



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

PRESS RELEASE

15 December 2017

ECB seeks industry feedback on assessment of internal models used for calculating counterparty credit risk

- ECB publishes draft guide on the assessment methodology for the internal model method (IMM) and advanced CVA capital charge (A-CVA)
- Guide explains how supervisors assess compliance of internal models for counterparty credit risk and credit valuation adjustment risk with legal requirements
- ECB asks for industry feedback by 31 March 2018

The European Central Bank (ECB) today published the draft ECB guide on the assessment methodology (EGAM) for the internal model method and the advanced CVA capital charge for counterparty credit risk. The draft guide indicates how ECB Banking Supervision intends to assess internal models for counterparty credit risk at directly supervised banks. It also aims to provide guidance to these institutions on their self-assessment of the internal model method (IMM) and advanced method for credit valuation adjustment risk (A-CVA), drawing on the approaches already defined by the European Banking Authority (EBA) for other risk types. The guide should not be construed as going beyond the current applicable EU and national law and therefore is not intended to replace, overrule or affect applicable EU and national law.

Under the Capital Requirements Regulation (CRR), financial institutions can use the IMM for counterparty credit risk and the A-CVA when calculating capital requirements. These internal models focus on over-the-counter derivatives contracts and securities financing transactions, as – unlike with traditional loans – the exposures relating to these products can vary during their term and therefore need calculating in a different way. The output of these models is one input parameter in the calculation of a bank's Pillar 1

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capital requirements. The guide addresses the supervisory assessment methodology for initial approvals, changes to and extensions of internal models used by banks to calculate capital requirements for counterparty credit risk.

Industry feedback can be submitted as from today and until 31 March 2018. The outcome will be taken into account in the further development of the guide. The relevant documents, comprising the draft guide and frequently asked questions (FAQs), are available on the ECB's Banking Supervision website.

The guide will be finalised following another call for feedback in 2018.

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