

# EBA consultation on the draft technical standards that specify material changes and extensions to the Internal Ratings Based approach

EBA/CP/2024/24 – due date 10-03-2025



FINANCE  
DENMARK

## Questions for Consultation

### Question 1

Do you have any comments on the clarification of the scope of the revised 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 IRB Approach?

We appreciate the effort to clarify the scope of the revised draft regulatory technical standards. The elaboration on data constitutes an improvement in the interpretation of the level 1 text. However, we would like to add **the correction of errors or minor adjustments** necessary for the day-to-day maintenance of the models, which occur in the strict limit of the already approved methods, processes, controls, data collection and IT systems, as suggested in the draft RTS on materiality extensions under FRTB (EBA/CP/2023/36) as well as (EU)529/2014(Rec. 7). Also, it could be specified how the term "updates" differs, when used for development and calibration of the rating systems or used in the ongoing application of the rating systems.

### Question 2

Do you have any comments on the clarifications and revisions made to the qualitative criteria for assessing the materiality of changes as described in the Annex I, part II, Section 1 and Annex I, part II, Section 2?

The clarifications and revisions to the qualitative criteria for assessing the materiality of changes are well-received. We recognise that changes in the default definition may have material implications for the rating system. However, we do not understand why an indication of unlikelihood to pay from a manual process to automatic reclassification should be deemed a material change, if it is merely an automation of the approved manual process.

In the Guidelines for estimating PD and LGD (paragraph 50) institutions are required to regularly monitor levels of MoCs and there should be a plan to rectify

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the data and methodological deficiencies identified as well as any other potential source of additional uncertainty and reduce the estimation errors within a reasonable timeframe. As stated in paragraph 51, the institution should assess the level of MoC as a part of the regular reviews referred to in Chapter 9 and that the level of MoC related to the general estimation error remains appropriate after the inclusion of the most recent data relevant for the risk parameter estimation.

Changes regarding MoCs are stated in the RTS Annex, part II, section 1, point 2(f) and section 2, point 2(h) relates to changes in the methodology for deriving a margin of conservatism related to the expected range of estimation errors.

Institutions are (as stated above) required to recalculate MoCs using the methodology approved by the Competent Authority and including the most recent data as a part of the regular review. In some cases, the recalculation will result in the need for necessary changes, which should be implemented in a timely manner as stated in PD/LGD GL paragraph 52. It is not clear whether these types of required updates are in scope in the RTS, or it should be perceived as a part of model maintenance. On the contrary it is made clear that updates to data used in the development- or calibration dataset is part of the scope in the RTS and in cases where data updates is made to either one or both of the dataset mentioned when rectifying data deficiencies, the changes should be categorized in line with the RTS.

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### Question 3

Do you have any comments on the clarifications and revisions made to the qualitative criteria for assessing the materiality of extensions and reductions as described in the Annex I, Part I, Section 1 and Annex I, Part I, Section 2?

We find the clarifications and revisions to the qualitative criteria for assessing the materiality of extensions and reductions to be an improvement, in that the materiality threshold should be tested for in most cases. It could be specified, whether purchased portfolios could be regarded as an extension of the rating systems.

### Question 4

Do you have any comments on the introduced clarification on the implementation of the quantitative threshold described in Article 4(1)(c)(i) and 4(1)(d)(i)?

The introduced clarification on the implementation of the quantitative threshold is a welcome simplification. Also, we confirm, that we read it as when different



changes are applied, they should be assessed on the impact of the individual change, and not as the overall sum of different changes.

### **Question 5**

Do you have any comments on the revised 15% threshold described in Article 4(1)(d)(ii) related to the materiality of extensions of the range of application of rating systems?

We do not have any comments on the threshold.

### **Question 6**

Do you have any comments on the documentation requirement for extensions that require prior notification?

We do not have any comments on this question.

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