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PRESS RELEASE

ECB LAUNCHES PUBLIC CONSULTATION ON THE 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
- ECB publishes draft guide for consultation
- Public Consultation period runs from today until 14 February 2017

The European Central Bank (ECB) today launches a public consultation on the draft ECB guide on materiality assessment (EGMA) for changes or extensions to counterparty credit risk models. The draft ECB 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. Changes and extensions to both methods require supervisory approval when such changes or extensions are deemed material.

The outcome of this consultation, which starts today and runs until 14 February 2017, will be taken into account when the guide is finalised. The relevant documents, comprising the draft guide and frequently asked questions (FAQs), are available on the ECB's Banking Supervision website.

The ECB will hold a public hearing as part of this consultation on 13 January 2017. Information on registering for the public hearing and on how to submit comments can also be found on the website. Following the public consultation, the ECB will publish the comments received, together with a feedback statement.

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