



TOPICS:

Credit Risk

SOURCE:

European Central Bank

The EBA Streamlines Supervisory Approvals for IRB Model Changes

- The EBA Final Report introduces amended Regulatory Technical Standards (RTS) to **refine how the materiality of changes and extensions to Internal Ratings-Based (IRB) models is assessed** under the Capital Requirements Regulation (CRR). The objective is to enhance supervisory **efficiency** while maintaining **robust** prudential oversight.
- A key reform is the **recalibration of materiality criteria**, shifting towards stronger reliance on quantitative thresholds. Previously, extensive qualitative criteria led to a high volume of model changes being classified as material, placing strain on supervisory resources and delaying implementation. The revised RTS reduces this burden by limiting "material" classification primarily to cases where quantitative thresholds are breached or where changes are deemed fundamentally significant.
- **Quantitative thresholds remain central**, notably where changes lead to reductions in risk-weighted exposure amounts (RWEA), including thresholds of 1.5% at aggregate level and 15% at portfolio level. These act as objective backstops to ensure consistency across institutions. Additionally, new metrics are introduced for assessing extensions of model scope, addressing risks arising from applying models to new exposure classes.
- The RTS significantly **streamlines qualitative criteria**. Only fundamental changes - such as major alterations to the definition of default, complete model redevelopments, or substantial changes in risk quantification methodologies - remain automatically material regardless of quantitative impact. Other changes, including methodological refinements, data updates, or adjustments to validation frameworks, are generally reclassified as non-material and subject to notification rather than approval.
- A revised **notification framework** distinguishes between **ex-ante** and **ex-post** notifications, with many previously material changes now requiring only prior or subsequent notification. This supports faster implementation while preserving supervisory visibility.
- The RTS also clarify **scope and application boundaries**, excluding certain regulatory-driven updates (e.g. CRR3 parameter changes) and ongoing data updates from materiality assessment. Furthermore, enhanced documentation requirements ensure institutions justify classification decisions and provide transparency on model impacts.

