



Brussels, 11 June 2013

**Comments on the Consultation Paper "On the conditions for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for credit, market and operational risk under articles 138(5), 301(3)(a) and 352(3)(a) of Regulation (EU) XX/XXXX of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms [CRR]"**

The European Federation of Building Societies (EFBS) is pleased to use the opportunity to make comments on the Consultation Paper "On the conditions for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for credit, market and operational risk".

The EFBS is an association of credit institutions and organizations that assist in and support the financing of home ownership. Its purpose is to encourage the idea of acquiring home ownership in a Europe that is converging, both politically and economically. Bausparkassen grant loans secured by residential property to finance home ownership as a bulk business. In addition to this Bausparkassen business in the stricter sense, Bausparkassen are also allowed to make investments, however only in particularly safe investment vehicles.

The Bausparkassen believe that it makes sense to introduce a European standard for assessing the materiality of extensions and changes of internal approaches. They submit their observations on the draft standard against the background of their experience with national provisions aimed at similar objectives. In Germany, for instance, the banking supervisor introduced guidelines with regard to changes in IRBA systems and other borrower-related risk measurement methods some years ago, and these have been applied since then.

In our opinion, greater emphasis should be placed in the EBA's standard in particular on the principle of proportionality. As regards non-material extensions or changes, banks should not be expected to make administrative efforts which cannot be justified from a risk perspective. With reference to changes in the IRB approach requiring notification after implementation (requiring amendment to Art. 9(3)), the following requirements should be dropped:

- the documentation elements referred to in Article 9(1) points (c), (f) and (h), and
- the results of the calculation of the quantitative impact referred to in Article 2(3).

Calculating the quantitative impact is particularly onerous and should therefore not always be required. For this reason, we propose with regard to the IRB approach that:

- non-material changes within the meaning of Article 1(1)(b) should only be classified by means of qualitative criteria as defined in paragraph 2 (delete Article 4(1)(a) points (iii) and (iv)), and
- the calculation of the quantitative impact should consistently be required only with regard to the portfolio concerned (delete Article 3(1)(c) point (i)).

With reference to specific questions in the Consultation Paper, we would like to submit the following comments:

**Q 3: Do you support the calculation proposal of the quantitative threshold for the IRB approach in terms of design of the metrics and level of thresholds? (Please also take into account the arguments provided in Tables 2 to 5 of the Impact Assessment)**

In our opinion, a quantitative threshold only seems appropriate if it refers to the risk-weighted exposure amounts for credit risk (RWA) of the portfolio within the scope of application of the IRB approach concerned.

A group-wide assessment does not appear to be justified. In addition, the calculation would require considerable additional efforts. At any rate, the relevant consolidation level is not clear in those cases in which the parent company does not fall within the scope of application of the CRR or where the parent company is not an IRBA institution.

**Q 4: Do you support for the IRB approach the three month period for notification of the changes before implementation?**

Having to wait for a period of three months after notification before implementing changes might delay the implementation of necessary changes and considerably hamper the further development of the IRB approach. There would be no reliable basis for planning and – combined with the uncertainty regarding the duration of the approval procedure – the institutions' IT costs would increase significantly. Several releases might have to be run in parallel, for instance.

In our opinion, a waiting period of one month until implementation should be sufficient. Changes to which the competent authority has not raised any objections within a period of one month should be deemed to have been approved.

**Q 15: Are the provisions included in this draft RTS on the documentation requirements sufficiently clear? Are there aspects which need to be elaborated further?**

With reference to the documentation requirements for extensions and changes which have to be notified to the supervisory authority before implementation, the requirement specified in Article 9(1) point (g) should be deleted (amendment to Article 9(2)). If – in accordance with the principle of proportionality – non-material changes have to be classified only by means of qualitative criteria as set out in Article 1(2), the quantitative impact will not be calculated for each of the changes.

In our opinion, the requirements for extensions and changes which require notification only after implementation, are unnecessarily extensive. It should be sufficient to limit the requirements to the ones listed in Article 9(1) points (a) and (b) (amendment to Article 9(3)).

With reference to Article 9(1) point (f) we would like to point out the fact that it is not necessary for each extension or change to be internally approved by a committee. For changes which require notification after implementation, the involvement of a committee in the approval process seems to be disproportionately burdensome.

**Q 16: Do you support the view that costs arising for institutions from the documentation requirements included in the draft RTS are not expected to be material? If not, could you please indicate:**

**- the main cost driver: i) additional IT equipment, ii) additional ongoing Staff/hours, iii) other (please specify).**

- **the % increase in total yearly costs of internal models management for credit/operational/market risk induced by the proposed documentation requirements (specify whether the costs arise only for some of the risk categories covered by the provisions).**

- **indicative monetary amount of these additional costs (specifying currency and unit)**

In our view, the documentation requirements will generally lead to higher costs. We would like to draw attention to the following areas in which we expect significant and disproportionate cost increases:

- the required documentation for extensions and changes which require notification only after implementation (see answer to Q 15),
- the documentation required, on account of the qualitative criteria, for the large number of changes defined as material (see comment on Annex 1),
- the documentation of the quantitative impact in connection with its calculation, in particular at consolidated level (see answer to Q 3).

**Q 17: Do you support the view that the additional costs, for institutions, of computing the quantitative impacts of the implemented model extensions/changes are expected to be non-material, given that institutions already carry out impact analysis in the current framework? If not please indicate:**

- **the main cost driver: i) additional IT equipment, ii) additional ongoing Staff/hours, iii) other (please specify).**

- **the implied % increase in total yearly costs of internal model management for credit/operational/market risk induced by the quantitative impact analysis (specify whether the costs arise only for some of the risk categories covered by the provisions).**

- **indicative monetary amount of these additional costs (specifying currency and unit).**

We do not share the view that the additional costs will be non-material since institutions already carry out impact analyses. Computing the quantitative impact will impose considerable requirements in terms of staff and IT resources because the impact on risk-weighted exposure amounts for credit risk (RWA effect) will have to be identified, i.e. it will be necessary to compute the isolated impact of the change in the model.

When updating the computation of a characteristic (e.g. the price per square metre used for the valuation of properties), the following steps have to be implemented to compute the RWA effect:

- ascertaining the new values for the characteristic,
- implementing the scoring, using the new values,
- computing the new RWA and percentage change compared with the previous situation.

**Q 18: Do you support the view that, for institutions, the costs of ex-ante/ex-post notification of extensions/changes are expected to be non-material? If not, please indicate:**

- **the main cost driver: i) additional IT equipment, ii) additional ongoing Staff/hours, iii) other (please specify).**

- **the % increase in total yearly costs of internal models management for credit/operational/market risk induced by the notification requirements (specify whether the costs arise only for some of the risk categories covered by the provisions).**
- **an indicative monetary amount of these additional costs (specifying currency and unit).**

The costs of the ex-ante or ex-post notification alone will rise, though not significantly. The main cost drivers will be the requirements to be met in terms of quantifying the impact and providing documentation.

**With reference to Annex 1 – Changes to the IRB Approach** – we would like to submit the following comments:

Annex 1 Part II Title 1 lists changes to rating systems which require the competent authorities' approval. In our opinion, however, the following changes are definitely not material in every case:

- recalibration measures (see (2)(d)),
- changes in the definition of default (see (3)),
- changes in the validation methodology and/or validation processes (see (4)).

Where such changes are non-material, they should not have to be approved by the competent authorities, so that the supervisory authorities will not be exposed to a flood of applications for changes. It would take more time for the competent authorities to process the notified changes, which would unnecessarily hamper their implementation in the institutions, and it would compromise the high quality of the rating process.

In our opinion, it would be appropriate to classify the measures cited above under Title II (Changes requiring ex ante notification to competent authorities).