Commission Delegated Regulation (EU) 2015/942 of 4 March 2015 amending Delegated Regulation (EU) No 529/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards regulatory technical standards for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for market risk (Text with EEA relevance)

COMMISSION DELEGATED REGULATION (EU) 2015/942

of 4 March 2015

amending Delegated Regulation (EU) No 529/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards regulatory technical standards for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for market risk

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012[(1)], and in particular the third subparagraph of Article 363(4) thereof,

Whereas:

(1) Commission Delegated Regulation (EU) No 529/2014[(2)] sets the criteria for the assessment of materiality of extensions and changes of Internal Ratings Based (IRB) Approaches and Advanced Measurement Approaches (AMA), used for the calculation of capital requirements for credit and operational risk. This Regulation should specify the conditions for assessing materiality of extensions and changes to Internal Models approaches (IMA), which are used for the calculation of own funds requirements for market risk. Taking into account that all relevant supervisory issues and procedures are similar for all types of internal approaches, i.e. relating to credit, operational or market risk, it is important to ensure coherence between all provisions regulating extensions and changes to internal approaches and to facilitate a comprehensive view and access in a coordinated way to them by persons subject to the obligations laid down in those provisions. Therefore, it is necessary to include all the regulatory technical standards required in Regulation (EU) No 575/2013 on extensions and changes to internal approaches in one single legal text.

(2) As in the case of the IRB approaches and AMA, for extensions and changes to the use of the IMA that are subject to a notification procedure, Regulation (EU) No 575/2013 does not indicate whether those changes should be notified before or after their implementation. The competent authorities need not know in advance of

extensions or changes that are of minor importance and it would be more efficient and less burdensome for institutions to collect such changes of minor importance and notify them to the competent authorities at regular intervals, reducing also the supervisory burden on the competent authorities. Other extensions and changes that are subject to a notification procedure should be notified before their implementation in order to allow competent authorities to review the correct application of this Regulation. Therefore, the same distinction between extensions and changes depending on the notification procedure as established in Delegated Regulation (EU) No 529/2014 for IRB approaches and AMA, should also apply to extensions and changes to IMA requiring notification and accordingly they should also be further distinguished into extensions and changes requiring notification before implementation and extensions and changes not requiring notification before implementation.

(3) IMA comprise any internal model subject to Part Three, Title IV, Chapter 5 of Regulation (EU) No 575/2013, for use of which competent authorities have granted permission in order to calculate capital requirements.

(4) Materiality of extensions or changes to IMA depends on the type and category of the extension or change proposed (which should be reflected in qualitative criteria), and on their potential to alter the own funds requirements (which should be reflected in quantitative criteria). However, some changes, such as organisational changes, internal process changes or risk management process changes, may not have direct quantitative impact. For those changes, only the qualitative criteria should be allowed for the assessment of materiality.

(5) Quantitative thresholds should be designed to take into account the overall impact of an extension or change to IMA on the risk numbers computed by any internal model affected by the extension or change, as well as on the required capital, based on both internal and standardised approaches, in order to reflect the extent to which internal approaches are used for the overall own funds requirements for market risk. However, in order to reduce the burden for institutions, it is appropriate, for the purposes of computing these quantitative thresholds, not to consider, when calculating each of the required risk numbers over the observation period of 15 business days, the average of relevant IMA risk numbers over the preceding 60 business days, but rather the most recent risk number.

(6) Competent authorities may at any time take appropriate supervisory measures with regard to extensions and changes to internal approaches that have been notified, based on the ongoing review of existing permissions to use internal approaches provided in Article 101 of Directive 2013/36/EU of the European Parliament and of the Council[(3)]. This power is established in order to ensure that the requirements laid down in Part Three, Title II, Chapter 3, Section 6, or Part Three, Title III, Chapter 4 or Part Three, Title IV, Chapter 5 of Regulation (EU) No 575/2013 remain complied with. In addition, the triggers for new approvals and notifications of extensions and changes to internal approaches should be established. Rules establishing the triggers should not affect supervisory internal approaches review or administrative processes provided for in Article 20(8) of Regulation (EU) No 575/2013.

(7) The permission of competent authorities relates to the methods, processes, controls, data collection and IT systems of the approaches, therefore ongoing alignment of the models to the calculation data-set used, correction of errors or minor adjustments necessary for the day-to-day maintenance of the internal approaches, which occur in the strict limit of the already approved methods, processes, controls, data collection and IT systems, should not be covered by this Regulation.

(8) Delegated Regulation (EU) No 529/2014 should therefore be amended accordingly.

(9) This Regulation is based on the draft regulatory technical standards submitted by the European Banking Authority to the Commission.

(10) The European Banking Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits, and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[4],

HAS ADOPTED THIS REGULATION:

Article 1

Amendments to Delegated Regulation (EU) No 529/2014

Delegated Regulation (EU) No 529/2014 is amended as follows:

1. Article 1 is replaced by the following:

Article 1

Subject matter

This Regulation lays down the conditions for assessing the materiality of extensions and changes to the Internal Rating Based approaches, the Advanced Measurement Approaches and the Internal Models Approach permitted in accordance with Regulation (EU) No 575/2013, including the modalities of the notifications of such changes and extensions.

2. Article 2(1) is replaced by the following:

1. The materiality of changes to the range of application of a rating system or an internal models approach to equity exposures, or of changes to the rating systems or internal models approach to equity exposures, for the Internal Rating Based approach ("changes in the IRB approach") or the materiality of the extensions and changes for the Advanced Measurement Approach ("extensions and changes in the AMA") or the materiality of the extensions and changes for the Internal Models Approach ("extensions and changes in the IMA") shall be classified into one of the following categories:
    a material extensions and changes, which, according to Articles 143(3), and 312(2) and 363(3) of Regulation (EU) No 575/2013, require permission from the relevant competent authorities;

b other extensions and changes, which require notification to the competent authorities.

3. Article 3 is amended as follows:

(a) In paragraph 1, the following third subparagraph is added:

The classification of extensions and changes in the IMA shall be carried out in accordance with this Article and Articles 7a and 7b.

(b) In paragraph 2, point (c) is replaced by the following:

(c) for changes having no direct quantitative impact, no quantitative impact as laid down in Article 4(1)(c) for IRB approach or Article 6(1)(c) for AMA or Article 7a(1)(c) for IMA needs to be calculated.

4. The following Articles 7a and 7b are inserted:

Article 7a

Material extensions and changes to the IMA

1 Extensions and changes to the IMA shall be considered material, if they fulfil any of the following conditions:

a they fall under any of the extensions described in Annex III, Part I, Section 1;

b they fall under any changes described in Annex III, Part II, Section 1;

c they result in a change in absolute value of 1 % or more, computed for the first business day of the testing of the impact of the extension or change, of one of the relevant risk numbers referred to in Article 364(1)(a)(i), or Article 364(1)(b)(i), or Article 364(2)(b)(i) or Article 364(3)(a) of Regulation (EU) No 575/2013, and associated with the scope of application of the relevant IMA model to which the risk number refers, and result in either of the following:

(i) in a change of 5 % or more of the sum of the risk numbers referred to in Article 364(1)(a)(i), Article 364(1)(b)(i), scaled up by the multiplication factors (m_c) and (m_s) respectively according to Article 366 of Regulation (EU) No 575/2013, Article 364(2)(b)(i) and Article 364(3)(a) of Regulation (EU) No 575/2013, and the own funds requirements according to Chapter 2, 3 and 4 of Title IV of that Regulation, as applicable, computed at the level of the EU parent institution or, in the case of an institution which is neither a parent institution nor a subsidiary, at the level of that institution;

(ii) in a change of 10 % or more of one or more of the relevant risk numbers referred to in Article 364(1)(a)(i), or Article 364(1)(b)(i), or Article 364(2)(b)(i) or Article 364(3)(a) of Regulation (EU) No 575/2013, and associated with the scope of application of the relevant IMA model to which the risk number refers.

2 For the purposes of paragraph (1)(c)(i), and in accordance with Article 3(2), the impact of any extension or change shall be assessed as the highest absolute value over the period referred to in paragraph 4 of this Article of a ratio calculated as follows:

a in numerator, the difference between the sum referred to in paragraph (1)(c)(i) with and without the extension or change;

b in the denominator, the sum referred to in paragraph (1)(c)(i) without the extension or change.

3 For the purposes of paragraph (1)(c)(ii), and in accordance with Article 3(2), the impact of any extension or change shall be assessed as the highest absolute value over the period referred to in paragraph 4 of this Article of a ratio calculated as follows:

a in the numerator, the difference between the risk number referred to in Article 364(1)(a)(i), Article 364(1)(b)(i), Article 364(2)(b)(i) or Article 364(3)(a) of Regulation (EU) No 575/2013 with and without the extension or change;

b in the denominator, the risk number referred to, respectively, in Article 364(1)(a)(i), or Article 364(1)(b)(i), or Article 364(2)(b)(i) or Article 364(3)(a) without the extension or change.

4 For the purposes of paragraph (1)(c)(i) and (1)(c)(ii) the ratios referred to in paragraphs 2 and 3 shall be calculated for a period the duration of which is the shortest between the following points (a) and (b):

a 15 consecutive business days starting from the first business day of the testing of the impact of the extension or change;

b until such day where a daily calculation of either one of the ratios referred to in paragraphs 2 and 3 results in an impact equal or greater than the percentages referred to in either paragraph (1)(c)(i) or paragraph (1)(c)(ii), respectively.

Article 7b

Extensions and changes to the IMA not considered material

Extensions and changes to the IMA, which are not material but are to be notified to competent authorities according to the second subparagraph of Article 363(3) of Regulation (EU) No 575/2013, shall be notified in the following manner:

(a) extensions and changes falling under Annex III, Part I, Section 2, and Part II, Section 2, shall be notified to competent authorities two weeks before their planned implementation;

(b) all other extensions and changes shall be notified to the competent authorities after implementation at least on an annual basis.

5. Article 8(1) is replaced by the following:

1. For extensions and changes to the IRB approach, or to the AMA or to the IMA classified as requiring competent authorities' approval, institutions shall submit, together with the application, the following documentation:

a description of the extension or change, its rationale and objective;

b implementation date;

c scope of application affected by the model extension or change, with volume characteristics;

d technical and process document(s);

e reports of the institutions' independent review or validation;

f confirmation that the extension or change has been approved through the institution's approval processes by the competent bodies and date of approval;

g where applicable, the quantitative impact of the change or extension on the risk weighted exposure amounts, or on the own funds requirements, or on the