

Just in Time

The EBA Streamlines Supervisory Approvals for IRB Model Changes

May 2026



Executive Summary

The **EBA Final Report on the RTS amending Commission Delegated Regulation (EU) No 529/2014** introduces targeted amendments to the framework governing the assessment of materiality for **changes to IRB rating systems used for credit risk capital requirements**.

Under **Article 143 CRR**, material changes require **prior Competent Authorities (CA) approval**, while non-material changes are subject to **notification only**. The RTS refines this boundary across **four areas**: the **qualitative criteria** that render a change inherently material; the scope of ex ante versus ex post **notification obligations**; the rules for **bundling changes** when evaluating quantitative thresholds; and the criteria for **assessing extensions and reductions** to the range of application of rating systems.

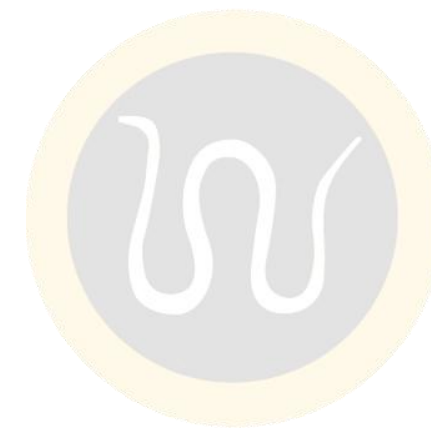
The amendments are driven by two objectives: **alignment with CRR3** (Regulation (EU) 2024/1623), and a **reduction in supervisory burden** by narrowing the set of changes automatically classified as material.



At a Glance

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Keywords: IRB, Model Change, CRR3



01

Overview

Introduction

Main Topics



Overview 1/2

Introduction

Under the **IRB Approach, Article 143 CRR** differentiates between **material extensions** or **material changes**, which are subject to approval from **CA** and **other extensions** or **changes**, which are **only** subject to **notification**.

The **Regulation (EU) 2024/1623 ('CRR3')** amending the 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** ('amending RTS on MC').

The amendments proposed stem primarily from **two reasons**:

CRR3 ALIGNMENT

Updating the regulation to reflect CRR3 changes, specifically **removing outdated references** like the IRB approach for equity and the AMA approach.

SUPERVISORY EFFICIENCY

Reducing the number of **changes automatically classified as material**. This pragmatic shift relieves overwhelmed supervisory resources and **prevents the long delays that have historically hindered timely model improvements** and go-live dates.



This document presents the primary regulatory changes and innovations established within the RTS.

Overview 2/2

Main topics

The EBA's regulatory action focused on four key areas

Areas of improvement	What's in?
1 <i>Revision of the qualitative criteria for assessing the materiality of changes</i>	<i>Which qualitative characteristics of a change are sufficient to classify it as material and therefore require CA approval.</i>
2 <i>Revisions to ex ante notifications for changes to rating systems</i>	<i>Which changes must be notified to the CA before implementation (ex ante) and after (ex post), and the conditions under which each notification regime applies.</i>
3 <i>Bundling changes to determine quantitative impact of changes to rating systems</i>	<i>How institutions must aggregate multiple changes when calculating their quantitative impact, and how to treat a single change that simultaneously affects more than one rating system.</i>
4 <i>Framework for assessing the materiality of extensions and reductions to the range of application of rating systems</i>	<i>The criteria and thresholds for assessing whether applying a rating system to new exposures (extension) or removing exposures from its scope (reduction) constitutes a material change.</i>

02

Revision of the Qualitative Criteria for Assessing the Materiality of Changes

Fundamental Changes

New Re-categorized Changes



Revision of the Qualitative Criteria for Assessing the Materiality of Changes 1/2

Fundamental Changes

Under the **IRB Approach, Article 143 CRR** differentiates **between material extensions or material changes**, which are subject to approval from **competent authorities**, and other extensions or changes, which are only **subject to notification**. The following are the changes that EBA considers to be fundamental and, therefore, require an approval from the competent authorities.



Definition of Default

Specifically, regarding the **level of application** for retail exposures and, based on a significance measure defined by the bank, any **changes that materially alter default classification** (e.g., 90 DPD, UTP, use of external default data).



Redevelopment of the Model

- Changes in the **type of target dataset** (internal vs. external vs. pooled).
- **Transitions** between **discrete** and **continuous** models.
- A leap in the **complexity** of the **functional link**.
- Other modifications that fundamentally change the **rank ordering** or the **distribution of exposures** across grades.



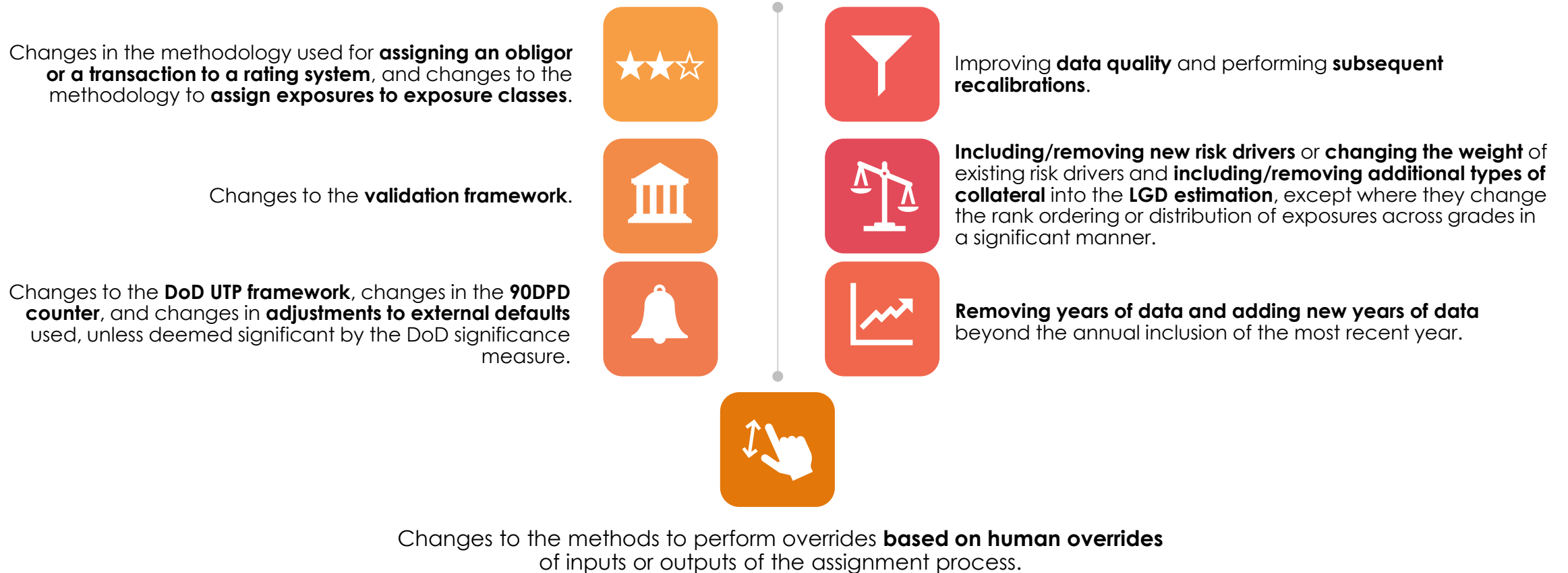
Risk Quantification Methods

For instance, switching from **portfolio-level calibration to grade-level calibration**, or a substantial change in the **downturn estimation approach** (observed vs. estimated, haircut/extrapolation, and vice versa).

Revision of the qualitative criteria for assessing the materiality of changes 2/2

New Re-categorized Changes

Under the **IRB Approach, Article 143 CRR** differentiates **between material extensions or material changes**, which are subject to approval from **competent authorities**, and other extensions or changes, which are only **subject to notification**. This revision re-categorises the following changes from **material to non-material** (unless of a breach of the quantitative thresholds):



03

Revisions to Ex Ante Notifications for Changes to Rating Systems

Qualitative Changes Recategorized to Ex Post
Notification

Derogation & Qualitative Criteria




Revisions to Ex Ante Notifications for Changes to Rating Systems 1/2


Qualitative Changes Recategorized to Ex Post Notification

Routine updates and changes to the **validation framework**, as well as **modifications to internal policies** and **exposure class assignments**, have been **recategorized from ex-ante to ex-post notifications** to align with annual supervisory reviews and improve efficiency. **Ex-ante notifications are now strictly reserved for changes that weaken validation stringency** or alter its organizational structure.


Validation Framework

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New Approach

 - Routine updates to the validation framework now typically require only ex-post notification.
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Exceptions (Ex-ante required)

 - Changes leading to an unequivocally more lenient assessment (e.g., removing tests, lowering thresholds).
 - Changes to the organizational setup of the validation function.
- 


Rationale

 - Aligns with annual supervisory review cycles, improving efficiency.

Other Key Processes

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Exposure Classes

Methodologies to assign exposures to exposure classes moved to **ex-post notification** (though they indirectly affect risk estimates).
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Internal Policies

Updates to internal material change policies now require only ex-post notification.

Revisions to Ex Ante Notifications for Changes to Rating Systems 2/2

Just in Time

Derogation & Qualitative Criteria

The revised RTS fully subjects Slotting and Purchased Receivables to the general materiality framework, removing their previous automatic ex-ante classification. Furthermore, to align with CRR3, changes in recognizing Unfunded Credit Protection (UFCP) for LGD estimates, such as switching between modelling adjustment and risk parameter substitution, now typically require an ex-ante notification.



The Rationale for Change: Under the previous rules, any change to the Supervisory Slotting Criteria Approach (SSCA) or the treatment of purchased receivables automatically required an ex-ante notification, meaning they could only be classified as material if quantitative thresholds were breached.

The New Standard: The EBA concluded there is no longer a valid reason to treat these exposures differently from other rating systems. The specific derogation has been removed, meaning SSCA and purchased receivables are now fully subject to the general materiality framework (both qualitative and quantitative criteria) applied to all IRB models.



Aligning with CRR3 (Art. 183): The RTS has been updated to reflect the new CRR3 rules for assessing the effects of Unfunded Credit Protection (UFCP) when institutions use their own LGD estimates (applicable to sovereigns, institutions, corporates, and retail).

Operational Impact: If a bank decides to change how it recognizes UFCP, specifically by switching between the PD/LGD modelling adjustment approach and the substitution of risk parameters approach under A-IRB, this methodological shift will typically require an ex-ante notification, provided it does not breach the quantitative thresholds that would make it a material change.

04

Bundling Changes to Determine Quantitative Impact of Changes to Rating Systems



Bundling Changes to Determine Quantitative Impact of Changes to Rating Systems

Institutions must **properly bundle changes** to ensure IT readiness and accurately assess quantitative thresholds (RWEA impact), **preventing the dilution of impacts** by artificially splitting them.

Multiple Modifications affecting Single Rating System

Grouping Similar Changes to Prevent Dilution

When a bank makes several modifications of a similar nature to a single rating system, for instance, updating the recovery methodology for one collateral type and then subsequently for others, these cannot be assessed piece-by-piece to artificially stay below the materiality thresholds. Instead, they must be bundled together and assessed as one single, aggregated model change.

The Practical Exception (Phased Rollout)

The EBA does offer a pragmatic derogation: if a comprehensive change takes more than a year to fully implement, the bank can formally notify the Competent Authority with a phased implementation plan. Only in this specific scenario can the quantitative thresholds be evaluated phase-by-phase rather than on the total aggregated impact.

Single Modification affecting Multiple Rating Systems

Isolating Impacts Across Different Systems

Conversely, when a single methodological or operational change impacts multiple different rating systems at the same time, it cannot be evaluated as just one generic change. Instead, the institution must isolate the impact and treat it as an individual, separate change for each affected rating system.

Separate Threshold Assessments

This means the materiality assessment must be unbundled. The bank is required to separately calculate both the 1.5% total RWEA threshold and the specific threshold for the individual rating system for every single system involved.

Key Takeaway

A **single systemic change** cannot be **split into smaller components** solely to remain below the materiality threshold; however, **shared changes** must be **disentangled** in order to assess their impact on each specific rating system independently.



05

Materiality of Rating System Scope Extensions and Reductions



Materiality of Rating System Scope Extensions and Reductions

Extensions require approval unless model representativeness is proven, and they now face a new, specific quantitative threshold. **Reductions** no longer need quantitative checks and only require ex-ante notifications, as their risks are captured elsewhere in the framework.

EXTENSIONS

- **Qualitative Criteria: Simplified Categorization**

In principle, extending a rating system to additional exposures requires prior **approval**.

The Derogation: Approval is not required if the institution can prove the rating system is **representative** for the new extended exposures. This concept of representativeness is explicitly linked to the requirements in the CDR on Assessment Methodology (2022/439).

- **Quantitative Metrics: A New Specific Threshold**

The EBA noted that the standard 15% threshold does not adequately capture the risk of weak model performance on newly added exposures (a risk that grows as the extension size increases).

The Solution: A **new quantitative threshold** specifically for extensions has been introduced:

$$\frac{RWEA \text{ of the additional exposures}}{RWEA \text{ of the existing range of application}}$$



REDUCTIONS

The revised framework clarifies that a quantitative threshold does **not** need to be applied to reductions in the range of application.

Why? The risks associated with reducing a model's scope are already captured elsewhere in the regulatory framework:

Reversals: Moving to less sophisticated approaches is captured by Article 149 CRR.

Migrations: Exposures moving to other IRB rating systems are captured by the extension thresholds of those receiving systems.

Weaknesses: If a reduced scope exposes poor model performance on the remaining portfolio, any subsequent redevelopment or recalibration will automatically trigger the standard materiality criteria.

Therefore, an **ex-ante notification** is deemed sufficient for reductions.

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Conclusions and Key Takeaways



Conclusions and Key Takeaways

Strategic Shift in Supervisory Approach

- From **qualitative-driven** to **quantitative-driven materiality**
- Focus on **risk-based supervision**

Operational Impact for Institutions

- Reduced **approval burden**
- Increased reliance on **internal governance and validation**
- Greater responsibility in **materiality classification**

Supervisory Efficiency Gains

- Lower administrative workload
- Better allocation of supervisory resources
- Enhanced focus on **high-risk model changes**

Key Regulatory Innovations

- Narrow definition of **material changes**
- Expanded **notification framework**
- New **threshold for model extensions**
- Stronger emphasis on **data representativeness**

Risk Control Safeguards

- Retention of approval for **fundamental changes**
- Quantitative thresholds as **backstop mechanism**
- Continuous supervisory oversight preserved

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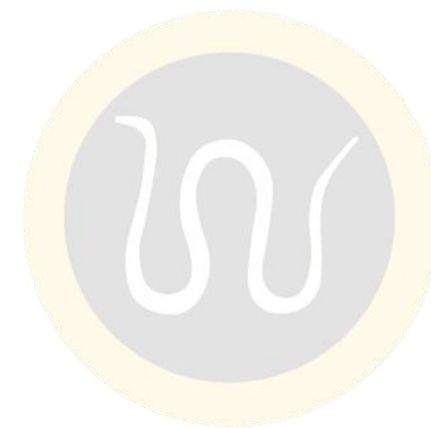
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