

EBA BSG 2025 013

7 March 2025

Banking Stakeholder Group

Banking Stakeholder Group's response to Consultation on Draft Regulatory Technical Standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach

Introductory remarks

With the Regulation (EU) 2024/1623 amending Regulation (EU) No 575/2013, the EBA is mandated under Article 143(5) to publish Regulatory Technical Standards (RTS) proposing amendments to the Delegated Regulation (EU) No 529/2014.

The EBA has, therefore, developed draft 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 Internal Ratings Based (IRB) Approach.

The BSG response paper makes general comments, highlighting several opportunities for simplification and raising some situations that would require clarification.

BSG comments

The BSG considers that the proposed draft RTS is a positive step towards greater clarity and in terms of enhanced harmonisation.

Key remarks to take into consideration:

- The classification of the model change is key to determine the level of involvement for both banks and supervisors. For banks supervised by the SSM, whenever a material change is triggered, it systematically leads to an Internal Model Investigation (IMI) mission with heavy investment, along with corresponding phases and planning. The

whole process can last several years until supervisory approval is given, without which the changes cannot occur.

- The duration of such process for material changes may be deterrent for timely implementation of changes which aim to improve the Internal Rating Based (IRB) framework for banks.
- There are some simplifications in the EBA Consultation Paper, however it may be interesting to consider these options to further simplify the framework:
 - For quantifiable changes, one structural amendment could be that the quantitative threshold (RWA impact) prevails over the qualitative threshold.
 - The list of qualitative indicators could be reduced in order to provide greater weight in the decision to the quantitative threshold.
 - Sufficient flexibility should be granted to competent authorities and supervisors within their continuous dialogue. In case of material classification, there should be a discretionary layer of decision upon supervisory judgment at the end of the process which allows to change the classification from material to non-material categorisation. This judgmental reclassification could be a lever of flexibility left for both parties (banks and supervisors) in agreement, which can be justified based on the stakes for the bank and could be proposed in the first place by the bank. We think that such leeway to a judgmental reclassification should be included in the RTS.
- The following situations should be clarified as not being in the scope of the RTS, such as:
 - changes to the classification of exposures that do not affect the internal risk estimates
 - recalibration after usual annual exercises of back-testing
 - improvement of data quality issues
 - changes imposed by regulation that do not affect the performance of models
 - changes to the definition of default which are mostly related to operational implementation issues and may not impact rating systems

These clarifications appear relevant to contribute to the objective of simplification that is currently a priority of the European Union agenda, and to enable faster and more efficient processes for assessing the materiality of changes and extensions of IRBA models.

It will benefit both to supervised entities, which will be able to implement their models changes faster, and to supervisors which would receive only relevant requests. In addition, the EBA would be contributing to the said simplification objective.

The BSG is of the opinion that the abovementioned options for simplification should be applied across the draft RTS in order to contribute to a sound and efficient regulatory and supervisory framework.