

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 (Text with EEA relevance)

PART THREE

**CAPITAL REQUIREMENTS**

TITLE IV

**OWN FUNDS REQUIREMENTS FOR MARKET RISK**

*CHAPTER 5*

*Use of internal models to calculate own funds requirements*

*Section 4*

*Internal model for incremental default and migration risk*

*Article 372*

**Requirement to have an internal IRC model**

An institution that use an internal model for calculating own funds requirements for specific risk of traded debt instruments shall also have an internal incremental default and migration risk (IRC) model in place to capture the default and migration risks of its trading book positions that are incremental to the risks captured by the value-at-risk measure as specified in Article 365(1). The institution shall demonstrate that its internal model meets the following standards under the assumption of a constant level of risk, and adjusted where appropriate to reflect the impact of liquidity, concentrations, hedging and optionality:

- (a) the internal model provides a meaningful differentiation of risk and accurate and consistent estimates of incremental default and migration risk;
- (b) the internal model's estimates for potential losses play an essential role in the risk management of the institution;
- (c) the market and position data used for the internal model are up-to-date and subject to an appropriate quality assessment;
- (d) the requirements in Article 367(3), Article 368, Article 369(1) and points (b), (c), (e) and (f) of Article 370 are met.

EBA shall issue guidelines on the requirements in Articles 373 to 376.