

Press release

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ECB streamlines how it supervises banks' internal models

- ECB speeds up approval of changes to internal models, subject to safeguards
- Focus shifts to areas of higher risk
- New EBA standards further ease workload for banks and supervisors

The European Central Bank (ECB) is streamlining how it assesses changes to banks' internal models for credit risk. By shifting from an ex ante to an ex post assessment, the ECB is making the approval process faster and more predictable for banks. This reform allows banks to implement model changes quickly, without having to maintain old and new models in parallel while awaiting supervisory review. This is subject to safeguards to keep banks resilient.

Under EU banking rules, and with the ECB's supervisory permission, banks can use [internal models](#) instead of standard risk weights to calculate their capital requirements. Banks must also seek ECB approval for material changes to existing models. The new ECB approach accelerates this approval process for material changes.

The reform forms part of the ECB's agenda to streamline banking supervision while maintaining high supervisory standards and safeguarding resilience, and it builds on several years of supervisory work to make banks' internal models more reliable and consistent.¹ This now allows the ECB to supervise these models in a more targeted and risk-based manner.

From 1 October 2026 onwards, the ECB will allow banks to implement material changes to their internal models for credit risk shortly after submitting a complete application package. This is

¹ Confidence in banks' internal models has grown following the ECB's Targeted Review of Internal Models, conducted between 2016 and 2021 to reduce unwarranted RWA-variability from the use of internal models, as well as following the conclusion of the European Banking Authority's repair programme on internal models. Both initiatives have substantially improved the compliance of the banks' internal models with the applicable regulation as well as the quality of the bank's internal control functions responsible for the independent review of models.

conditional on a bank's internal control function credibly confirming that the revised model complies with regulatory requirements and that the bank is ready to implement the change.

Where the model change results in lower risk weights, the bank will still receive fast approval to use the new model, but the regulatory capital benefit will be constrained by a floor. Such a floor will be applied to all approved model changes and can be lifted only once the ECB has thoroughly assessed the features of the new model through a targeted on-site investigation.²

For sensitive cases, the ECB retains the option to follow the standard approval process. This means that the bank must wait for the outcome of a dedicated on-site investigation before it can implement the change. In 2025, the ECB conducted 74 such on-site investigations of internal models, and more than 90% of these were triggered by banks requesting initial model approvals or material model changes, including changes to address findings from previous ECB reviews.

Under the new approach, the ECB will conduct these on-site investigations of internal models primarily where higher risks warrant closer scrutiny. Material model changes will no longer automatically trigger an on-site investigation. This frees up resources and allows the ECB to shift towards a more proactive supervisory approach, focusing its on-site work where higher risks warrant closer scrutiny, such as models with outlier behaviour in horizontal analyses or models that may show weaknesses in a changing macroeconomic environment.

In addition, the European Banking Authority (EBA) has [today released a revised Regulatory Technical Standard](#) for assessing the materiality of changes to internal models for credit risk. The EBA recalibrated the materiality criteria, with greater reliance on quantitative thresholds and more targeted qualitative triggers. This substantially reduces the number of changes classified as material, and therefore subject to ECB approval, while preserving appropriate supervisory visibility.

The ECB continues to encourage banks to focus their internal models on strategic loan portfolios and to switch to the standardised approach when the models apply to small portfolios, rely on limited representative data, require high operational effort or are expensive to maintain.

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Notes

- With the ECB's permission, banks may use their own internal models to calculate their risk-weighted assets. Risk-weighted assets reflect the risks banks have on their books and serve as the basis for calculating capital requirements.

² For material model changes, the ECB will grant permission subject to a floor at 98% of the current risk weights. For material model extensions, the floor is set at the current risk weights.

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- A bank's use of internal models to calculate risk-weighted assets is first subject to initial approval by ECB Banking Supervision. Banks' internal models are then subject to internal model investigations and to ongoing model monitoring by ECB Banking Supervision. This is how supervisors check whether a bank continues to meet the requirements for using internal models.
- Model changes involve changing how an internal model works, for example by changing key assumptions or calculations. Model extensions involve changing the range of application of an approved model, for example by using it for additional portfolios or entities. Material changes and material extensions both require ECB approval, and the new approach applies to both. Non-material changes and extensions do not require ECB approval and are only subject to notification.
- [Faster approvals of internal models](#) is one of the key areas for reform that the ECB identified to become more efficient, effective and risk-based as part of its "Next-level supervision" project.

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