



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

PRESS RELEASE

25 September 2017

ECB publishes guide on materiality assessment for changes to counterparty credit risk models

- ECB explains approval criteria for changes to internal models directly supervised banks use to calculate capital requirements for counterparty credit and credit valuation adjustment risks
- Publication marks the end of a public consultation process

The European Central Bank (ECB) today published the ECB guide on materiality assessment (EGMA) for changes or extensions to counterparty credit risk models. The publication of the guide marks the end of a public consultation process.

The guide indicates how the ECB intends to interpret the existing legal framework. It assists significant institutions directly supervised by the ECB in their self-assessment of the materiality of changes and extensions to internal models used to calculate counterparty credit and credit valuation adjustment risks of a business partner, drawing as much as possible on the approaches already defined by the European Banking Authority (EBA) for other risk types.

Under the Capital Requirements Regulation (CRR), financial institutions can use the internal model method (IMM) for counterparty credit risk (CCR) and the advanced method for credit valuation adjustment risk (A-CVA) when calculating capital requirements. These internal models focus on over-the-counter derivatives contracts and securities finance transactions because, for these products, the exposure is calculated in a different way than for a traditional loan, where the exposure is, to a large extent, fixed. The output of these models is one input factor in the calculation of the Pillar-1 capital requirements of a bank.

European Central Bank Directorate General Communications
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.ecb.europa.eu

Reproduction is permitted provided that the source is acknowledged.

Changes and extensions to both methods require supervisory approval when such changes or extensions are deemed material.

The implementation of the guide will be part of the day-to-day supervisory dialogue with individual banks. The guide should support both institutions and supervisors with regard to ongoing model monitoring activities, and the introduction of material model changes and the respective model approval process.

The guide and the feedback statement explaining how the comments received during the public consultation were taken into account and the comments sent in by stakeholders are available on the ECB's banking supervision website.

For media queries, please contact Rolf Benders, tel.: +49 69 1344 6925.