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COVER NOTE

From: Helmut Ettl, Vicechair (acting chairperson) of the European Banking Authority

date of receipt: 30 March 2026

To: John Berrigan, Director General, DG FISMA, European Commission

Subject: Banking Prudential (Basel III implementation) - Final report on the draft RTS on amending Delegated Regulation (EU) No 529/2014 with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach

On the 30 March, the EBA notified the Commission the adoption of the above-referred draft RTS as per the mandate set out in Article 143(5) of CRR3 (see below the letter from the EBA to the Commission enclosing the draft RTS).

Summary of the EBA Final RTS on Material Model Changes

The EBA's final Regulatory Technical Standards (RTS) recalibrate how supervisors and institutions assess the **materiality of changes to IRB rating systems**, with the twin aims of reducing the volume of changes treated as "material" and making supervisory oversight more risk-based and efficient.

Scope and rationale. The RTS apply to changes and extensions of internal rating systems used under the IRB approach and respond to a sustained workload of material-change applications that has strained supervisory resources and delayed banks' remediation and improvement work. The reform reflects lessons from supervisory experience and aligns the framework with the updated CRR3 prudential architecture.

Key substantive changes. The RTS place **stronger reliance on quantitative thresholds** to determine materiality and **narrow the qualitative triggers** so that only fundamentally significant changes (for example, full model redevelopments, re-estimations of core risk

parameters, or major changes to the definition of default) remain automatically material. Routine maintenance and incremental updates will generally be subject to notification rather than prior approval unless they breach the quantitative thresholds. References to approaches removed or superseded by CRR3 (such as IRB for equity exposures and the AMA) have been excised.

Supervisory and operational impact. By reducing the number of changes requiring prior approval, the RTS are intended to shorten approval timelines, lower administrative burdens for both banks and competent authorities, and enable faster implementation of model improvements while preserving supervisory visibility where risks are concentrated. The EBA expects the revised criteria to be used alongside complementary supervisory work (including ECB initiatives) to ensure targeted, risk-based scrutiny of higher-impact model changes.

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eba | European
Banking
Authority

Floor 24-27, Tour Europlaza
20 Avenue André Prothin
92400 Courbevoie, France

E: eba-chairperson@eba.europa.eu

<https://eba.europa.eu>

THE VICE-CHAIRPERSON

John Berrigan
Director General
Directorate-General for Financial Stability,
Financial Services and Capital Markets Union (FISMA)
European Commission
Rue de Spa 2
1049 Brussels
Belgium

EBA-2026-D-5526

30 March 2026

Subject: Final report on the draft RTS on amending Delegated Regulation (EU) No 529/2014 with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach

Dear Mr Berrigan,

With the Regulation (EU) 2024/1623 (CRR3) amending Regulation (EU) No 575/2013 (the Capital Requirements Regulation, CRR), the EBA is mandated under Article 143(5) CRR to publish Draft Regulatory Technical Standards amending the Commission Delegated Regulation (EU) No 529/2014 concerning changes to rating systems and extensions to the range of application of rating systems under the IRB approach.

It is my pleasure to submit to you today the EBA final draft of these RTS, as endorsed by the EBA's Board of Supervisors. These standards were developed following the procedure described in Article 10 of Regulation (EU) No. 1093/2010 (EBA Regulation). As previously agreed, the draft regulatory technical standards are attached in Legiswrite format.

The EBA's work on the RTS on material model changes is driven by two main objectives. First, the amendments proposed under this RTS aim to make the supervisory approval process for banks using Internal Ratings Based (IRB) models more efficient. They address the high volume of material model change applications, which has strained supervisory resources, led to lengthy approval timelines, delayed remediation and improvements, and hindered effective model use. The RTS introduces targeted amendments that significantly reduce the number of changes classified as material, allowing supervisors to apply a more risk-based approach in the supervision of IRB models. This will ease the administrative burden on both banks and supervisors while maintaining appropriate supervisory oversight.

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Second, the RTS have been aligned with changes introduced under CRR3. The updated standards remove references to approaches that are no longer part of the prudential framework, such as the IRB approach for equity exposures and the Advanced Measurement Approach (AMA) for the operational risk.

The EBA remains fully committed to working constructively with the Commission to ensure the timely adoption of a robust and legally sound framework that preserves the prudential safeguards underpinning Article 143 CRR, while ensuring harmonised application across institutions and Member States.

In addition, the draft regulatory technical standards will be published on the EBA's public website.

I look forward to the completion of the process of adoption of the standards.

Yours sincerely,



Helmut Ettl

- CC: Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs, European Parliament
Monika Nogaj, Head of ECON Secretariat, European Parliament
Makis Keravnos, ECOFIN Chair, Minister of Finance of the Republic of Cyprus, Presidency of the Council of the EU
Tuomas Saarenheimo, Chair of Economic and Finance Committee, Council of the European Union
Thérèse Blanchet, Secretary-General, Council of the European Union
Ugo Bassi, Director Dir D, Banking, Insurance and Financial Crime, DG FISMA
Almorò Rubin de Cervin, Head of Unit D1, Bank regulation and supervision, DG FISMA
- Encl: Final Report on the draft RTS on amending Delegated Regulation (EU) No 529/2014 with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach.



EUROPEAN
COMMISSION

Brussels, XXX
[...] (2026) XXX draft

ANNEX 1

ANNEX

to the

Commission Delegated Regulation (EU)

amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) No 529/2014 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.

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ANNEX

- (1) Annex 1 to Commission Delegated Regulation (EU) No 529/2014 is replaced by the following:

PART I **CHANGES TO THE RANGE OF APPLICATION OF RATING SYSTEMS**

SECTION 1

CHANGES REQUIRING COMPETENT AUTHORITIES' APPROVAL ('MATERIAL')

1. Extending the range of application of a rating system to additional exposures, unless the institution can prove that;
 - (a) the data used to build the model to assign exposures to grades or pools is representative with respect to the extended scope of application according to Article 174(c) of Regulation (EU) No 575/2013 and according to the [**representativeness** articles] in the Commission Delegated Regulation (EU) 2022/439;
 - (b) the data used for risk quantification purposes shall be representative of the extended scope of application according to Article 179(1)(d) of Regulation (EU) No 575/2013 and of the [**representativeness** articles] in Commission Delegated Regulation (EU) 2022/439.

SECTION 2

CHANGES REQUIRING PRIOR NOTIFICATION TO COMPETENT AUTHORITIES

1. Reducing the range of application or the scope of use of a rating system.
2. Extending the range of application of a rating system for which it can be shown that it does not fall under Part I, Section 1, point 1 of this Annex or as material changes according to Article 4(1)(d) of this Regulation.

PART II **CHANGES TO RATING SYSTEMS'**

SECTION 1

CHANGES REQUIRING COMPETENT AUTHORITIES' APPROVAL ('MATERIAL')

1. Fundamental re-estimation of the algorithms and procedures used for: assigning obligors to obligor grades or pools; for assigning exposures to facility grades or pools; or for quantifying the default risk or associated loss. These are:
 - (a) fundamental changes to the model design of the statistical or mathematical model used to differentiate obligors or facilities and to assign these obligors to rating scales or pools. These are:
 - (i) fundamental changes in the typologies of the datasets used to change rating criteria and/or their weights or hierarchy, namely any switch between using external data sources, internal data sources, or pooled data sources;

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- (ii) switching between using risk parameter estimates for discrete grades or pools, and using direct risk parameter estimates as referred to in Article 169(3) of Regulation (EU) No 575/2013;
 - (iii) any change in the functional link between inputs and outputs of the model as referred to in Article 174, second subparagraph of Regulation (EU) No 575/2013 that changes fundamentally the complexity of the model design or the reliance on human judgment;
 - (iv) any change that changes the rank ordering or the distribution of obligors or exposures across grades or pools, in a fundamental manner, the measure and level of which will have been defined by the institution;
- (b) fundamental changes to the risk quantification approaches or methodologies as referred to in Articles 180, 181 and 182 of Regulation (EU) No 575/2013. These are:
- (i) switching between grade level estimation methods, and alternative estimation methods;
 - (ii) switching between estimating LGDs or own-conversion factors appropriate for an economic downturn based on loss data or observed drawings and estimating LGDs or own-conversion factors appropriate for an economic downturn based on alternative estimation methods;
2. Fundamental changes to the definition of default under Article 178 of Regulation (EU) No 575/2013. These are:
- (a) any change in the level of application of the definition of default for retail exposures according to Article 178(1), second subparagraph of Regulation (EU) No 575/2013;
 - (b) any significant change in the default classification of obligors or facilities in either the datasets used for the purpose of estimation of risk parameters ('reference data set') or range of application of a rating system. Institutions should measure the significance of the change in default classification by evaluating the following ratio, for respectively the reference data set and range of application of the rating system: in the numerator, the total number of changed default classifications, including both classifications from non-default to default and vice versa; in the denominator, the total number of defaults before the change. The level of the threshold against which this ratio should be evaluated should be defined by the institution.

SECTION 2

CHANGES REQUIRING EX ANTE NOTIFICATION TO COMPETENT AUTHORITIES

1. Changes in the methodology used for assigning an obligor or a transaction to a rating system according to Article 169(1) of Regulation (EU) No 575/2013.
2. Unless classified as material changes according to Part II, Section 1 of this Annex or as material changes according to Article 4(1)(c) of this Regulation, the following changes in the algorithms and procedures used for: assigning obligors to obligor grades or pools; for assigning exposures to facility grades or pools; or for quantifying the default risk or associated loss:

- (a) changes to the rating scale in terms of the number or structure of rating grades according to Article 170(1) of Regulation (EU) No 575/2013;
- (b) changes to the rating criteria and/or their weights or hierarchy according to Article 170(1)(c) and (e) and 170(4) of Regulation (EU) No 575/2013;
- (c) changes in the internal procedures and criteria for assigning risk weights to specialised lending exposures according to Articles 153(5) and 170(2) of Regulation (EU) No 575/2013;
- (d) changes to the grade or pool definitions or criteria according to Articles 171(1) and 172 of Regulation (EU) No 575/2013;
- (e) changes in the application of additional conservatism to the outcomes of the rating assignment according to Article 171(2) of Regulation (EU) No 575/2013, related to the identification of deficiencies in the implementation of the model in the IT system or to the process of assignment of risk parameters to obligors or facilities in the application portfolio;
- (f) changes in the scope of information used to assign obligors to grades or pools according to Article 171(2) of Regulation (EU) No 575/2013;
- (g) introducing or withdrawing external ratings as a factor for determining the internal rating assignment within a rating system according to Article 171(2) of Regulation (EU) No 575/2013;
- (h) changes in assumptions about how business cycle effects may affect the migration of facilities or obligors across grades or pools according to Article 171(3).
- (i) changes to the institution's approach to the 'one-obligor-one-rating principle' according to Article 172(1)(e) of Regulation (EU) No 575/2013;
- (j) changes in the rules and processes for the use of overrides according to Article 172(3) of Regulation (EU) No 575/2013;
- (k) if an institution maps its internal grades to the scale used by an ECAI and then attributes the default rate observed for the external organisation's grades to the institutions' grades according to Article 180(1)(f) of Regulation (EU) No 575/2013, changes in the mapping used for this purpose;
- (l) inclusion of new or additional information in a model for parameter estimation according to Article 179(1)(d) of Regulation (EU) No 575/2013.
- (m) re-estimations that are purely based only on additional or updated data that go beyond the annual inclusion of the latest observations;
- (n) where applicable, changes to the segmentation of obligors or facilities in subsets of the scope of application of the model which are jointly calibrated, where such segmented calibration ensures that, for each segment, the resulting risk-parameter estimates correspond to the long-run average default rate, the long run average realised LGD or long run average realised CCF, or to the downturn LGD or CCF estimates ('changes to calibration segments');
- (o) where applicable, removing years from the data set on which the ranking or pooling method is applied in order to perform the calibration that ensures that risk parameter estimates corresponds to the long-run average default rate, the

- long run average realised LGD or long run average realised CCF, or downturn LGD or CCF estimate ('changes to the calibration sample');
- (p) changes in the treatment of information from incomplete recovery processes for the purpose of Article 181(1)(a) and 182(1)(a) of Regulation (EU) No 575/2013, in particular where they change the maximum period after which no more recoveries are estimated ('maximum recovery period');
 - (q) changes to individual calculations for margins of conservatism related to deficiencies that lead to a bias in the quantification of risk parameters or to an increased uncertainty not fully captured by the general estimation error.
 - (r) changes to the methodology to quantify the margin of conservatism for the general estimation error.
 - (s) changes in the nature, severity and duration of an economic downturn period as referred to in Commission Delegated Regulation (EU) 2021/930, or a change in selecting the downturn period used for the estimation referred to in Article 181(1), point (b), and Article 182(1), point (b), of that Regulation;
 - (t) changes to the methodology for estimating the downturn impact for identified downturn periods according to Article 181(1)(b) and Article 182(1)(b) of Regulation (EU) No 575/2013.
 - (u) inclusion of additional types of funded credit protection into the LGD estimation in accordance to Article 181(1)(c) to (g) of Regulation (EU) No 575/2013, and changes in the way or extent to which unfunded credit protection is accounted for in the LGD estimation according to Article 183 of Regulation (EU) No 575/2013;
3. Unless classified as material according to Part II, Section 1 of this Annex, changes in the definition of default according to Article 178 of Regulation (EU) No 575/2013.
 4. Changes in the validation methods and/or validation processes that unequivocally lead to a more lenient judgment of the validation function of the performance of the institution's rating processes or the performance of their rating systems according to Article 185(a) and Article 185(b) of Regulation (EU) No 575/2013, in the following cases:
 - (a) the removal of a test on the discriminatory performance or on the predictive power or on the representativeness of a rating system,
 - (b) the lowering of a validation threshold of a test referred to in point (a).
 5. Changes in internal organisational processes. These include:
 - (a) changes in the credit risk control unit according to Article 190 of Regulation (EU) No 575/2013 as regards its position within the organisation and its responsibilities;
 - (b) changes in the validation unit's position according to Articles 190(1) and (2) of Regulation (EU) No 575/2013 within the organisation and its responsibilities.

SECTION 3

CHANGES REQUIRING EX POST NOTIFICATION TO COMPETENT AUTHORITIES

1. Unless classified as material changes according to Part II, Section 1 of this Annex, or as material changes according to Article 4(1)(c) of this Regulation, or classified as

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changes requiring ex ante notification according to Part II, Section 2 of this Annex, or classified as changes requiring ex ante notification according to Article 5(1)(a)(iii) of this Regulation, any changes to rating systems in the Internal Rating Based approach. This includes the following changes:

- (a) Changes in the methodology used for assigning exposures to different exposure classes according to Article 147 of Regulation (EU) No 575/2013.
 - (b) Changes in the algorithms and procedures used for: assigning obligors to obligor grades or pools; for assigning exposures to facility grades or pools; or for quantifying the risk of obligor default or associated loss.
 - (c) changes in the validation methodology and/or validation processes which lead to changes in the institution's judgment of the accuracy and consistency of the estimation of the relevant risk parameters, the rating processes or the performance of their rating systems according to Article 185(a) of Regulation (EU) No 575/2013.
 - (d) Changes in the control environment or key processes that have an important influence on a rating system.³
- (2) Annex II to Regulation (EU) No 529/2014 is deleted.

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COMMISSION DELEGATED REGULATION (EU) .../...

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on amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) No 529/2014 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

(Text with EEA relevance)

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EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

Article 143(5) of Regulation (EU) No 575/2013 ('the Capital Requirements Regulation') empowers the Commission to adopt, following submission of draft standards by the European Banking Authority (EBA), and in accordance with Articles 10 to 14 of Regulation No (EU) 1093/2010, delegated acts specifying regulatory technical standards to specify the conditions for assessing the materiality of the use of an existing rating system for other additional exposures not already covered by that rating system and changes to rating systems under the IRB Approach.

In accordance with Article 10(1) of Regulation No (EU) 1093/2010 establishing the EBA, the Commission shall decide within three months of receipt of the draft standards whether to endorse the drafts submitted. The Commission may also endorse the draft standards in part only, or with amendments, where the Union's interests so require, having regard to the specific procedure laid down in those Articles.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

In accordance with the third subparagraph of Article 10(1) of Regulation No (EU) 1093/2010, the EBA has carried out a public consultation on the draft technical standards submitted to the Commission in accordance with Article 143(5) of Regulation (EU) No 575/2013. A consultation paper was published on the EBA internet site on 9 December 2024, and the consultation closed on 10 March 2025. Moreover, the EBA worked in close cooperation with the ECB and requested the Banking Stakeholder Group set up in accordance with Article 37 of Regulation No (EU) 1093/2010 to provide advice on them. Together with the draft technical standards, the EBA has submitted an explanation on how the outcome of these consultations has been taken into account in the development of the final draft technical standards submitted to the Commission.

Together with the draft technical standards, and in accordance with the third subparagraph of Article 10(1) of Regulation No (EU) 1093/2010, the EBA has submitted its impact assessment, including its analysis of the costs and benefits, related to the draft technical standards submitted to the Commission. This analysis is available at [\[insert here the link to the 'regulatory activity page' of the relevant RTS- to be provided by Communications colleagues\]](#), pages 37-39 of the Final Report on the technical draft technical standards.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

The EBA is mandated under Article 143(5) CRR to publish Draft Regulatory Technical Standards amending the Commission Delegated Regulation (EU) No 529/2014 ('amending RTS on MC'). The amendments proposed stem primarily from two reasons.

First, a review of the CDR on MC is carried out to align this Regulation with the CRR3 amendments to the CRR. This includes removing references in the amending RTS on MC to the IRB approach for equity exposures, and to the AMA approach.

Second, amendments are made to enhance the supervisory efficiency of the approval process of model changes and extension. The amending RTS on MC introduces a stronger reliance on the quantitative thresholds with the aim to reduce the number of material model changes, whilst ensuring an appropriate information flow to the supervisor. This stronger reliance is implemented by reducing the qualitative criteria categorizing changes as material: these changes will now only be material if they lead to a breach of the quantitative threshold. A

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reduced list of criteria that categorizes changes as material is maintained. This entails changes that are so fundamental (e.g., a complete model re-design) that they should be considered material irrespective of their quantitative impact.

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on amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) No 529/2014 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

(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 on prudential requirements for credit institutions and amending Commission Delegated Regulation (EU) No 529/2014¹, and in particular Article 143(5), third subparagraph thereof,

Whereas:

- (1) Commission Delegated Regulation (EU) No 529/2014 (CDR 529/2014) which specifies the technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based (IRB) Approach and the Advanced Measurement Approach (AMA) should be amended to reflect the changes in the legal framework which occurred since its entry into force, with particular reference to the introduction of the provisions concerning the repeal of the provisions of Regulation (EU) No 575/2013 concerning the IRB approach to equity exposures and the repeal of the provisions of Regulation (EU) No 575/2013 concerning the Advanced Measurement Approach for operational risk. Furthermore, several elements of Commission Delegated Regulation (EU) No 529/2014 should be enhanced by leveraging on the supervisory experience gathered since the publication of CDR 529/2014.
- (2) Changes to rating systems as defined in Regulation (EU) No 575/2013 (CRR) may have a potential impact on the internal risk estimates used for risk weighted exposure amount calculation, and as such include changes affecting the range of application of a rating system, the rating methodology for IRB systems, the definition of default and the validation framework as well as changes to relevant processes, data and the use of the models. Recalibrations of risk parameters and changes to rating criteria of rating systems are changes to rating systems even when undertaken solely due to updates in the underlying data used for model development and risk parameter quantification. However, updates to the data in the application portfolio used to assign ratings to exposures in order to calculate the risk weight exposure amount for these exposures in the application portfolio should not be considered to be changes to rating systems.
- (3) The distinction between the extensions referred to in Article 148(1) of CRR and the scope of CDR 529/2014 is hereby clarified. For exposures that were not previously risk-

¹ OJ L 176, 27.6.2013, p. 1.

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weighted under the IRB approach and are subsequently migrated to the IRB approach, including transitions from the Standardised Approach (SA) to IRB or from Foundation IRB to Advanced IRB, two separate cases apply. Cases where the exposures are to be rated by extending an existing and approved rating system are within the scope of CDR 529/2014. However, cases where exposures are to be rated using a newly developed rating system are outside the scope of CDR 529/2014; instead, they require approval pursuant to Article 143(2) of CRR. In any case, institutions should ensure compliance with Part Three, Title II, Chapter 3 of CRR for the additional exposures to which rating systems are extended.

- (4) New origination of exposures by the institution itself that are of a type of exposure already rated under the IRB Approach should not be seen as an extension of a rating system and should therefore not be covered by this Regulation.
- (5) To improve efficiency and lower the burden for supervisors and institutions whilst maintaining a prudent approach to classifying model changes, certain qualitative criteria to assess the materiality of changes are reduced. The qualitative criteria that classify changes as material should be limited to fundamental changes to the definition of default, and fundamental changes to the structure of the model and the risk quantification of risk parameters. In addition, any change to institutions' rating systems should require approval in case the respective quantitative criteria are breached.
- (6) In relation to changes to the definition of default, material changes to rating systems should be limited to those changes where the implementation of these changes may be more complex and may imply a higher risk of non-compliance pertaining to the identification of defaulted exposures in accordance with Article 178 of CRR. First, this includes changes in the level of application of the definition of default for retail exposures according to Article 178(1) of CRR. Next to that, it should be ensured that significant changes to the definition of default of institutions are appropriately implemented, as an incorrect implementation may have a potentially high impact on risk-weighted exposure amounts.
- (7) In relation to changes to the algorithms and procedures used for assigning obligors or exposures to grades or pools, or for quantifying risk parameters ('changes in the IRB methodology'), material changes to rating systems should be limited to fundamental changes to the structure of the rating system and to the risk quantification of parameters. A clear list of such fundamental changes should be provided to ensure clarity on the interpretation of these fundamental changes.
- (8) Fundamental changes to the typologies of the data sets used to explain the rating criteria, their hierarchy and weights, should require approval from competent authorities, because these changes have a significant impact on how the final model is to be interpreted. Changes in the typologies of the data sets are considered to be fundamental when institutions switch between using internal defaults, external defaults, pooled defaults, or external ratings for risk differentiation purposes. This includes switching between an internal rating approach that selects and weighs the rating criteria to be used for risk differentiation purposes by identifying the main factors that explain external ratings provided by an external credit assessment institution or similar organisation ('shadow ratings approach'), and a rating approach that uses internal directly observed defaults to explain risk drivers and their weights/hierarchy.
- (9) Changes between discrete assignment models and continuous models as referred to in Article 169(3) of Regulation (EU) No 575/2013 should require approval from competent authorities as this fundamentally changes the way the model is estimated and applied.

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- (10) Changes in the functional link (relationship) between inputs (risk drivers) and outputs (assigned rating) of the model as referred to in Article 174, second subparagraph, of Regulation (EU) No 575/2013 should require approval from competent authorities in case they change fundamentally the complexity of the model or the reliance on human judgment in the model. Therefore, switches between the following types of functional links require approval; a simple linear model (including a simple regression model), a simple non-linear model (such as a component-based model or kernel density estimator), or a more complex model (such as a random forest or a neural network).
- (11) For other changes in risk differentiation, including changes to rating grades, rating criteria and their weights used in models, institutions shall determine whether such modifications impact the rank ordering or distribution of exposures across grades or pools in a comparable fundamental nature. Institutions should be able to identify changes to rating criteria that are of a comparable fundamental nature implying a re-estimation of the rating system such that they require approval from competent authorities, and distinguish them from non-material changes to rating criteria that relate to the ongoing model maintenance or improvement of existing rating systems.
- (12) Changes in the risk quantification of parameters should require approval from competent authorities when institutions switch between grade level estimation methods, and alternative estimation methods performed at different (more aggregated) levels. Next to that, changing the estimation method to determine the downturn impact from a downturn period should be considered to be material.
- (13) For changes to the definition of default, and changes in the IRB methodology, that are not classified as material through the qualitative criteria or quantitative criteria, the list of changes that should require prior notification is also updated. Other changes not in these updated criteria should be notified after implementation.
- (14) Changes to the treatment of exposures that are risk weighted according to Article 153(5), and changes in the treatment of purchased receivables according to Article 153(6) and (7) and Article 154(5) of Regulation (EU) No 575/2013 should be classified according to the general materiality criteria applied for other rating systems.
- (15) Institutions should update their validation framework in a timely manner while ensuring this does not entail a risk of missing deficiencies in the rating system. Therefore, the changes in the validation methodology and validation processes should require an ex ante notification when they lead to an unambiguously more lenient assessment within the institution, or in the case they are changes to the organisational structure of the validation function, as this could impact its countervailing power. Other changes should be notified after implementation.
- (16) The quantitative criteria for changes to the rating system should ensure a harmonised implementation amongst competent authorities and institutions. It is clarified that where one change affects multiple rating systems, for example a change in the definition of default, the quantitative threshold in Article 4(1)(c)(i) in this Regulation should be evaluated separately for the impact of the change on each of the different rating systems individually.
- (17) The quantitative criteria that apply to changes to the range of application of rating systems have been revised to align them with the risks stemming from such changes under the IRB Approach. First, it is clarified that the quantitative thresholds do not apply to reductions of the range of application of a rating system because the risk of exposures moving to other rating systems is covered by the quantitative threshold that applies to

extensions of the range of application of these other rating systems. To extend the range of application of rating systems, the quantitative threshold in Article 4(1)(c) in this Regulation is considered inappropriate, such that a new threshold should be introduced. This is because a rating system might not perform adequately for the additional exposures to which the range of application of the rating system is extended, irrespective of the rating system that was used to risk-weight the exposures before the change. The risk of this weak model performance on the new exposures is considered to be proportionate to the magnitude of the extension of range of application of the rating system in comparison to the range of application of the rating system prior to the change.

- (18) This classification of changes and extensions requiring approval from or notification to competent authorities is notwithstanding Article 101 of Directive 2013/36/EU of the European Parliament and of the Council. Based on their on-going model monitoring, competent authorities may at any time take appropriate supervisory measures with regard to extensions and changes that have been notified. Although the new criteria for changes to and extensions of rating systems reflect the need to improve efficiency and lower the burden for supervisors and institutions, the updated triggers for new approvals and notifications of extensions and changes to internal approaches should not hamper or limit the effectiveness of supervisory internal model review approaches or administrative processes provided for by Article 20(8) of Regulation (EU) No 575/2013.
- (19) The documentation to be submitted by institutions to competent authorities at the time of the application for approval or notification of a change or extension should reflect the new categorisation of changes and extensions and allow for an effective supervisory assessment of the categorisation of changes and of potential changes in the model landscape of institutions.
- (20) This Regulation is based on the draft regulatory technical standards submitted by the European Banking Authority to the Commission.
- (21) 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 Council².

HAS ADOPTED THIS REGULATION:

Article 1

Commission 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 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 Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

- (2) Article 2 is replaced by the following:

Article 2

Categories of extensions and changes

1. The materiality of changes to the range of application of a rating system, or of changes to a rating system in the Internal Rating Based approach ('changes to the IRB approach') or of 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 363(3) of Regulation (EU) No 575/2013, require permission from the competent authorities;
 - (b) other extensions and changes, which require notification to the competent authorities.⁷
 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.⁷
- (3) Article 3 is replaced by the following:

Article 3

Principles of classification of extensions and changes

1. The classification of changes to the range of application of a rating system, or of changes to a rating system in the Internal Rating Based approach shall be carried out in accordance with this Article and Articles 4 and 5.
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;
 - (c) for changes having no direct quantitative impact, no quantitative impact as laid down in Article 4(1)(c) and Article 4(1)(d) for the IRB approach or Article 7a(1)(c) for IMA shall be calculated;
 - (d) for reductions to the range of application of a rating system no quantitative impact as laid down in Article 4(1)(c) or Article 4(1)(d) for the IRB approach shall be calculated.
3. For the purpose of assessing the materiality of changes and extensions, including the assessment of the quantitative impact of changes and extensions, one material

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extension or change to the same rating system shall not be split into several changes or extensions of lower materiality. In particular, the following modifications shall be assessed as one extension or change:

- (a) modifications of a different nature that are made simultaneously.
- (b) modifications of the same nature.

In derogation to point (b) of the first subparagraph, institutions may consider the timing of the change as a justification to split the change if this allows for a more effective and efficient implementation of the change, in case the change is implemented across a time period longer than one year. In this case, institutions may split such changes with a phased implementation plan, where this implementation plan is subject to a notification to the competent authority.

- 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 in accordance with Article 144(1)(g) of Regulation (EU) No 575/2013 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.
- (4) Article 4 is replaced by the following:

Article 4

Material changes to the IRB approach

- 1. Changes to the range of application of a rating system, or changes to a rating system, shall be considered material if they fulfil any of the following conditions:
 - (a) they fall under any of the changes to the range of application of a rating system described in Annex I, Part I, Section 1;
 - (b) they fall under any changes to the rating systems described in Annex I, Part II, Section 1;
 - (c) they are changes to rating systems that result in either of the following:
 - (i) a decrease of 1,5 % or more of either of the following:
 - the overall EU parent institution's consolidated risk-weighted exposure amounts for credit and dilution risk, or

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- the overall risk-weighted exposure amounts for credit and dilution risk in the case of an institution which is neither a parent institution, nor a subsidiary;
 - (ii) a decrease of 15 % or more of the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the internal rating system.
- (d) they are extensions of the range of application of a rating system that result in either of the following:
- (i) a decrease of 1,5 % or more of either of the following:
 - the overall EU parent institution's consolidated risk-weighted exposure amounts for credit and dilution risk,
 - the overall risk-weighted exposure amounts for credit and dilution risk in the case of an institution which is neither a parent institution, nor a subsidiary;
 - (ii) an increase of 15% or more of the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the internal rating system.
2. For the purposes of paragraph (1)(c)(i) and paragraph (1)(d)(i) of this Article, and in accordance with Article 3(2), the impact of the change shall be assessed as a ratio calculated as follows:
- (a) in the numerator, the difference in the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of each internal rating system impacted by the change before and after the change at the EU parent institution's consolidated level or at the institution level which is neither a parent institution, nor a subsidiary;
 - (b) in the denominator the overall risk-weighted exposure amounts for credit and dilution risk before the change at the EU parent institution's consolidated level or, respectively, at the institution level which is neither a parent institution, nor a subsidiary.
3. For the purposes of paragraph (1)(c)(ii) of this Article, and in accordance with Article 3(2), the determination of the impact on risk-weighted exposure amounts shall refer only to the impact of the change to the IRB approach, and the set of exposures shall be assumed to remain constant.
- (a) in the numerator, the difference in the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the internal rating system before and after the change;
 - (b) in the denominator, the risk-weighted exposure amounts for credit and dilution risk before the change associated with the range of application of the rating system.
- The calculation shall refer to the same point in time.
4. For the purposes of paragraph (1)(d)(ii) of this Article, and in accordance with Article 3(2), the impact of the change shall be assessed as a ratio calculated as follows:
- (a) in the numerator, the risk-weighted exposure amounts for credit and dilution risk associated with the additional exposures on to which the range of application of the internal rating system is extended, after the change.

- (b) in the denominator, the risk-weighted exposure amounts for credit and dilution risk before the extension associated with the range of application of the rating system.

The calculation shall refer to the same point in time.²

- (5) Article 5 is replaced by the following:

Article 5

Changes to the IRB approach not considered material

- 1. Changes to the range of application of a rating system, or changes to a rating system, which are not material but are to be notified to competent authorities according to Article 143(4) of Regulation (EU) No 575/2013, shall be notified in the following manner:
 - (a) changes which fulfil any of the following conditions shall be notified to competent authorities at least two months before their implementation:
 - (i) changes to the range of application of a rating system as described in Annex I, Part I, Section 2;
 - (ii) changes to a rating system as described in Annex I, Part II, Section 2;
 - (iii) changes to a rating system which result in a decrease of at least 5 % of the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the internal rating system.
 - (b) all other changes to a rating system shall be notified to the competent authorities after their implementation at least on an annual basis. These include the changes described in Annex I, Part II, Section 3.
- 2. For the purposes of paragraph (1)(a)(iii) of this Article, and in accordance with Article 3(2), the impact of the change shall be assessed as a ratio calculated as follows:
 - (a) in the numerator, the difference in the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the internal rating system before and after the change;
 - (b) in the denominator, the risk-weighted exposure amounts for credit and dilution risk before the change associated with the range of application of the rating system.

The calculation shall refer to the same point in time.

The determination of the impact on risk-weighted exposure amounts shall refer only to impact of the change to the IRB approach, and the set of exposures shall be assumed to remain constant.²

- (6) Article 6 is deleted.
- (7) Article 7 is deleted.
- (8) Article 8 is replaced by the following:

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Article 8
Documentation of extensions and changes

1. For changes to the range of application of a rating system, or changes to a rating system, classified as requiring competent authorities' approval, institutions shall submit, together with the application, the following documentation:
 - (a) a description of the extension or change and a summary of the objective of the extension or change, including an explanation of the reason for changing or extending the rating system, in particular whether it addresses a deficiency identified by the credit risk control unit, the internal independent validation, or addresses a supervisory obligation or finding.
 - (b) confirmation that the extension or change has been approved through the institution's approval processes by the competent bodies and date of approval;
 - (c) an explanation of the materiality categorization of the change, which has been subject to an internal independent review or validation. This should include:
 - (i) the scope of application affected by the model extension or change, with volume characteristics.
 - (ii) a qualitative explanation of the categorization, detailing the qualitative criteria that are triggered.
 - (iii) where applicable, the quantitative impact of the change or extension on the risk weighted exposure amounts or on the own funds requirements. In the case changes are bundled, a breakdown of this quantitative impact across the different changes.
 - (iv) for changes to a rating system, and where applicable, the impact of the change on the ranking of facilities or obligors across grades or pools, the distribution of facilities or obligors across grades or pools as referred to in point 1(a)(iv) of Annex I, Part II, Section 1 of this Regulation.
 - (v) For extensions of the range of application of a rating system, where applicable, an assessment of the representativeness of the data used to test the rating system and quantify the risk parameters of the rating system against the additional exposures to which the rating system will be applied, as referred to in point 1 of Annex I, Part I, Section 1 of this Regulation.
 - (d) reports of the institutions' independent review or validation of the change.
 - (e) technical and process document(s), including where applicable an assessment of the model performance of the rating system.
2. For changes to rating systems classified as requiring notification either before or after implementation, institutions shall submit, together with the notification, the documentation referred to in points (a), (b), and (c) of paragraph 1.
3. For extensions of the range of application of a rating system classified as requiring notification before implementation, institutions shall submit, together with the notification, the documentation referred to in points (a), (b), (c), and (e) of paragraph 1.²

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Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the Commission
The President*

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