

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<sup>(1)</sup>, 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.

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

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<sup>(2)</sup>. 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

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<sup>(3)</sup>,

HAS ADOPTED THIS REGULATION:

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

## 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 Advanced Measurement Approaches permitted in accordance with Regulation (EU) No 575/2013, including the modalities of the notifications of such changes and extensions.

## Article 2

### Categories of extensions and changes

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 of the extensions and changes for the Advanced Measurement Approach, ('extensions and changes in the AMA') shall be classified into one of the following categories:

- a material extensions and changes, which, according to Articles 143(3) and 312(2) of Regulation (EU) No 575/2013, require permission from the 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.

## 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.

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) for IRB approach or Article 6(1)(c) for AMA shall 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.

#### *Article 4*

### **Material changes to the IRB approach**

1 Changes to the IRB approach 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 or internal models approach to equity exposures described in Annex I, Part I, Section 1;
- b they fall under any changes to the rating systems or internal models approach to equity exposures described in Annex I, Part II, Section 1;
- c they result in either of the following:
  - (i) a decrease of 1,5 % 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) 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 or internal models approach to equity exposures.

2 For the purposes of paragraph (1)(c)(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 the internal rating system or the internal models approach to equity exposures 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;

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- 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.

The calculation shall refer to the same point in time.

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.

3 For the purposes of paragraph (1)(c)(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 difference in the risk-weighted exposure amounts for credit and dilution risk associated with the range of application of the internal rating system or the internal models approach to equity exposures 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 or the internal models approach to equity exposures.

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.

#### *Article 5*

#### **Changes to the IRB approach not considered material**

1 Changes to the IRB approach, 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 described in Annex I, Part I, Section 2;
  - (ii) changes described in Annex I, Part II, Section 2;
  - (iii) changes 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 or internal models approach to equity exposures.
- b all other changes shall be notified to the competent authorities after their implementation at least on an annual basis.

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 or the internal models approach to equity exposures 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 or the internal models approach to equity exposures.

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.

## Article 6

### Material extensions and changes to the AMA

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

- a they fall under any extensions described in Annex II, Part I, Section 1;
- b they fall under any changes described in Annex II, Part II, Section 1;
- c they result in either of the following:
  - (i) in a decrease of 10 % or more of either of the following:
    - the overall EU parent institution's consolidated own funds requirements for operational risk,
    - the overall own funds requirements for operational risk in the case of an institution which is neither a parent institution, nor a subsidiary;
  - (ii) in a decrease of 10 % or more of either of the following:
    - the overall own funds requirements for operational risk at the consolidated level of a parent institution which is not an EU parent institution,
    - the overall own funds requirements for operational risk of a subsidiary where the parent institution has not received the permission to use the AMA.

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 a ratio calculated as follows:

- a in the numerator, the difference in the own funds requirements for operational risk associated with the scope of application of the AMA model before and after the extension or 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 own funds requirements for operational risk before the extension or change at the EU parent institution's consolidated level or, respectively, at the institution level which is neither a parent institution, nor a subsidiary.

The calculation shall refer to the same point in time.

The determination of the impact on the own funds requirements shall refer only to impact of the extension and change to the AMA, and therefore the operational risk profile shall be assumed to remain constant.

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 a ratio calculated as follows:

- a in the numerator, the difference in the own funds requirements for operational risk associated with the scope of application of the model before and after the extension or change at the consolidated level of a parent institution which is not an EU parent institution or at the subsidiary level where the parent institution has not received the permission to use the AMA;

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- b in the denominator, the overall own funds requirements for operational risk before the extension or change at the consolidated level of a parent institution which is not an EU parent institution or, respectively, at the subsidiary level where the parent institution has not received the permission to use the AMA.

The calculation shall refer to the same point in time.

The determination of the impact on the own funds requirements shall refer only to impact of the extension and change to the AMA, and therefore the operational risk profile shall be assumed to remain constant.

#### *Article 7*

### **Extensions and changes to the AMA not considered material**

Extensions and changes to the AMA, which are not material but are to be notified to competent authorities according to Article 312(3) of Regulation (EU) No 575/2013, shall be notified in the following manner:

- (a) extensions and changes falling under Annex II, Part I, Section 2 and Part II, Section 2, shall be notified to competent authorities at least two months before their implementation;
- (b) all other extensions and changes shall be notified to the competent authorities after their implementation at least on an annual basis.

#### *Article 8*

### **Documentation of extensions and changes**

1 For extensions and changes to the IRB approach or to the AMA 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 the own funds requirements;
- h records of the institution's current and previous version number of internal models which are subject to approval.

2 For extensions and changes classified as requiring notification either before or after implementation, institutions shall submit, together with the notification, the documentation referred to in points (a), (b), (c), (f) and (g) of paragraph 1.



## *Article 9*

### **Entry into force**

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, 12 March 2014.

*For the Commission*

*The President*

José Manuel BARROSO

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

## ANNEX I

### CHANGES TO THE IRB APPROACH

#### PART I

### CHANGES TO THE RANGE OF APPLICATION OF RATING SYSTEMS OR INTERNAL MODELS APPROACHES TO EQUITY EXPOSURES

#### SECTION 1

##### **Changes requiring competent authorities' approval ('material')**

1. Extending the range of application of a rating system to:
  - (a) exposures in an additional business unit, that are of the same type of product or obligor;
  - (b) exposures of an additional type of product or obligor unless the additional type of product or obligor falls within the range of application of an approved rating system based on the criteria as referred to in points (c)(i) and (ii);
  - (c) additional exposures related to the lending decision of a third party to the group, unless the institution can prove that the additional exposures fall within the range of application of an approved rating system, based on all of the following criteria:
    - (i) the 'representativeness' of the data used to build the model to assign exposures to grades or pools with respect to the key characteristics of the institution's additional exposures where the lending decision has been taken by a third party, according to Article 174(c) of Regulation (EU) No 575/2013;
    - (ii) the 'comparability' of the population of exposures represented in the data used for estimation, the lending standards used when the data was generated and other relevant characteristics with the ones of the additional exposures where the lending decision has been taken by a third party, according to Article 179(1)(d) of Regulation (EU) No 575/2013.

For the purposes of establishing 'representativeness' and 'comparability' under points (i) and (ii) of the first paragraph institutions shall provide a complete description of the criteria and measures used.

2. Extending the range of application of an internal models approach to equity exposures, to one of the following type of exposures:
  - (a) to the Simple risk weight method according to Article 155(2) of Regulation (EU) No 575/2013;
  - (b) to the PD/LGD approach according to Article 155(3) of Regulation (EU) No 575/2013;
  - (c) to the temporary partial use provision according to Article 495 of Regulation (EU) No 575/2013;
  - (d) to the same type of product in an additional business unit;

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- (e) to an additional type of product unless the institution can prove that it falls within the range of application of an existing internal models approach to equity exposures.

## 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. Reducing the range of application of an internal models approach to equity exposures.
3. 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.
4. Extending the range of application of an internal models approach to equity exposures where such extension does not fall under Part I, Section 1, point 2 of this Annex.

## PART II

### CHANGES TO RATING SYSTEMS OR AN INTERNAL MODELS APPROACH TO EQUITY EXPOSURES

## SECTION 1

### Changes requiring competent authorities' approval ('material')

1. Changes in the methodology of assigning exposures to exposure classes and rating systems. These include:
  - (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 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. 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 risk of obligor default or associated loss ('changes in the rating methodology for IRB systems'):
  - (a) changes of the modelling approach for assigning an obligor to grades or pools and/or exposures to facility grades or pools according to Article 171(1) and Article 172(1) (a) to (d) of Regulation (EU) No 575/2013;
  - (b) 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;
  - (c) changes in the rating system's assumptions behind ratings relating to the extent by which a change in economic conditions is expected to result in a net migration of a large number of exposures, obligors or facilities across grades or pools of the model, as opposed to migration of only some exposures, obligors or facilities due only to their individual characteristics the measure and significance levels of which are defined by the institution;

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- (d) changes to the rating criteria as referred to in Article 170(1)(c) and (e) and Article 170(4) of Regulation (EU) No 575/2013 and/or their weights, sequence or hierarchy, if any of the following conditions are met:
    - (i) they change the rank ordering referred to in Article 170(1)(c) and (3)(c) of Regulation (EU) No 575/2013 in a significant manner, the measure and level of which will have been defined by the institution;
    - (ii) they change the distribution of obligors, facilities or exposures across grades or pools according to Article 170(1)(d) and (f) and Article 170(3)(b) of Regulation (EU) No 575/2013 in a significant manner, the measure and level of which will have been defined by the institution.
  - (e) introduction or withdrawal of an external rating as a primary factor determining an internal rating assignment according to Article 171(2) of Regulation (EU) No 575/2013;
  - (f) change in the fundamental methodology for estimating PDs, LGDs including best estimate of expected loss, and conversion factors according to Articles 180, 181 and 182 of Regulation (EU) No 575/2013, including the methodology for deriving a margin of conservatism related to the expected range of estimation errors according to Article 179(1)(f) of Regulation (EU) No 575/2013. For LGDs and conversion factors this includes also changes in the methodology for accounting for an economic downturn according to Articles 181(1)(b) and 182(1)(b) of Regulation (EU) No 575/2013;
  - (g) inclusion of additional types of collateral into the LGD estimation according to Article 181(1)(c) to (g) of Regulation (EU) No 575/2013 if their treatment differs from procedures that have already been approved.
3. Changes in the definition of default according to Article 178 of Regulation (EU) No 575/2013.
  4. 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.
  5. Changes in the internal models approach to equity exposures. These include:
    - (a) changes in the value-at-risk modelling approach to estimate risk weighted exposure amounts for equity exposures according to Article 155(4) of Regulation (EU) No 575/2013;
    - (b) changes in the methodology for adjusting estimates of potential loss to achieve appropriate levels of realism and/or conservatism, or changes in the analytical method to convert shorter horizon period data to quarterly data according to Article 186(a) of Regulation (EU) No 575/2013;
    - (c) changes in the model capture of material risk drivers considering the specific risk profile and complexity, including non-linearity's of the institution's equity portfolio according to Article 186(b) and (c) of Regulation (EU) No 575/2013;
    - (d) changes in the fundamental methodology for mapping of individual positions to proxies, market indices or risk factors according to Article 186(d) of Regulation (EU) No 575/2013.

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

## SECTION 2

### Changes requiring *ex ante* notification to competent authorities

1. Changes in the treatment of purchased receivables according to Article 153(6) and (7) and Article 154(5) of Regulation (EU) No 575/2013.
2. The following changes in the rating methodology for IRB systems:
  - (a) 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;
  - (b) changes from the use of direct estimates of risk parameters for individual obligors or exposures to the use of a discrete rating scale or vice versa according to Article 169(3) of Regulation (EU) No 575/2013, unless already classified as material according to Part II, Section 1 of this Annex;
  - (c) 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, unless already classified as material according to Part II, Section 2 of this Annex;
  - (d) 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, unless already classified as material according to Part II, Section 1 of this Annex;
  - (e) changes to the grade or pool definitions or criteria according to Articles 171(1) and 172 of Regulation (EU) No 575/2013, unless already classified as material according to Part II, Section 1 of this Annex;
  - (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 or inclusion of new or additional information in a model for parameter estimation according to Article 179(1)(d) of Regulation (EU) No 575/2013;
  - (g) changes in the rules and processes for the use of overrides according to Article 172(3) of Regulation (EU) No 575/2013, unless already classified as material according to Part II, Section 1 of this Annex;
  - (h) changes in the methodology for estimating PDs, LGDs including best estimate of expected loss, and conversion factors according to Articles 180, 181 and 182 of Regulation (EU) No 575/2013 including the methodology for deriving a margin of conservatism related to the expected range of estimation errors according to Article 179(1)(f) of Regulation (EU) No 575/2013, unless already classified as material according to Part II, Section 1 of this Annex. For LGDs and conversion factors this includes also changes in the methodology for accounting for an economic downturn according to Article 181(1)(b) and Article 182(1)(b) of Regulation (EU) No 575/2013;
  - (i) changes in the way or extent to which conditional guarantees are accounted for in the LGD estimation according to Article 183(1)(c) of Regulation (EU) No 575/2013;
  - (j) inclusion of additional types of collateral into the LGD estimation in accordance to Article 181(1)(c) to (g) of Regulation (EU) No 575/2013, unless already classified as material according to Part II, Title I of this Annex;

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- (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 unless already classified as material according to Part II, Section 1 of this Annex.
- 3. Changes in the validation methodology and/or process according to Articles 185 and 188 of Regulation (EU) No 575/2013, unless already classified as material according to Part II, Section 1 of this Annex.
- 4. Changes in 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;
  - (c) changes in the internal organisational or control environment or key processes that have an important influence on a rating system.
- 5. Changes in the data. These include:
  - (a) if an institution starts or ceases to use data that is pooled across institutions according to Article 179(2) of Regulation (EU) No 575/2013;
  - (b) change of the data sources used in the process of allocating exposures to grades or pools or for parameter estimation according to Articles 176(5)(a) and 175(4)(a) of Regulation (EU) No 575/2013;
  - (c) change in the length and composition of time series used for parameter estimation according to Article 179(1)(a) that goes beyond the annual inclusion of the latest observations, unless already classified as material according to Part II, Section 1 of this Annex.
- 6. Changes in the use of models, if an institution starts using risk parameter estimates for internal business purposes that are not those used for regulatory purpose and, where this was previously not the case, within the lines set out according to Article 179(1) of Regulation (EU) No 575/2013.
- 7. Changes in the internal models approach to equity exposures. These include:
  - (a) changes of the data used to represent return distributions for equity exposures under the internal models approach according to Article 186(a) of Regulation (EU) No 575/2013;
  - (b) changes in the internal organisational or control environment or key processes that have an important influence on the internal models approach to equity exposures.

## ANNEX II

### EXTENSIONS AND CHANGES TO THE AMA

#### PART I

##### SECTION 1

###### **Extensions requiring competent authorities' approval ('material')**

1. First-time introduction of measures to capture expected losses in the institutions' business practices offset according to Article 322(2)(a) of Regulation (EU) No 575/2013.
2. First-time introduction of operational risk mitigation techniques such as insurance or other risk transfer mechanisms according to Article 323(1) of Regulation (EU) No 575/2013.
3. First-time recognition of correlations in operational risk losses according to Article 322(2)(d) of Regulation (EU) No 575/2013.
4. First-time introduction of methodology for allocating operational risk capital among the different entities of the group according to Article 20(1)(b) and 322(2)(a) of Regulation (EU) No 575/2013.
5. The introduction of the AMA within parts of the institution or group of institutions not yet covered by the approval or the approved roll out plan according to Article 314(1) of Regulation (EU) No 575/2013, where those additional areas account for more than 5 % of the EU parent institution on a consolidated level or of the institution which is neither a parent institution, nor a subsidiary.

The above calculation shall be made at the end of the preceding financial year using the amount of the relevant indicator assigned to the areas to which the AMA will be rolled out as defined in Article 316 of Regulation (EU) No 575/2013.

##### SECTION 2

###### **Extensions requiring *ex ante* notification to competent authorities**

The introduction of the AMA within parts of the institution or group of institutions not yet covered by the approval or the approved roll out plan according to Article 314(1) of Regulation (EU) No 575/2013, where those additional areas account with respect to the EU parent institution on a consolidated level or of the institution which is neither a parent institution, nor a subsidiary for both of the following:

- (a) more than 1 %;
- (b) less than or equal to 5 %.

The above calculation shall be made at the end of the preceding financial year using the amount of the relevant indicator assigned to the areas to which the AMA will be rolled out, as defined in Article 316 of Regulation (EU) No 575/2013.

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

## PART II

### CHANGES TO THE AMA

#### SECTION I

##### **Changes requiring competent authorities' approval ('material')**

1. Changes in the organisational and operational structure of the independent risk management function for operational risk according to Article 321 of Regulation (EU) No 575/2013 which reduce the ability of the operational risk management function to oversee and inform the decision making processes of the business and support units they control.
2. Changes to the measurement system for operational risk if they fulfil any of the following criteria:
  - (a) they change the architecture of the measurement system regarding the combination of the four data elements of internal and external loss data, scenario analysis, business environment and internal control factors, according to Article 322(2)(b) of Regulation (EU) No 575/2013;
  - (b) they change the logics and drivers of the methodology for allocating the operational risk capital between the different entities of a group according to Article 20(1)(b) and 322(2)(a) of Regulation (EU) No 575/2013.
3. Changes to the procedures relating to internal and external data, scenario analysis and business environment and internal control factors where they:
  - (a) reduce the level of controls regarding the completeness and quality of operational risk data collected according to Article 322(3) and (4) of Regulation (EU) No 575/2013;
  - (b) change the external data sources to be used within the measurement system according to Article 322(4) and 322(5) of Regulation (EU) No 575/2013 unless the data are comparable and representative for the operational risk profile.
4. Changes to the overall method on how insurance contracts and/or other risk transfer mechanisms are recognized within the calculation of the AMA capital charge according to Article 323(1) of Regulation (EU) No 575/2013.
5. Reducing the part of the operational risk captured by the AMA within the institution or group of institutions using the AMA according to Article 314(2) and (3) of Regulation (EU) No 575/2013, where one of the following conditions is met:
  - (a) the areas to which the AMA will no longer be applied account for more than 5 % of the overall own funds requirements for operational risk of the EU parent institution on a consolidated level or of the institution which is neither a parent institution, nor a subsidiary;
  - (b) the reduction of the areas covered under the AMA leads to a use of the AMA in a part of the institution which account for a lower percentage as required by the competent authority under Article 314(3) of Regulation (EU) No 575/2013.

This calculation shall be made when the institution applies for the change and shall be based on the capital requirement as calculated at the end of the preceding financial year.



---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

## SECTION 2

### Changes requiring *ex ante* notification to competent authorities

1. Changes to the way the operational risk measurement system is integrated into the day-to-day management process through operational risk processes and policies according to Article 321(a) and (c) of Regulation (EU) No 575/2013, where the changes have one of the following characteristics:
  - (a) they change the extent to which the operational risk measurement system contributes to relevant information in the institutions' risk management and related decision making processes, including the approval of new products, systems and processes and definition of the operational risk tolerance;
  - (b) they reduce the scope, groups of recipients and frequency of the reporting system for informing all relevant parts of the institution about the results of the operational risk measurement system and decisions taken in response to material operational risk events.
2. Changes in the organisational and operational structure of the independent risk management function for operational risk according to Article 321(b) of Regulation (EU) No 575/2013 if they fulfil any of the following criteria:
  - (a) they reduce the hierarchical level of the operational risk management function or of its head;
  - (b) they lead to a relevant reduction the duties and responsibilities of the operational risk management function;
  - (c) they extend the duties and responsibilities of the operational risk management function, unless no conflicts of interests exist and appropriate additional resources are provided to the operational risk management function;
  - (d) they lead to a reduction of the available resources in terms of budget and headcount of more than 10 %, of the institution or group, since the last approval according to Article 312(2) of Regulation (EU) No 575/2013 was granted, unless the available resources in terms of budget and headcount at the institution or group level has been reduced with the same proportion.
3. Changes to validation processes and the internal review according to Article 321(e) and (f) of Regulation (EU) No 575/2013 if they change the logic and methodologies used for internally validating or reviewing the AMA framework.
4. Changes to the calculation of the operational risk capital charge which change one of the following:
  - (a) structure and characteristics of the data set used for the calculation of the operational risk capital requirement (the 'calculation data set'), including any of the following:
    - (i) the definition of gross loss amount to be used within the calculation data set according to Article 322(3)(d) of Regulation (EU) No 575/2013;
    - (ii) the reference date of loss events to be used within the calculation data set according to Article 322(2)(a) of Regulation (EU) No 575/2013;

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- (iii) the method used to determine the length of the time series of loss data to be used within the calculation data set according to Article 322(2)(a) of Regulation (EU) No 575/2013;
  - (iv) the criteria to group losses caused by a common operational risk event or by related events over time according to Article 322(3)(b) and (3)(e) of Regulation (EU) No 575/2013;
  - (v) the number or the type of risk classes, or equivalent, over which the operational risk capital requirement is calculated;
  - (vi) the method for setting the threshold for the level of losses above which the model is fitted to the data according to Article 322(2)(a) of Regulation (EU) No 575/2013;
  - (vii) where applicable, the method for setting the threshold for differentiating the body and tail regions of the data, when fitted by different methods according to Article 322(2)(a) of Regulation (EU) No 575/2013;
  - (viii) the processes and criteria for assessing the relevance, for scaling or for doing other adjustments to the operational risk data according to Article 322(3)(f) of Regulation (EU) No 575/2013;
  - (ix) change the external data sources to be used within the measurement system according to Article 322(4) and 322(5) of Regulation (EU) No 575/2013, unless already classified as material according to Part II, Section 1 of this Annex.
- (b) the criteria for the selection, update and review of used distributions and methods for the estimation of their parameters according to Article 322(2)(a) of Regulation (EU) No 575/2013;
  - (c) criteria and procedures for the determination of the aggregated loss distributions and for the calculation of the pertinent operational risk measure at the regulatory confidence level according to Article 322(2)(a) of Regulation (EU) No 575/2013;
  - (d) methodology for the determination of expected losses and their capturing within internal business practices according to Article 322(2)(a) of Regulation (EU) No 575/2013;
  - (e) methodology about how correlations in operational risk losses across individual operational risk estimates are recognised according to Article 322(2)(d) of Regulation (EU) No 575/2013.
5. Changes to the standards relating to internal data, scenario analysis and business environment and internal control factors if they:
- (a) change the internal processes and criteria for collecting internal loss data according to Article 322(3) of Regulation (EU) No 575/2013, including any of the following:
    - (i) increase of the threshold for the collection of internal loss data according to Article 322(3)(c) of Regulation (EU) No 575/2013;
    - (ii) methods or criteria for the exclusion of activities or exposures from the scope of the internal data collection according to article 322(3)(c) of Regulation (EU) No 575/2013.

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- (b) change the internal processes and criteria for one of the following:
  - (i) performing scenario analysis according to Article 322(5) of Regulation (EU) No 575/2013;
  - (ii) determining business environment and internal control factors according to Article 322(6) of Regulation (EU) No 575/2013.
- 6. Changes to the standards relating to insurance and other risk transfer mechanisms according to Article 323 of Regulation (EU) No 575/2013, if they fulfil one of the following conditions:
  - (a) they cause a relevant alteration of the level of coverage provided;
  - (b) they alter the processes and criteria for calculating the haircuts in the amount of insurance recognition, introduced to capture the uncertainty of payment, the mismatches in coverage and the policy's residual and cancellation terms, where less than one year according to article 323(4) of Regulation (EU) No 575/2013.
- 7. Relevant changes to the IT systems used to process the AMA, including the collection of data and their administration, reporting procedures and the measurement system for operational risk according to article 312(2) of Regulation (EU) No 575/2013 and the general risk management standards set out in article 74 of Directive 2013/36/EU, which reduce the integrity and availability of the data or IT systems.

---

*Status: This is the original version as it was originally adopted in the EU. This legislation may since have been updated - see the latest available (revised) version*

---

- (1) [OJ L 176, 26.6.2013, p. 1.](#)
- (2) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ([OJ L 176, 27.6.2013, p. 338](#)).
- (3) 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](#)).