowledge about the details of the change. The institution should identify which CRR requirements are relevant for the model change. CRR requirements should already be considered also during the development phase of the model change. In this case, all you need to do is complete the template and mark those that are not relevant to the change as "not applicable". The ECB guide to internal models can be used as guidance for interpreting of the CRR.</p>
<p>7 Differentiation of SAQ: Given the one-size-fits-all-approach of the SAQ, what type of documentation is expected (as a minimum) for each type of application?</p>	<p>The SAQ template covers selected items of applicable regulation for internal models. However, the institution is only required to enter information on topics related to the model change. The institution should decide which Capital Requirements Regulation (CRR) requirements affect the model change. The Joint Supervisory Team (JST) can limit the required set of documentation. At a minimum, new documents and documents that have changed should be submitted in case of a model change. If the final version of a document is not yet ready, documentation drafts could be accepted at the discretion of the supervisor. Finally, please note that the guidelines list the documents required for pre-application.</p>
<p>8 ECB expectation of the internal audit work to be done in terms of the model change itself: Does the ECB expect an internal audit report for all material changes? There might not be a sufficient legal basis for an internal audit report (on top of internal validation reports)?</p>	<p>Delegated Regulation (EU) No 529/2014 requires an independent review or validation.</p>
<p>9 Starting point of pre-application: The more time there is between the pre-application and the formal application, the poorer the (draft) documentation will be. What is the latest starting point of the pre-application?</p>	<p>Please refer to the letter submitted to supervised entities detailing the pre-application timeline.</p>
<p>10 Scope: What is the scope/ level of the pre-application?</p>	<p>For credit risk, the completeness check should be in line with highest level at which the rating system is applied (pursuant to Delegated Regulation (EU) No 529/2014); for market risk, this can be at risk category level (pursuant to Article 363(1) of Regulation (EU) No 575/2013).</p>
<p>11 RWA calculation level: At what level is the risk-weighted assets (RWA) calculation performed? Only at group level or at rating system level?</p>	<p>The RWA calculation should be provided at all levels of application (i.e. group and solo if relevant). For model changes, keep in mind that the RWA calculation will also be required at rating system level (Article 4.1.(c) (ii) of Delegated Regulation (EU) No 529/2014).</p>
<p>12 (Pre-)Application filing by parent institution: Does the (pre-)application have to be signed off by all legal entities in which the change is going to be implemented?</p>	<p>The (pre-)application form should be signed by the person(s) authorised to represent the institution. If the (pre-)application is also being submitted on behalf of other institutions or jointly with other institutions, please attach powers of attorney for those institutions. The institution submitting the (pre-)application package is usually expected to have mandates from the other institutions at the date of submission. Please note that, with regard to an application for material model changes or extensions, pursuant to Article 27 of the SSM Framework Regulation, a party may be represented by its legal representatives or by another representative empowered by written mandate to take any actions relating to an ECB supervisory procedure. A parent submitting an application on behalf of subsidiaries therefore needs to have a written mandate from those subsidiaries. For a pre-application, the parent needs to have a written mandate from the subsidiaries by, at the latest, the time the application is formalised. If the outcome of the completeness check is positive, the application is formalised by the institution reinstating the validity of the pre-application package if no changes have been made to the package, or by the JST confirming that the changes made are satisfactory if there is a change-log file.</p>

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<p>13 Participation: Is the financial institution obliged to participate in the pre-application process?</p>	<p>Although financial institutions are not obliged to participate, they are strongly encouraged to take part in the pre-application process. We are aware of the effort required. However, this will facilitate the later internal model investigation (IMI), and potential issues can be identified during this process, which the institution could often have the chance to resolve (if the impact is not so high).</p>
<p>14 Old-style pre-application: Will the "old-style" pre-application still be supported?</p>	<p>No, the new pre-application process has been set up in part for horizontal purposes; one of the goals is to ensure a level playing field within the Single Supervisory Mechanism (SSM).</p>
<p>15 Non-SSM countries: Is pre-application only for subsidiaries in Single Supervisory Mechanism (SSM) countries?</p>	<p>If the model is used at consolidated level within the SSM and contains some adjustment because of a non-SSM subsidiary, the pre-application might also be required for subsidiaries in non-SSM countries. The national authorities might be involved in such instances.</p>
<p>16 Application timeline in the event of remediation of findings: When should the application package be submitted if there have been material model changes relating to the remediation of findings? Is a four-month advance confirmation email necessary in this case?</p>	<p>Material model changes and extensions in the context of the remediation of findings are particular cases included in Type 4 of the cases falling outside the pre-application process, according to the letter to significant institutions on submitting requests to the ECB relating to internal models (Section 1.1, fourth bullet point). In the case of material model changes dealing with the remediation of findings, institutions are to submit the SAQ, its supporting documentation and the application form by, at the latest, the deadline assigned for the remediation of the findings in the decision that established them. The SAQ serves the ECB to assess that the changes implemented in the model comply with the relevant prudential requirements and supervisory expectations for own funds requirements. It is also crucial for the ECB to assess the completeness of the institution's application package. In selected instances an onsite meeting may still take place; the JST will inform the institutions in advance about these instances. Furthermore, institutions are asked to confirm their intended submission of the application package by this final deadline four months prior to the said deadline for the remediation of the findings in order to allow for efficient planning of the subsequent IMI. If the IMI during which the model change or extension will be assessed is planned to start more than six months after the submission of the application package, the institution is asked to reinstate the validity of the previously submitted application package (if it has not been modified) or to submit a change log file (if there have been changes to the application package) two months prior to the start of the IMI. If changes have been made, they have to be accepted by the JST in order to start the IMI. The institution may consider changes as accepted if the JST does not raise any specific disagreements.</p>
<p>17 Application timeline if there are different deadlines for obligations: If, for a model, there are several obligations with different deadlines, are several application packages required and, if not, when should the single application package be submitted?</p>	<p>Normally, the ECB ensures deadlines are aligned for related obligations within a decision. In the hearing period institutions are also invited to comment on deadlines to ensure they are aligned. If there are obligations with different deadlines that trigger material model changes on the same rating system, institutions are asked to update the initial application form and the initial SAQ at each deadline. For this purpose, the application form contains a field for indicating updates. Also in case of additional intermediate material model changes related to the same rating systems reported in previous versions of the SAQ (not triggered by an obligation), the same application form and SAQ should be used. With each update of an application, a change log file needs to be submitted in which the institution indicates which sections of the SAQ and which parts of the documentation have been changed. Once the institution is notified by the ECB that an IMI covering the model change requests submitted so far will take place, the institution is asked to start using a new application form and a new SAQ template for its following model change requests.</p>
<p>18 Pre-application package in the event of model extensions: Which topics of the SAQ have to be addressed and which parts of the documentation should be submitted in the event of a model extension?</p>	<p>Institutions are requested to provide documentation for the topics relevant to assessing the model extension and to complete all sections of the SAQ relevant to the model extension. Institutions should exercise judgement when deciding what information to include. As a minimum, those documents are required (i.e. new and changed documents) which prove that the internal model is appropriate for the exposures to which it would be extended.</p>
<p>19 Findings sheet of the SAQ: What is meant by "outstanding findings regarding the model stemming from an internal validation, internal audit and/or the regulator involved"?</p>	<p>These include all findings from supervisory authorities, internal audit and internal validation related to the model. As the new model/material model change/material model extension has not yet been approved by a supervisory authority when the pre-application package is submitted, the findings for the current model may be considered to be outstanding. For example, when a model is redeveloped there should also be a brief explanation of how the new model addresses the outstanding findings.</p>
<p>20 Exceptional cases: Which are the "exceptional cases" falling outside the pre-application process?</p>	<p>Material model changes dealing with the remediation of findings are exceptional cases (see the FAQ on this topic). Other exceptional cases are defined by the ECB on an ad hoc basis. Institutions will be informed of these exceptional cases in due course.</p>
<p>21 Pre-application timeline for pool models: In the event of a request regarding a pool model that affects more than one institution, what deadline applies to the submission of the SAQ to the individual institutions in the pool?</p>	<p>In the context of pool models, requests are usually submitted by all institutions at the same time and consequently, all institutions should submit their pre-application packages at the same time. In any case, it should not be later than two months prior to the confirmed official application date of the individual institution. With regard to the content of the pre-application package, an institution's submission should focus on its own compliance (not just the compliance of the overall pool) with the applicable regulation.</p>
<p>22 Base date for the general pre-application process timeline (not for remediation of findings or other exceptional cases): On which date should the timeline of the pre-application process (i.e. the four-month advance confirmation email from the institution and the two-month advance submission of the pre-application package) be based if the intended official application date and the planned start date for the subsequent IMI are different?</p>	<p>According to the letter to significant institutions on submitting requests to the ECB relating to internal models (Section 1.2), at least four months prior to the intended official application date, the institution should confirm this date by sending an email to the JST. After that, the pre-application package should be submitted at least two months prior to the confirmed official application date. For the purposes of the design of the pre-application process, the intended official application date is assumed to be the same as the start date for the subsequent IMI dealing with the model change or initial model approval as indicated in the simplified Supervisory Examination Programme (SEP) even though these dates may actually be different. In the event of any difference between these dates, the base date for the four-month advance confirmation of the pre-application process may be defined as the later of the start date of the quarter indicated in the simplified SEP and the intended official application date. In other words, if the start of the quarter indicated in the simplified SEP is later than the intended official application date, the beginning of this quarter can be used as the base date for the four-month advance confirmation. Following communication with the JST, the institution may have up-to-date information about the planned start date for the IMI. In this case it would be sufficient to submit the pre-application package two months before the planned start date for the IMI.</p>

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23	<p>Pre-application process for a previously submitted free-form application package: Does the pre-application process apply if the institution has already submitted a free-form application package before the new IMI pre-application process has been rolled out?</p>	<p>In the case of requests (not yet approved) for which a free-form application package has been submitted before the publication of the new pre-application process, institutions are encouraged to submit updated and new documents together with the completed SAQ at least two months prior to the planned start of the subsequent IMI dealing with the model change or initial model approval. Submitting the information in advance facilitates the efficient assessment of the internal model request.</p>
24	<p>Types of internal models for which SAQ templates are provided by the ECB: For most credit and market risk model types the two SAQ templates published on the ECB website can be used for an institution's self-assessment of regulatory compliance. Are further standardised SAQ templates available, e.g. for internal models for securitisations and purchased receivables or for other types of internal models such as models for counterparty credit risk?</p>	<p>No, only the two standardised SAQ templates published on the ECB website are provided by the ECB. They are applicable for the vast majority of internal model related requests. For all other model types, institutions are expected to produce and submit their own self-assessment with the applicable regulatory requirements, in particular CRR, and regulatory guidances, such as the ECB Guide on materiality assessment (EGMA) in case of counterparty credit risk or credit value adjustment risk.</p>