

EBA Statement on the Application of CRR 3 for the Internal Rating Based Approach

Description: The European Banking Authority (EBA) has released a statement on the application of the CRR 3 regulation, particularly focusing on the Internal Ratings Based (IRB) Approach to credit risk. The statement welcomes the new European Banking Package, which incorporates the final Basel III Accord into EU regulation. It underscores the banking sector's resilience during recent crises and encourages active dialogue between institutions and authorities to ensure smooth implementation of the new framework. Institutions are required to communicate their model framework and updates to be implemented by January 1, 2025.

Overview of the Publication

The European Banking Authority (EBA) has released a statement on the application of the CRR 3 regulation, particularly focusing on the Internal Ratings Based (IRB) Approach to credit risk. The statement welcomes the new European Banking Package, which incorporates the final Basel III Accord into EU regulation. It highlights the improvements in risk sensitivity and the introduction of safeguards for internal modeling to reduce undue variability in model outcomes. The EBA emphasizes the importance of a resilient banking sector, which was evident during the recent COVID-19 and energy crises. The statement also encourages institutions and competent authorities to engage in active dialogue to ensure a smooth operational implementation of the new regulatory framework, with detailed discussions on model landscapes, rating systems, and necessary changes and updates. Institutions are expected to communicate their targeted model framework and necessary updates to their competent authorities, which are to be used from January 1, 2025 onwards.

Key Topics

The EBA statement highlights several critical areas that institutions and competent authorities should focus on to ensure effective implementation of the CRR 3 regulation. The key topics include:

1. **New Framework:** Implements the final Basel III Accord into EU regulation, enhancing risk sensitivity and introducing safeguards to internal modeling. The new regulatory framework has proven beneficial during recent crises, ensuring continued support to the economy by the banking sector.
2. **Active Engagement:** EBA encourages institutions and competent authorities to engage in active dialogue to ensure smooth operational implementation of the Banking Package. Institutions are expected to communicate their targeted model landscape, including plans for the IRB Approach.
3. **Model Discussion:** Institutions should discuss whether the IRB Approach will be used for each exposure class as defined in Article 147(2) of CRR 3. Key discussion points include the rating systems for each exposure class, plans for permanent partial use and roll-out of the IRB Approach, consideration of returning to less sophisticated approaches and the necessary permissions or notifications required, and implementation plans for mandatory reversals to less sophisticated approaches and new requirements for credit risk mitigation.
4. **Rating Systems Notification:** Institutions must notify competent authorities about rating systems impacted by a reduction in their range of application. Regular reviews of estimates for representativeness, model performance, and calibration must be conducted. Material and complex rating systems undergoing significant changes require an anticipation of the review of estimates to verify adequate performance.
5. **Assessment and Categorization of Changes:** Institutions are required to assess and categorize any changes from the implementation of CRR 3 impacting rating system performance. Prioritization of these changes, related remediation plans, and any temporary mitigation measures should be discussed with competent authorities.
6. **Mandatory Changes:** Changes not impacting rating system performance, such as new regulatory values (PD, LGD, CCF input floors), and updates to risk weight functions, are outside the scope of the CDR on materiality of changes. However,

institutions should communicate their implementation plans and the impact on risk-weighted exposure amounts and own funds requirements to competent authorities.

7. **Future Supervisory Products:** Institutions should inform competent authorities about their implementation plans for rating system updates linked to future EBA guidelines. Specifically, changes related to IRB-CCF and the definition of default should be prioritized once the EBA finalizes the relevant guidelines. Temporary non-compliance to CRR 3 should be assessed for materiality, and adequate mitigation measures should be discussed with competent authorities.

Conclusion

The EBA's statement on the application of CRR 3 for the IRB Approach underscores the need for enhanced risk sensitivity and robust internal modeling practices within the EU banking sector. The EBA highlights the importance of a proactive and collaborative approach between institutions and competent authorities to ensure the smooth implementation of the new regulatory framework. Institutions must carefully plan and communicate their model landscape and rating system changes, keeping authorities informed of their progress and any significant updates. By adhering to these guidelines, institutions can effectively manage credit risk, enhance the stability of the banking sector, and ensure continued support for the economy in times of crisis.