

Chapter 1

Commission Delegated Regulation (EU) 2017/180

Article 7 General assessment standards for internal approaches for credit risk

(1) When carrying out an assessment referred to in Article 3(1) relating to credit risk approaches, competent authorities shall use at least the information on the internal approaches applied to the supervisory benchmarking portfolios which is contained in the following documents, where relevant:

- (b) the institution's regular validation reports;
- (c) model documentation including manuals, documentation on the development and calibration of the model and methodology for the internal approaches;
- (d) reports regarding on-site visits.

(2) When carrying out an assessment referred to in Article 3(1) relating to credit risk approaches, competent authorities shall take into account the following elements, where relevant:

- (a) whether the institution uses own estimates of loss given default (LGD) and conversion factors in accordance with Article 143 of Regulation (EU) No 575/2013;
- (b) the model's application perimeter and the representativeness of the benchmarking portfolios;
- (c) key characteristics of the models such as distinguishing between models designed and calibrated at the centralised group level (global) and models designed and calibrated only at the level of the host jurisdiction (local), vendor and institution models, models developed and calibrated using internal data and models developed and calibrated using external data;
- (d) the date of model approval and the date of model development;
- (e) the comparison of predicted and observed default rates over a relevant time period;
- (f) the comparison of predicted downturn LGDs with observed LGDs;

- (g) the comparison of estimated and observed exposures at default;
- (h) the length of the time series used and, as applicable, the inclusion of distressed years or nature and materiality of any adjustment for capturing downturn conditions and adding margins of conservatism in the models' calibration;
- (i) recent changes in the composition of the portfolio of the institution to which the internal approach is applied;
- (j) the micro- and macroeconomic situation of the institution's portfolio, the risk and business strategy as well as internal process, such as recovery procedures for defaulted assets ("workout procedures");
- (k) the current position in the cycle, choice of rating philosophy between point-in-time (PIT) or through-the-cycle (TTC) and the observed cyclicalities in the model;
- (l) the number of rating grades and dimensions used by the institutions in the probability of default (PD), LGD and conversion factor models;
- (m) the default and cure rates definitions used by the institution;
- (n) the inclusion or not of open workout procedures in the time series used for the calibration of the LGD models, where applicable.

(3) Where competent authorities deem that the information referred to in paragraph 1 is not sufficient in order to reach conclusions in relation to the elements listed in paragraph 2, they shall promptly collect from the institutions additional information they deem necessary in order to finalise their assessment.

When deciding on what additional information to collect, competent authorities shall consider the materiality and relevance of the deviation of the institution's parameters and own funds requirements. Competent authorities shall collect the additional information in the way they deem to be most appropriate, including through questionnaires, interviews and ad hoc on-site visits.