

IRB/AMA Application Review Process

1. In this note and its attachments, we summarise the steps that the FSA will follow in reaching a decision on an application and on implementing it through a waiver. We are providing this information in order to guide firms' expectations as to what will happen during the review phase and about the principal interactions between the FSA and firms. We also summarise the key cross-border considerations during this phase and the respective roles of particular FSA staff (e.g. the role of specialists). This note should be read in conjunction with the timelines, the application pack and the high level messages on the approvals process.¹

10 stage approval process

2. We have divided the approval process into ten broad stages as shown in the attached diagram. The specific content of each stage is set out in the table at the end of this document.
3. In terms of interaction with firms, the pre-application period is of great importance. At this stage we will gather information and prepare plans in conjunction with the firm and with other regulators. To a certain extent we will be looking to front-load some of our review work into this period.
4. In the subsequent stages, firms will submit their application pack and the FSA will conduct a review. The review will be a combination of desk-based and on-site review work. While some preparation of the review plan will be done in the pre-application period, we will finalise the plan shortly after receipt of the application. To assist us in planning the review, the material provided with the application pack is expected to include summaries of issues as opposed to submission of full internal documentation. We will prepare the review plan in conjunction with the applicant and relevant overseas regulators, taking our risk appetite into account. We will also request additional information, which could include internal documents, from firms at this stage. Firms should note in particular the expectations that we have of the timescales for arrangement of meetings with key personnel and the turn round times for provision of internal documentation.²
5. Many firms have a large number of individual rating systems: while we will collect information on all rating systems as part of IRB applications, and will examine this information during the desk-based review, we do not expect to conduct on-site review for all rating systems: we may select the most significant ratings systems plus a range of others, perhaps on a sample basis. Issues that need to be assessed on a firm-wide basis, such as the role of the board and senior management, are likely to be covered through meetings with the firm. We said in CP189 that we expect our review to cover,

1 Dear CEO letter on CRD implementation (May 2005) "Key messages on our implementation of the Capital Requirements Directive", available on http://www.fsa.gov.uk/pubs/ceo/messages_crd.pdf.

2 Ibid., page 3.

at a minimum, validation, the use test, data accuracy and the role of senior management: this remains the case for all firms; for larger firms and for those with particular issues, our review activity will be more extensive than this.

6. Once the review work is complete, a recommendation on the decision will be made by the relevant relationship management team, with the advice of Risk Review Department specialists, Policy staff, FSA legal services and others.

Timescales

7. The time taken for the whole process will depend initially on when the application is made. We plan to determine by 30 September 2006 all applications that fall into Wave 1 (i.e. Retail IRB and FIRB applications made on or before 31 December 2005). Other shadow applications will have decision points as per the FSA timetable available on our website³. Formal applications may be subject to Article 129(2) of the CRD; if so, they will be subject to the six month period for reaching a joint decision set out in that Article. Taking our experience of the first wave of applications into account, the FSA will be considering the appropriate service standard to apply to formal IRB and AMA waiver applications that are not subject to Article 129(2).

Cross Border

8. The FSA will be guided by the AIG Cross Border Principles⁴ and by any guidance agreed upon by CEBS in this area. Our role depends principally on whether we are acting as a home supervisor or as a host supervisor. Where we are a home supervisor we will take the lead, and in many cases are already doing so, in co-ordinating with other supervisors regarding the firm's application. Firms have been involved in college presentations and we plan to liaise with firms when drawing up our action plans for dealing with applications. Where we are host supervisor, we will be involved in the review process appropriately and will co-ordinate closely with the home supervisor.

Decisions

9. We are finalising the formal decision-making arrangements. This will be by way of a committee with delegated powers. This will be the case even for initial decisions taken under Wave 1, which we expect to communicate to firms in the form of Individual Guidance on the basis of the shadow application.

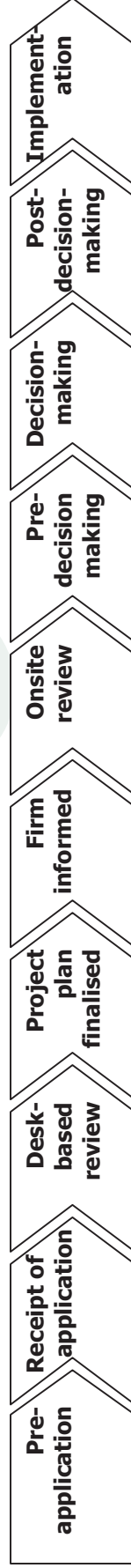
Communication with firms

10. We are committed to communicating with firms about the progress of their applications. In addition to the planning and review steps set out above, firms can expect relationship management teams to tell them what stage of the review process we have reached in respect of their applications, and to provide feedback on issues arising from the review process.

3 "Confirmation of Timelines for IRB and AMA applications":
<http://www.fsa.gov.uk/pages/About/What/International/basel/info/timelines.shtml>

4 Basel Committee on Banking Supervision, "High-level principles for the cross-border implementation of the New Accord" (August 2003): <http://www.bis.org/publ/bcbs100.pdf>

BASEL 2 / CRD FIRM-SPECIFIC IMPLEMENTATION – PROCESS MAP



The papers and meetings of the group are intended to encourage useful discussion of the issues rather than to present a comprehensive account of the matters concerned or a set of agreed conclusions. The minutes of the meetings report the discussions of the group, but neither the papers or minutes nor any reported remarks by anyone present at one of those meetings should be read as representing formal positions of the institutions represented or of the FSA. The FSA's Handbook proposals will be subject to consultation in the normal way.

FSA Approval Process – Summary⁵

STAGE OF APPROVAL PROCESS	ACTION FOR FIRM	ACTION FOR RELATIONSHIP MANAGEMENT ("RM") TEAM [...] = CROSS-BORDER ACTIVITY	ACTION FOR RISK REVIEW DEPARTMENT ("RRD")	OTHER ACTION
1 PRE-APPLICATION	<p>Development or re-development of risk measurement systems, as needed</p> <p>Self-assessment</p> <p>Drafts of application pack material</p> <p>Receives visit(s)</p> <p>Parallel Running</p>	<p>Receives training</p> <p>Dialogue with firm</p> <p>Requests RRD visit(s) and participates in them</p> <p>Starts planning</p> <p>Reviews rollout plans.</p> <p>[Colleges and/or meetings with overseas regulators planned and executed]</p>	<p>Thematic visits</p> <p>Firm-specific visit(s)</p>	<p>Review of roll out plans and results of thematic visits</p> <p>Project managers co-ordinate actions with RM and liaise with RRD where required</p> <p>Superusers provide training and assistance</p>
2 RECEIPT OF APPLICATION	<p>Submits application pack</p>	<p>Informs RRD</p> <p>[Informs other regulators]</p>		<p>Project Manager informed</p> <p>Clock starts, where applicable</p>
3 DESK-BASED REVIEW		<p>Checks application pack is complete</p> <p>Desk-based review of Application Pack material</p> <p>[Forwards to other regulators]</p>	<p>Advice to RM on areas to be reviewed</p>	
4 REVIEW PLAN FINALISED	<p>Agrees dates for meetings and visits</p>	<p>Finalises Review Plan in conjunction with firm, RRD [and other regulators]</p> <p>[Communicates plan to other regulators]</p>	<p>Agrees visit dates</p>	<p>Plan signed off by Divisional Senior Management</p>

⁵ This process summary is relevant to applications from firms for which the FSA is the home supervisor. Where the FSA is a host supervisor some of its elements are not applicable.

5 FIRM INFORMED		Inform firm Preparation for visits	Preparation for visits	
6 ON-SITE REVIEW	Supplies Phase 2 material Receives visits etc. Provides parallel running results	Requests Phase 2 material Leads meetings / visits as per plan Participates in RRD drill-down visits. Reviews parallel running results Start work on waiver recommendation	Undertakes drill-down visits Supplies written visit report to RM Attends other meetings / visits	
7 PRE-DECISION-MAKING		Finalises waiver recommendation [Confers with other regulators on proposed decision]	Provides support and advice to RMs in finalising recommendation	Project managers and superusers provide support and advice to RMs in finalising recommendation [Receive reports from host regulators]
8 DECISION-MAKING		Presents recommendation to decision-making committee	Attends decision-making committee	Decision-making committee
9 POST-DECISION MAKING		Firm [and other regulators] informed Individual Guidance or Waiver documentation prepared		Project managers and superusers provide support to RM in preparation of IG or Waiver
10 IMPLEMENTATION	Starts using chosen approach for capital calculation	Individual Guidance on shadow application Waiver issued to firm for formal application Monitoring and business as usual (BAU)	RMP visits (BAU)	[Permission granted by other regulators]