EUROPEAN CENTRAL BANK

BANKING SUPERVISION

ECB-PUBLIC

Guidelines on the pre-application and application forms

1. Objective

The aim of these guidelines is to provide institutions with advice on how to prepare the pre-application form, the application form, the self-assessment questionnaire (SAQ), along with selected items from the applicable regulatory framework, the change log file and the documentation package for the model approval process.

2. Description of the documentation to be submitted

2.1 Pre-application form and application form

The pre-application form is to be used by institutions requesting an initial model approval, material change or extension to provide a brief explanation of the scope and the rationale for the request. The form asks for the details of a contact person for the request and a declaration signed by the person(s) authorised to represent the institution (parent company and each institution affected by the request) stating that the documentation provided is accurate, complete and up to date.

The application form is to be used by institutions requesting a modification of the scope of assets under permanent partial use (PPU)/changes to the sequential implementation plan of an internal model, reversions to the use of less sophisticated approaches or internal model investigations (IMIs) of low complexity and materiality that are exceptionally excluded from pre-application as indicated by the Joint Supervisory Team (JST). For IMIs exceptionally excluded from the pre-application process, the institution shall submit the SAQ (Section 2.2) and supporting documentation at the same time as the application form.

In the following you will find details on how to fill in the pre-application form and the application form:

- **Section 1 General information**

Institution name (supervised entity(ies))	[Name of the institution requesting the approval]
Date of submission of this pre-application/application	[Date (dd/mm/yyyy) of this pre-application/application]
Risk type	[Select one of: • Credit risk

	• Market risk • Operational risk • Counterparty credit risk (CCR) or credit valuation adjustment (CVA) risk
Category of the pre-application/application	[For a pre-application select one or more of the following: • Initial model approval • Approval of material model change • Approval of material model extension For an application select one or more of the following: • Request for permanent partial use (PPU) / change to the roll-out plan • Reversion to less sophisticated approaches • Other (please specify)]
Model type(s)	[For credit risk select one or more of the following: • Internal assessment approach (IAA) for securitisations • Internal models approach to equity exposures • Simple risk weight approach (equity) • Probability of default (PD) • Loss given default (LGD) • Credit conversion factor (CCF)/exposure at default (EAD) • PD/LGD approach • Expected loss (EL) • LGD for defaulted assets • Expected loss best estimate (ELBE) • Slotting criteria • Other (please specify) For market risk select one or more of the following: • Incremental risk charge (IRC) • Comprehensive risk measure (CRM) • Value at risk (VaR) • Stressed value at risk (SVaR)]
Regulatory exposure class(es)	[For credit risk select one or more of the following: • Securitisations • Equity • Retail – Secured by real estate SME • Retail – Secured by real estate non-SME • Retail – Qualifying revolving • Retail – Other SME • Retail – Other non-SME • Central banks and central governments • Financial institutions • Corporate – SME • Corporate – Specialised lending • Corporate – Other For market risk select one or more of the following: • All IRC • All CRM • Equity – General risk • Equity – Specific risk

	• Debt instruments – General risk • Debt instruments – Specific risk • Forex risk • Commodities risk For other risk types enter "not applicable".] State if there is a subset of the portfolio that is excluded from the pre-application/application.
Model name(s) (as used by the institution internally)	[Name of model as used by the institution internally]
Implementation date	[Implementation date (planned or actual) of the rating systems or methods covered by the pre-application / application]
Status in terms of IT implementation for each model covered by the request	[For each model covered by the request, please indicate whether it is ready to be implemented from an IT perspective; if this is not the case, please describe its status in terms of implementation and the key milestones of the IT implementation process.]

- **Section 2 Details of the request**

In this section, enter a brief description of the background to the request, the model name, the risk type, the relevant articles of the Capital Requirements Regulation (CRR) supporting the request and a detailed description of the existing permissions in the case of material model changes and extensions.

- **Section 3 Contact details**

In this section, enter the name, job title, business address, telephone number and email address of the contact person for the request in the institution.

- **Section 4 Declaration and signatures**

This section includes a declaration to be signed by the person(s) authorised to represent the institution. For the pre-application form, the institution is also requested to confirm that the SAQ (only for most credit and market risk models) has been completed and reviewed. The change log file (see Section 2.4) also needs to be signed by the person(s) authorised to represent the institution. If the pre-application/application is also submitted on behalf of other institutions or jointly with other institutions, please attach powers of attorney for those institutions.

- **Sections 5 to 8 Scope of the pre-application/application**

In Sections 5 to 8 the scope of the request at legal entity level has to be provided. The financial institution should select the appropriate section depending on the risk type. In this section, the scope of the request in terms of the list of affected legal entities, involvement of national competent authorities, level of

consolidation (consolidated or solo) are included. For credit risk and counterparty credit risk, please provide a precise description of the rating system as defined in Article 142(1)(1) CRR.

The pre-application and application forms (and the relevant SAQ) apply only to current market risk models (VaR, SVaR, IRC and CRM) according to Article 363 CRR and not to the alternative internal models approach (ES, SSRM and DRC) as specified in Article 325(3)(b) and set out in Chapter 1b of Regulation (EU) 2019/876 (CRR II).

2.2 The ECB SAQ on compliance with regulatory requirements

For most credit and market risk model types an SAQ[1] is specified by the ECB and must be submitted as part of the pre-application package.[2] Please refer to the instructions part of the questionnaire for further details on its completion. For all other model types the institutions are requested to produce and submit their own self-assessment with the relevant CRR articles. The institution's self-assessment is an important part of the pre-application. It serves to demonstrate that the institution has assessed its own compliance with relevant regulatory requirements and provisions. It is also crucial for the completeness check of the institution's pre-application package.

A single SAQ can be used to cover several similar models, as long it can be clearly identified which model is being referred to. In the free text columns "Section / Subsection", "Contact person", "Version / draft version", "Weaknesses" and "Brief explanation", differentiation for the different models can be made within one cell. The column "Compliance" has only three possible values: "Yes", "Yes, with minor reservations" and "No". If differentiation is required here, the free text column "Brief explanation" should be used. For models which are significantly different, separate SAQs have to be used. However, SAQ sections which do not differ between the models have to be filled out in only one of the SAQs. The financial institution should combine models where it considers this reasonable (e.g. along the lines of COREP exposure classes with similar rating systems).

2.3 Documentation requirements

For each type of risk, the institution is requested to compile and submit relevant documentation[3] addressing, at least, the topics listed below. If no risk-type-specific information is provided, the institution is requested to follow the CRR and all the relevant regulatory requirements. The internal audit report should include a confirmation that the model (or model change or extension) is compliant with the regulatory requirements from the internal auditor's perspective and based on his/her own expectations.

The internal audit assessment is required for all changes from standardised to internal ratings-based approaches (e.g. initial roll-out). For material model changes that involve a change in the processes of the banking institution (e.g. change in the definition of default), a sign-off from the internal auditor is highly recommended. If it is a change in the internal validation itself, an internal validation report would not be appropriate, but an internal audit report would be. Nevertheless, an independent internal review is

1 The SAQ is available on the ECB website.

2 For requests for the permanent partial use (PPU) and reversions to the standardised approach, no pre-application, i.e. no SAQ, is required. For an initial model approval, material change or model extension, an SAQ is required.

3 Accepted document types may include, but are not necessarily limited to, the following: documentation reviewed by the internal validation function, internal policies approved by the management body, minutes showing the relevant committees' approval of such policies, analyses approved by the relevant committees (data quality, reconciliation, etc.), internal validation reports, internal audit reports, etc. Presentations should be used sparingly.

strongly recommended to ensure a high quality of the SAQ before the person(s) authorised to represent the institution sign the pre-application form. Financial institutions are expected to submit accurate and reliable information in the SAQ and in the documentation.

In the following, the minimum set of topics to be covered by documentation submitted to the ECB for an initial model approval is listed by risk type. For material model changes and extensions, only documents that are affected by the change or extension are to be submitted.

Credit risk

1. Portfolio analysis (portfolio description, scope of the application, own funds requirement (OFR) impact, roll-out plan)
2. Organisational structure and governance
3. Detailed documentation of the following processes:
    a) Definition of loss and default
    b) Rating assignment process
    c) Assignment of exposures to exposure classes
    d) IT infrastructure (system architecture, key applications, databases, rating systems, interfaces, soundness, safeness, security, robustness)
    e) Data quality process
    f) Internal documentation process
4. Model description (model inputs, development and calibration samples, rating system structure, risk parameter quantification)
5. Model use (internal use of the risk measurement system, internal reporting, calculation of OFRs, stress testing)
6. Validation (framework, results and submission of validation sample)
7. Internal audit (confirmation, reports and results)
8. Glossary (definition and description of terms and key concepts)

Market risk

1. Portfolio analysis (portfolio description, scope of the application, OFR impact, roll-out plan)
2. Organisational structure and governance
3. Detailed documentation of the following processes:
    a) IT infrastructure (system architecture, key applications, databases, rating systems, interfaces, soundness, safeness, security, robustness)
    b) Data quality process
    c) Production process
    d) Internal documentation process
4. Model description (general methodology, risk factors, valuation techniques, risks not in the model, choice of stressed period)

5. Model use (internal use of the risk measurement system, internal reporting, calculation of OFRs, stress testing)
6. Validation (framework and results)
7. Internal audit (confirmation, reports and results)
8. Glossary (definition and description of terms and key concepts)

Counterparty credit risk or credit valuation adjustment risk

1. Portfolio analysis (portfolio description, scope of the application, OFR impact, roll-out plan)
2. Organisational structure and governance
3. Detailed documentation of the following processes:
    a) IT infrastructure (system architecture, key applications, databases, rating systems, interfaces, soundness, safeness, security, robustness)
    b) Data quality process
    c) Margining and dispute process
    d) Legal database and interfaces
    e) Internal documentation process
4. Model description (general methodology, risk factors, valuation techniques, modelling of margining agreements, calculation of exposure value, modelling of specific wrong-way risk, modelling of stressed effective expected positive exposure (EEPE))
5. Model use (internal use of the risk measurement system, internal reporting, calculation of OFRs, stress testing)
6. Validation (framework and results)
7. Internal audit (confirmation, reports and results)
8. Glossary (definition and description of terms and key concepts)

Operational risk

1. Analysis of operational risk categories (Basel event type, Basel business lines, scope of the application, partial use, OFR)
2. Organisational structure and governance
3. Detailed documentation of the following key processes (i) internal loss data collection, (ii) external loss data usage, (iii) self-assessment and scenario analysis, and (iv) key risk indicator reporting. The documentation for each key process should cover:
    a) IT infrastructure (system architecture, key applications, databases, interfaces, soundness, safeness, security, robustness)
    b) Data quality process
    c) Internal documentation process

4. Model description
5. Model change description (if applicable)
6. Validation (framework and results)
7. Internal audit (confirmation, reports and results)
8. Glossary (definition and description of terms and key concepts)

2.4 Change log file and formal application

After the submission of the pre-application package (requests for an initial model approval, material model change, model extension) the institution will be informed about the outcome in due time, before the application date. In the case of a positive outcome of the completeness check of the pre-application package, the institution is to formalise application request by confirming the validity of the pre-application package. This formalises the previously confirmed application date.

If applicable, the institution shall document any changes in the documentation and SAQ made after the initial delivery of the pre-application package in this change log file, in which case the previously confirmed application date becomes final when the JST approves the changes performed. For each change, the institution is requested, to document the type and the materiality of the change. If the request is also submitted on behalf of other institutions or jointly with other institutions, please attach powers of attorney for those institutions.

It is important to note that a positive conclusion of the pre-application does not guarantee a successful model approval or a model approval without conditions. In the event of a negative result, the institution is strongly recommended not to initiate a formal application at this stage owing to the identified deficiencies.