



7 June 2018

## **Information to significant institutions on submitting requests relating to internal models to the European Central Bank**

For the attention of the Board,

For requests by significant institutions relating to internal models, the European Central Bank (ECB) aims to facilitate a consistent approach across the Single Supervisory Mechanism (SSM). To this end, this letter informs you about the set of documents and processes that you are invited to use when communicating to the ECB any applications for (i) initial internal model approvals, (ii) material model changes and extensions, (iii) reversions to less sophisticated approaches or (iv) modifications to the scope of assets for which permanent partial use of the standardised approach is permitted. The letter also contains links to the set of documents to be used when communicating to the ECB any non-material model changes or extensions (whether ex ante or ex post).

### **1. Pre-application process for material model changes, extensions and initial model approvals**

Institutions are invited to follow the pre-application process, which aims to increase the efficiency of the assessment of internal model requests.<sup>1</sup>

The ECB highlights that participation in the pre-application process, as presented in this letter, is not a legal requirement. Nevertheless, institutions should note that the information they provide in the pre-application process is key in enabling the ECB to efficiently plan its assessment of internal model requests. If institutions do not use the pre-application process, such preparation can only be carried out on receipt of the formal application. Moreover, the level of information requested after submission of the formal application is at least equivalent to that foreseen in the pre-application process.<sup>2</sup>

The ECB therefore believes that significant institutions which follow the pre-application process as described in this letter will benefit from a more certain and transparent time plan.

For credit institutions following the pre-application process, the ECB will check the completeness of the pre-application package submitted (including the pre-application form and the institution's self-assessment of regulatory compliance) and, if deemed necessary, meet with representatives of the institution. On the one

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<sup>1</sup> This pre-application process was already mentioned in the confirmation step for internal model investigations in the Guide to on-site inspections and internal model investigations published on the ECB's banking supervision website: <https://www.bankingsupervision.europa.eu>

<sup>2</sup> Regardless of whether the institution follows the pre-application process or not, the later the ECB receives the requested information, the later it can plan the assessment.

hand, this process allows the ECB to identify gaps or content-related issues in the pre-application package and, on the other hand, it facilitates the ECB's preparation of the assessment. The ECB communicates the outcome of the completeness check to the institutions prior to the formal application.

Significant institutions are invited to follow the pre-application process for applications from 1 July 2018 onwards. The following sections give further details on the scope, process and timeline.

### 1.1. Scope of the pre-application process

The pre-application process is provided for all internal model-related requests for credit risk, market risk, counterparty credit risk, credit valuation adjustment risk and operational risk applications for initial internal model approval, material model change and/or model extension ("application requests") from institutions, except for the following types, which are communicated directly via application as explained in Section 2.

- Request for permanent partial use of the standardised approach (PPU) / change to the roll-out plan.
- Reversion to less sophisticated approaches.
- Specific projects affecting several institutions at once (e.g., fundamental review of the trading book or new definition of default<sup>3</sup>) for which the supervisor provides specific instructions on how to proceed.
- Exceptional cases as indicated by the Joint Supervisory Team (JST) in due time. In these instances, which will usually involve requests of low complexity or low materiality, institutions are requested to submit the same package as in the ordinary pre-application cases, with the exception of the pre-application form. No advance deadlines will apply.

At the beginning of the planning year, the ECB will inform institutions (along with an overview of supervisory activities where feasible) about the pre-applications that will involve a one day on-site meeting at the institution's premises. During this meeting, the institution is requested to present the main aspects of its modelling approach on the basis of a predefined agenda available on the ECB website.<sup>4</sup> Whether or not a one-day session takes place, institutions following the pre-application process are requested to perform the steps described below in a timely manner, without awaiting any further request from the JST.

### 1.2. Pre-application process

The pre-application process includes the following steps.

1. **At least four months in advance** of the intended official application date<sup>5</sup>, the institution should confirm this date by email to the JST.
2. **At least two months in advance** of the confirmed official application date, the institution should submit the pre-application package, which consists of (i) a pre-application form, (ii) a self-assessment questionnaire and (iii) specific documentation (as described in more detail in Section

<sup>3</sup> Stemming from the implementation of the forthcoming ECB Regulation implementing the Commission Delegated Regulation (EU) 2018/171 (OJ L 32, 06.02.2018, p. 1-5, adopting EBA/RTS/2016/03) as well as the EBA Guidelines on the application of the definition of default (EBA/GL/2016/07).

<sup>4</sup> [Predefined agenda for the on-site pre-application meeting \(credit risk\)](#) and [Predefined agenda for the on-site pre-application meeting \(market risk\)](#)

<sup>5</sup> As discussed within the context of the planning cycle for the upcoming year's supervisory examination program (SEP), where possible.

- 1.3.). The pre-application package should include the presentations to be delivered by the institution at the on-site meeting where applicable.
3. **Subsequently**, and as mentioned above, the ECB will arrange for the successful execution of the assessment and will also check the completeness of the institution's pre-application package. If there is to be an on-site meeting, it will be scheduled approximately one to two weeks after receipt of the package. The institution is requested to deliver presentations on each agenda item but the JST may specify parts of the presentation that should be elaborated on or condensed.
  4. The ECB will communicate the outcome of the completeness check to the institution either by letter or email.<sup>6</sup> If the outcome of the completeness check of the pre-application package is **positive**, the institution is invited to make its application request formal by reinstating the validity of the pre-application package. Provided that no changes were made to the package, this formalises the previously confirmed official application date. If any changes are made relative to the pre-application package, these have to be reported in the change log file<sup>7</sup> and will be checked by the JST. If the JST finds these changes satisfactory, the previously confirmed application date is formalised. Filing duplications are avoided because, whether any changes were made or not, institutions are not required to submit an additional application form. If the outcome is **negative**, the institution will be recommended not to apply and it should correct the identified potential information gaps or content-related issues. Institutions will then have to request a new investigation and to repeat the steps described above, subject to potential planning restrictions on the part of the competent authorities.

**It is important to note that a positive outcome of the ECB completeness check does not guarantee that the ECB will grant permission at the end of its assessment.**

### 1.3. Pre-application package and documentation

As outlined above, at least two months in advance of the confirmed application date, institutions are requested to submit a pre-application package to the JST, through their regular points of contact, with the following items.

1. A **pre-application form**<sup>8</sup> giving general information on the request.
2. A **self-assessment questionnaire along with selected items from the applicable regulatory framework (SAQ)**<sup>9</sup> in which the institution should assess its compliance with the relevant requirements of the Capital Requirements Regulation<sup>10</sup>.
3. Relevant **documentation** on the design, operational details and rationale of rating systems as explained in the guidelines for completing the pre-application form<sup>11</sup>. For credit and market risk the SAQ includes a mapping of the necessary documentation to relevant topics, following the structure

<sup>6</sup> The conclusion of the completeness check of the pre-application package in situations where a joint decision is required in the context of Article 4(2) of the Commission implementing Regulation (EU) 2016/100 of 16 October 2015 on joint decisions on prudential requirements in accordance with Article 20 of Regulation (EU) No 575/2013, will be coordinated with the relevant local competent authority.

<sup>7</sup> [Pre-application change log file](#)

<sup>8</sup> [Pre-application form](#)

<sup>9</sup> [Self-assessment questionnaire \(credit risk\)](#) and [Self-assessment questionnaire \(market risk\)](#)

<sup>10</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

<sup>11</sup> The [Guidelines on the pre-application and application forms](#) provide guidance on how to complete the pre-application form, the SAQ and further documentation requirements.

of the SSM assessment report for internal model investigations. In drawing up the SAQ and other relevant documentation, the ECB is merely reflecting the current legal requirements and does not seek to create any new ones.

4. **A set of presentations** for the on-site pre-application meeting where applicable.

All pre-application information should be approved by the institutions' competent bodies in order to ensure that the information provided by the institution is sufficiently detailed and accurate. The ECB acknowledges that compiling and internally approving the pre-application package requires organisation and efforts on the part of the institution.<sup>12</sup> However, the ECB believes that the pre-application process will help institutions in preparing their applications. The information provided by the institution will also be used in the later stages of the assessment. However, the assessment team may still make subsequent information requests when conducting the assessment itself.

## 2. Application package and documentation in cases falling outside the scope of the pre-application process

For the first three cases that fall outside the scope for submitting a pre-application package as described in Section 1.1., the pre-application form, SAQ and the change log file do not apply. Institutions are not asked to follow the timeline for submission but they are expected to submit the application form<sup>13</sup> directly, approved by their competent bodies.<sup>14</sup>

For the fourth case, the institution is asked to submit the SAQ and its supporting documentation at the same time as the application form.

## 3. Non-material model changes and extensions

Institutions are required to inform the ECB in the event of **non-material model changes or extensions of internal models** as set out in the applicable regulations<sup>15</sup>.

In order to harmonise the practices for significant institutions within the SSM, the ECB provides specific forms for the notification of non-material model changes or extensions related to the internal ratings-based approach (IRB Approach), the internal model method (IMM), the advanced method for credit valuation adjustment risk (A-CVA), the internal models approach (IMA) and the advanced measurement approach (AMA).

The following documentation is available on the ECB website.

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<sup>12</sup> Please refer to the [FAQ on the pre-application process](#) for further practical information on pre-application.

<sup>13</sup> The [Guidelines on the pre-application and application forms](#) provide guidance on how to complete the [Application form](#), the SAQ and further documentation requirements.

<sup>14</sup> The conclusion of the completeness check of the SAQ, its supporting documentation and the application form in situations where a joint decision is required in the context of Article 4(2) of the Commission implementing Regulation (EU) 2016/100 of 16 October 2015 on joint decisions on prudential requirements in accordance with Article 20 of Regulation (EU) No 575/2013, will be coordinated with the relevant local competent authority.

<sup>15</sup> See Commission Delegated Regulation (EU) No 529/2014 for the IRB Approach and for the AMA Approach (OJ L 148, 20.5.2014, p. 36) and Commission Delegated Regulation (EU) 2015/942 for market risk. (OJ L 154, 19.6.2015, p. 1) For counterparty credit risk, the "ECB Guide on materiality assessment (EGMA) - Materiality assessment for IMM and A-CVA model extensions and changes" could be considered.

- **Ex ante non material change/extension template and related instructions**<sup>16</sup>, designed to notify a single change or extension. Please note that one change could affect more than one risk type and more than one rating system/internal model; this shall be duly specified in the template. In line with the relevant regulation, the institution has to submit all the relevant documents (package) along with the completed template.
- **Ex post non material change/extension cover page and related instructions**<sup>17</sup>, designed to collect a minimum set of model-related information over a calendar year. In line with the relevant regulation, the completed form, together with all the relevant documents (package), should not be submitted later than one month after the corresponding year-end.

#### 4. Implementation of the process and next steps

As of 1 July 2018<sup>18</sup>, all significant institutions are invited, without further notification by the JST, to use the above forms when submitting model application requests relating to internal models through their regular points of contact (see Sections 1 and 2). The pre-application process may be updated and enhanced in the light of the experience made in its implementation, as well as based on the potential changes in the applicable regulatory framework.

For the communication of non-material model changes, institutions are asked to start using the relevant forms as of 1 July 2018 (see Section 3).

Institutions are also asked to share this letter and the pre-application toolkit with their subsidiaries, particularly if the subsidiaries are responsible for drafting the background documents that inform the applications. Should you require further information, please do not hesitate to ask your JST.

Yours sincerely,

[signed]

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[signed]

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<sup>16</sup> [Form to notify the ECB of ex-ante non-material changes or extensions](#) and [Instructions on filling in the template to notify the ECB of ex-ante non-material changes or extensions](#)

<sup>17</sup> [Form to notify the ECB of ex-post non-material changes or extensions](#) and [Instructions on filling in the template to notify the ECB of ex-post non-material changes or extensions](#)

<sup>18</sup> The milestone indicated in Point 1, Section 1.2. begins to apply as of 1 July 2018 (corresponding to the intended application date 1 November 2018). Nevertheless, for application dates before 1 November, institutions are invited to submit their pre-application package at their earliest convenience, on a best-effort basis.