***Changes to legislation:*** *There are outstanding changes not yet made to Commission Delegated Regulation (EU) No 529/2014. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details)EUR 2014 No. 529 may be subject to amendment by EU Exit Instruments made by both the Prudential Regulation Authority and the Financial Conduct Authority under powers set out in The Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 (S.I. 2018/1115), regs. 2, 3, Sch. Pt. 4. These amendments are not currently available on legislation.gov.uk. Details of relevant amending instruments can be found on their website/s. (See end of Document for details) View outstanding changes*

# Commission Delegated Regulation (EU) No 529/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement Approach (Text with EEA relevance)

## COMMISSION DELEGATED REGULATION (EU) No 529/2014

## of 12 March 2014

## supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement Approach

## (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 third subparagraph of Article 143(5) and third subparagraph of Article 312(4),

Whereas:

(1) In accordance with Article 143(3) of Regulation (EU) No 575/2013 the range of application of a rating system refers to the type of exposures that may be rated with a specific rating system.

(2) Regulation (EU) No 575/2013 differentiates between material extensions or changes to the Internal Ratings Based Approach (IRB approach) and Advanced Measurement Approach (AMA) that are subject to approval, and all other changes that are subject to notification. As to the latter there is no indication in Regulation (EU) No 575/2013 on the timing of notification of the extension or change, i.e. whether the change should be notified before or after its implementation. It should be considered that extensions or changes of minor importance need not be known to the competent authorities in advance. Further, it would also be more efficient and less burdensome for institutions to collect such changes of minor importance and notify them to the competent authorities in regular intervals. Indeed, this has already been supervisory practice in several Member States. Thus, extensions and changes requiring notification should be further split into extensions and changes requiring notification before their implementation and extensions and changes only requiring notification after their implementation. This would further ensure that competent authorities in their daily tasks focus their attention on extensions and changes with the potential of materially altering own funds requirements or the performance of the models or rating systems.

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It would also ensure that institutions distinguish between extensions and changes of great significance from extensions and changes of minor importance on the basis of a risk-oriented supervisory approach. Such a distinction between extensions and changes subject to notification before implementation and extensions and changes subject to notification after implementation, would be prudent, given that the notification before implementation would provide the competent authorities with the possibility to review the correct application of this Regulation. This in return would also reduce the supervisory burden on the institutions' side.

(3) Materiality of extensions or changes in the models usually 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 or, where applicable, the risk-weighted exposure amounts (which should be reflected in the quantitative criteria). Therefore any quantitative criteria for reviewing the materiality of extensions or changes should take the form of a threshold based on the percentage change of own funds requirements or, where applicable, of risk-weighted exposure amounts before and after the change.

(4) While for extensions and changes to AMA approaches, the quantitative threshold should be calculated, for the sake of simplicity, on the basis of the own funds requirements, for changes to the IRB approaches the threshold should be calculated on the basis of risk-weighted exposure amounts, in order to avoid that the thresholds are unduly influenced by differences in the amounts of credit value adjustments made, which affect own funds requirements, but not risk-weighted exposure amounts. Moreover, quantitative thresholds should be designed to take into account the overall impact of the extensions or changes on the capital required based on the internal approaches as well as the standardised approaches, in order to reflect the extent to which internal approaches are used for the overall own funds requirements or risk-weighted exposure amounts. This applies to all thresholds for both approaches, except in relation to the second threshold in Article 4(1)(c)(ii) for the IRB approach and the prior notification threshold for the IRB approach which are designed with regard to the impact of changes on the risk-weighted exposure amounts covered by the range of application of a specific model. For both the IRB approach and the AMA, the calculations to derive the impact of a given extension or change should be made with reference to the same point in time, given that the set of exposures (in the case of the IRB approach) and the risk profile (in the case of the AMA) are relatively stable in time.

(5) Competent authorities may at any time take appropriate supervisory measures with regard to model extensions and changes that have been notified, based on the on-going 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[(2)]. On the one hand, this is 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 satisfied. On the other hand, rules are necessary to establish the triggers for new approvals and notifications of extensions and changes to internal approaches. Such rules should not affect supervisory internal

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model review approaches or administrative processes provided for by Article 20(8) of Regulation (EU) No 575/2013.

(6) Changes to the permanent partial use of internal approaches or, where applicable, to the sequential implementation of internal approaches are covered by Articles 148 and 150 of Regulation (EU) No 575/2013 for IRB approach and Article 314 of Regulation (EU) No 575/2013 for AMA. Therefore those types of changes should not be covered by this Regulation.

(7) The permission of competent authorities relates to the methods, processes, controls, data collection and IT systems of the approaches, therefore on-going alignment of the models to the calculation data-set used, based on the approved methods, processes, controls, data collection and IT systems, should not be covered by this Regulation.

(8) In order for competent authorities to be able to assess that institutions have applied the rules on assessing the materiality of extensions and changes correctly, appropriate documentation should be submitted by institutions to competent authorities. In order to reduce the supervisory burden on institutions and to increase the effectiveness and efficiency of competent authorities' procedures in that respect, rules should be laid down to specify documentation requirements to accompany applications for approval or notifications of extensions and changes.

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

(10) The provisions of this Regulation are closely linked, since they refer to extensions and/or changes to AMA and IRB approaches for own funds requirements for credit and operational risk and since relevant supervisory issues and procedures are similar for those two types of internal approaches. To ensure coherence between those provisions, and to facilitate a comprehensive view and access in a coordinated fashion to them by persons subject to relevant obligations, it is desirable that they enter into force at the same time and include all of the regulatory technical standards required by Regulation (EU) No 575/2013 on extensions and changes to internal models for credit and operational risk, in a single Regulation. However, since point (a) in the first subparagraph of Article 312(4) deals with a different subject matter, this regulation only addresses points (b) and (c).

(11) 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[(3)],

HAS ADOPTED THIS REGULATION:

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## *[F1 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.**]**

**Textual Amendments**

**F1** Substituted by 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).

## *Article 2*

### Categories of extensions and changes

**[F1** 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.**]**

2 The extensions and changes referred to in point (b) of paragraph 1 shall further be classified into:

a extensions and changes that require notification before their implementation;

b extensions and changes that require notification after their implementation.

**Textual Amendments**

**F1** Substituted by 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).

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*Article 3*

**Principles of classification of extensions and changes**

1 The classification of changes in the IRB approach shall be carried out in accordance with this Article and Articles 4 and 5.

The classification of extensions and changes in the AMA shall be carried out in accordance with this Article and Articles 6 and 7.

**[**[F2]The classification of extensions and changes in the IMA shall be carried out in accordance with this Article and Articles 7a and 7b.**]**

2 Where institutions are required to calculate the quantitative impact of any extension or change on own funds requirements or, where applicable, on risk-weighted exposure amounts, they shall apply the following methodology:

a for the purpose of the assessment of the quantitative impact institutions shall use the most recent data available;

b where a precise assessment of the quantitative impact is not feasible, institutions shall instead perform an assessment of the impact based on a representative sample or other reliable inference methodologies;

**[**[F1]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.**]**

3 One material extension or change shall not be split into several changes or extensions of lower materiality.

4 In case of doubt, institutions shall assign extensions and changes to the category of the highest potential materiality.

5 Where competent authorities have provided their permission in relation to a material extension or change, institutions shall calculate the own funds requirements based on the approved extension or change from the date specified in the new permission which shall replace the prior one. The non-implementation on the date specified in the new permission of an extension or change for which permission from competent authorities has been given, shall require a new permission from competent authorities which shall be applied for without undue delay.

6 In case of delay of the implementation of an extension or change for which permission from the competent authority has been granted, the institution shall notify the competent authority and present to the competent authority a plan for a timely implementation of the approved extension or change, which it shall apply within a period to be agreed with the competent authority.

7 Where an extension or change is classified as one requiring prior notification to competent authorities, and where, subsequently to the notification, institutions decide not to implement the extension or change, institutions shall notify without undue delay the competent authorities of this decision.