

## Regulatory Blog

By PwC Deutschland | 27.03.2024

# Webinar: Key observations on the newest supervisory expectations and market trends on IRB's hot topics

**On this webinar - we have shared our insights on market trends related to a set of hot topics in the IRB space. Some of the key discussion points you can find below.**

In anticipation of the **adoption of Basel IV** and as reaction of the recurrent ECB's appeal for **model landscape simplification**, several institutions are revising their plans for the future IRB perimeter, which implies a revised combination of reversions to SA, changes of scope of the PPU usage and, for certain portfolios, a step back to F-IRB.

The **growing expectations in terms of integrating climate-related and environmental risks (C&E) considerations** in the credit lending process have been requiring modellers to start testing additional risk drivers related to C&E, when modelling IRB risk parameters, incorporating those that are found to be relevant and material. The challenges are still significant as limited historical data on ESG do not ease the task of meeting the so demanding IRB modelling requirements for the different risk parameters.

The revised version of the ECB guide to internal models, published for consultation in June 2023, clearly set the ambition of banks being **capable of implementing material changes or extensions in a timely manner upon receiving permission**, i.e. in a time frame no longer than three months from the date of the notification. All this requires banks to significantly re-think their current capacity, including dedicated IT resources, to meet such time horizon.

This **Webinar** our international experts were discussing the following points:

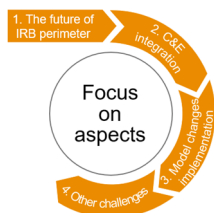
- Main drivers of action when defining the optimized IRB perimeter;
- Trends in terms of integration C&E risk drivers in IRB models;
- Main challenges and potential remedy actions to cope with the model changes and extensions implementation expectations;
- Other challenges in light of the revised ECB guide to internal models and EBA developments (e.g. machine learning adoption).

Final GLRTS implementation	July 2016	September 2016	March 2019 (last EBA doc.)	March 2020
Structure and timeline of the regulatory review	IRB Assessment Methodology	Definition of default parameters for exposures	Risk parameters (PD and LGD) based already on the adjusted definition of default	Credit Risk Mitigation (CRM) measures
	<ul style="list-style-type: none"> <li>• Mainly focused on the assessment of IRB compliance by competent authorities</li> <li>• Provides clarification on various topics covered in the subsequent phases</li> <li>• Covers all types of supervisory assessment, modeling and non-modeling</li> </ul>	<ul style="list-style-type: none"> <li>• Since definition of default is a fundamental concept, it was thought to be addressed before the estimation of risk parameters</li> <li>• Changes shall apply to both the IRB and STB</li> <li>• Requires adjustment to current policies, processes, IT systems, historical data and on the models subsequently</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive EBA guidelines on estimation of risk parameters (PD and LGD)</li> <li>• Recalculation of PD and LGD based already on the adjusted definition of default</li> <li>• Default conditions (nature, severity and duration) are here set, as well as the estimation of LGD appropriate for such conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Covers the eligibility requirements for different CRM techniques, namely funded and unfunded credit protection, and methods available to institutions that apply the AFRB approach to recognize the effects of different CRM techniques</li> </ul>
<p>Across phases: TRIM exercise on models review carried out by ECB, data quality requirements, IFRS9 standard for impairment calculation, implementation of Basel III disclosure proposals (Pillar 3 disclosures)</p>				

IRB modelling will continue to require reinforced attention from banks. Join our webinar to get the insights on current market experiences:

[Webinar - Navigating the New IRB Landscape \(Part 1\)](#)

[Webinar - Navigating the New IRB Landscape \(Part 2\)](#)



Get ongoing updates on the topic via regulatory horizon scanning in our research application, PwC Plus. Read more about the opportunities and offerings here.

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### Keywords

Basel IV, Capital Requirements Regulation (CRR III), ESG, Internal ratings-based approach (IRBA)

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