

Approach to applications for IRB and AMA

1. We have already signalled that in our approach to implementing CRD we aim to be pragmatic and proportionate. Equally, we have stressed that the approval process will not be a formality and that if, after careful consideration, we consider that firms have made insufficient progress in key areas and so do not meet minimum standards, then we will not grant waivers.
2. We recognise however that there will be circumstances where firms' applications have shortcomings which of themselves may not indicate non-compliance with the CRD but which would prevent our granting an unqualified waiver. This is particularly the case against a backdrop where model development will be evolving during the application period and beyond.
3. We have been developing our thinking on a range of options, within the scope of the new Handbook, for dealing with shortcomings in waiver applications as part of the decision-making process. Our preference would be to develop tailored solutions to address particular shortcomings, such as adjusting a parameter of the model, but we do not rule out constraining the Pillar 1 requirement – 'extending the floor' – for a particular firm, where this would be the more appropriate response.
4. The attached slide shows examples of options that we are currently considering. These include agreeing the waiver:
 - 'subject to' conditions being met before the waiver can become effective
 - but with delayed roll-out of portfolios with shortcomings
 - subject to the application of more conservative parameters in Pillar 1
 - but with an additional bespoke capital buffer or multiplier in Pillar 1
 - but for any particular firm 'extending the floor', ie the amount of any capital reduction for a particular time period.
5. Note that we will not routinely seek to address specific weaknesses in firms' waiver applications through capital additions under Pillar 2.

Options available

- **Reject** – with a clear explanation to the firm of reasons why. Any failure to meet minimum standards should lead to rejection.
- **Approve** – any approval must be on the basis of meeting the minimum standards. The use of conditions is to address shortcomings identified, but where overall the group meets IRB/AMA.

Possible conditions to apply to approval

- **Delayed / partial roll out** – where we are concerned about a particular portfolio (rather than the entire book), ask the firm to delay first use for that portfolio until improvements made
- **More conservative parameters in Pillar 1** – for example, where we have concerns about a firm's ability to produce accurate estimates for particular IRB parameters we could require additional conservatism while model deficiencies are addressed.
- **Use of higher/longer capital floors** – prevents significant capital reduction while a firm makes necessary improvements to models
- **Use of capital buffer/multiplier** – could be used where increased capital is a reasonable remedy but use of floors/parameters is not appropriate.
- **Apply restrictions** – for example, if we identify a weakness in a specific, currently limited, area. Use of volume or materiality limits/triggers might allow confidence that the scale of any shortcoming is low.
- **Further visits** – as part of ongoing supervision to ensure further work by firm is completed as expected (modifications, later roll outs) rather than approval being subject to these