

9 March 2011

## **Results and main conclusions of the public hearing on the draft Guidelines on AMA changes (CP45)**

1. Participants from institutions and supervisory authorities took part in the public hearing on the Consultation Paper (CP45) on draft Guidelines on Advanced measurement Approach (AMA) changes, taking place on 23 February 2011 at the EBA premises in London.

### 2. List of Participants

Marco Moscadelli, Bank of Italy – Chair

Bernd Rummel, EBA

Chris Bechtle, Citigroup, UK

Alison Beckhurst, Deutsche Bank, Germany

Frank Corleis, Bundesanstalt für Finanzdienstleistungsaufsicht, Germany

Katherine Hedley, Barclays Group, UK

Jos Meuleman, Commission Bancaire, Financière et des Assurances, Belgium

Giulio Mignola Intesa, Sanpaolo, Italy

Karin Sagner-Kaiser, Deutsche Bundesbank, Germany

Masao Takemoto, FSA, Japan

Sara Thomson, RBS, UK

3. Subsequent to a brief introduction regarding the transition from CEBS to the European Banking Authority (EBA), the reasoning behind and the content of the draft Guidelines on AMA changes were presented. The AMA needs to be in line with the organisational set up of an institution and its risk profile. To ensure that this requirement is met, institutions have to develop an internal model change policy, which needs to be approved internally. The Guidelines provide a categorisation scheme for the severity of model changes and lays down the appropriate procedures. Depending on the severity of a change an approval process, notification or annual information of the competent authority is required. The Annex provides a non-exhaustive list of examples, which should be helpful for institutions to develop an internal policy.

4. Participants were generally supportive of the Guidelines and their objective to harmonise supervisory processes regarding the approval of AMA changes. Similar Guidelines would be helpful for credit risk and market risk models as well.

5. The main issue raised was, that it would be beneficial to clarify the categories regarding major and significant changes. To achieve this, participants recommended adding more examples to the bullet points contained in the Annex.

EBA's response:

The way how the four elements of an AMA (internal and external loss data, scenario analysis and business environment and internal control factors) are combined within an AMA may differ between institutions. Thus similar changes may have unequal impacts on different AMA. Therefore it is not possible to provide an exhaustive list of examples for the categories. This is why institutions have to develop an internal model change policy, which takes into account the individual AMA. Those policies will be refined over time, taking into account the results of regular communication between AMA institution and supervisors and between supervisors in supervisory colleges. Regular communication between institution and supervisor and among different supervisors is needed, to establish a common understanding regarding the significance of model changes. The EBA may conduct peer reviews at a later stage to analyse practices, aiming to increase harmonisation even more over time.

6. Participants suggested developing more concrete quantitative criteria to distinguish between major changes and significant changes. This could be done via percentages of capital changes or by comparing the statistical uncertainty of a model before and after a change.

EBA's response:

The first criteria has extensively been discussed, when the Guidelines were drafted. A technical instruction how to calculate those thresholds would be needed. To avoid that smaller changes add up to a significant change without supervisory involvement, the last approved model would need to be maintained. This would create additional burden for institutions. The issue will be discussed again, also taking into account responses to the ongoing consultation.

7. Participants pointed out that it would be beneficial to elaborate more on the role of home and host supervisors, including those outside the EU and to reach a higher level of harmonisation regarding the AMA requirements in general.

EBA's response:

Given the 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), the EBA Guidelines will be applied in the EU only. Regarding the home host procedures the processes are contained in the CEBS Guidelines on Validation. To avoid redundancies this has not been included in the Guidelines. The Guidelines on Validation will also be updated in the future. International harmonisation in this area is desirable, but cannot be achieved via EU guidelines. The Basel Subgroup responsible for this topic has been informed about the consultation paper. Supervisory colleges play an important role to achieve such harmonisation and reach a common supervisory understanding. Beside colleges of EU supervisors, competent authorities also conduct colleges with a wider scope

regarding international active institutions and have established additional communication channels.

8. Participants asked, if these Guidelines would apply to all changes, even if they are triggered by changes needed in response to the recent Basel Guidelines on AMA.

EBA's response:

The EBA is aware of the mentioned Guidelines, which have been issued for public consultation by the Basel Committee. EU institution need to comply with the regulatory requirements contained in EU and national regulation. The EBA Guidelines on AMA changes apply to all AMA changes.

9. Changes of the structure of institutions are business decisions; they may lead to a need to change the AMA. Participants asked, if they would be still able to change the organisation without prior supervisory approval on potentially needed AMA changes. If this would be the case, this would lead to delays to needed structural changes. It could be helpful, if the Guideline would take into account the motivation for such changes. Changes to the structure may lead to AMA changes in any of the given categories. This should be clarified in the Introduction to the Guidelines.

EBA's response:

It is not intended to require that an AMA change must be approved before the underlying structure can be changed. In cases of mergers and acquisitions this may be solved using a partial use of the AMA. The potential impact of an actual structure change needs to be considered. The AMA has to be used for the management of the risks as required by the CRD, depending on the change it may be necessary to change the AMA in a timely manner, to ensure that this requirement is met.

In addition participants suggested the following changes to the Annex:

- a. Aligning the categories in the Annex more with the chapters of the Guidelines by merging section A and B.
- b. Annex, A, 1 bp, clarify that the significance of the extensions to the scope of the AMA framework (and the distinction between EU and non EU extensions) will be taken into consideration."
- c. Annex, B, 4 bp, clarify what changes are considered to be fundamental, e.g. those which would impinge on the independence of the operational risk management function.
- d. Annex, C, 2 bp, clarify in the introduction that changes to the methods can result in changes of different severities.
- e. Annex, C, 3 bp, the word "fundamental" should be changed, as this is also used within the examples under B "significant changes".
- f. Annex, C, 4 bp, the example regarding validation should be clarified. Validation is a broad concept. In this bullet point the changes should refer to changes within the logic and methods used.