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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).

	July 2016	September 2016	March 2019 (last EBA doc.)	March 2020
mplementation	immediate	2020 year-end	2020 year-end (extended to 2021/2023)	2021 year-end
Structure and timeline of the regulatory review	IRB Assessment Methodology (EBARTS201603)	Definition of default EBASTS 201907 and EBAST 2019080	Risk parameters (EBARTS201016, EBARTS201604 and EBARC/2019(0)	Credit Risk Mitigation (EBAGL202005)
	Mainty focused on the assessment of IRB compliance by competent authorities Provides clarification on venous topics covered in the subsequent phases Covers all types of supervisory assessment, modeling and non-modeling	 Since definition of default is a fundamental concept, it was brought to be addressed before parameters Changes shall apply to both the IRB and STA Requires adjustment to current protestes. IT Systems, Instorted data and on the models subsequently 	Comprehensive EBA guidelines on estimation of risk parameters (PD and LGD) Recalibration of PD and LGD bases directly on the adjusted definition of default Downtum conditions (instare, severity and duration) are here of LGD appropriate for such conditions	 Covers the eligibility requirements for different CRN techniques, namely funded and unfunded credit protection and methods available to institutions that apply the AIRB approach to accognize the effects of different CRM techniques

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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