

Guidance for model approval

[CEBS](#)

Guidelines	CEBS GL10	Supervisory approach to approval of IRB
Application (including minimum documentation expected by supervisors)	Section 2.2.1	<p>The application for permission to use an IRB Approach shall include:</p> <ol style="list-style-type: none"> 1. Cover letter 2. Basic data (documentation) 3. Implementation plan 4. Self-assessment 5. Outcomes of parallel calculations 6. Bank's appendices to the application <p>Permission to use an IRB Approach shall be requested by a letter stating that the supervised entity applies for permission to use an IRB Approach, starting from a specified date. For a group, consolidation group or other type of group of supervised entity, application shall be made by the parent company. Basic data constitutes the core material of the application in which the supervised entity delivers the essential elements of its IRB documentation to the FIN-FSA. Supervised entities shall be prepared to submit any further information that may be required for processing the application.</p> <p>Basic data is divided into five parts:</p> <ol style="list-style-type: none"> A) Background information B) Selections made by the supervised entity C) General information on internal ratings D) Detailed information on ratings and parameter estimation E) Additional questions posed by supervisory authorities in other countries <p>The implementation plan is the supervised entity's binding announcement of its own dates of implementation in respect of those exposure classes and subsidiaries/business units for which it is seeking permission to use an IRB Approach. In support of implementation spreadsheets, the supervised entity shall include project plans, development plans for information systems or other equivalent plans. As an essential element of the application, the supervised entity itself shall carry out an assessment of its own state of readiness to move to an IRB Approach as from the announced date. In the self-assessment, the supervised entity shall present an informed judgement of how well it meets each of the minimum requirements. Parallel calculation refers to the calculation of capital requirements using both the standardised approach (at the transitional phase, using the current Basel I method) and the IRB Approach. Parallel calculation enables the supervised entity to demonstrate its ability to handle material required by the Approach and to meet official and internal reporting requirements.</p>
Supervisory assessment: main criteria and process (use of self assessment, reliance on external auditors, on on-site inspections)	Section 2.2.2	<p>The FIN-FSA's assessment and approval process for IRB Approaches proceeds through the following stages:</p> <ol style="list-style-type: none"> 1.) Supervised entity's announcement of its intention to apply for permission to use an IRB Approach 2.) Acknowledgement of receipt of application 3.) Treatment of application 4.) Decision-making 5.) Granting or rejecting permission <p>The FIN-FSA's assessment process and particularly its inspection process at the treatment phase of the application are based on material submitted in the application and self-assessment carried out by the supervised entity (off-site supervision and assessment) and, if necessary, on the FIN-FSA's on-site inspection. The approval process underscores, in addition to fulfilment of all minimum requirements laid down in Standard 4.3d, the coverage and feasibility of the implementation plan. The emphasis of the self-assessment is on identifying potential gaps and deficiencies, plans for remedial action, and aspects of the company's rating system that require further development.</p>
Decision by competent authorities and communication to applicant (content of the reasoned decision)	Section 2.2.3	<p>The FIN-FSA decides on granting permission for the use of an IRB Approach on the basis of the application process and in particular the assessment process as part of the application procedure. In the implementation of models and methods, situations may arise where the granting of permission requires cross-border supervisory cooperation. Approval processes involving cross-border supervised entities are implemented in cooperation between supervisory authorities.</p> <p>The approval process ends with a decision and communication of the decision to the applicant. The applicant shall be given a thorough explanation of any decision taken by the FIN-FSA. Granting permission for the use of an IRB Approach may also be subject to conditions laid down by the supervisor. As a post-decision measure, the FIN-FSA will monitor, through ongoing supervision, compliance with the terms and conditions to which the permission was subject and the requirements set for the use of methods or models.</p>

Guidelines	CEBS GL10	Supervisory approach to approval of AMA
Application (including minimum documentation expected by supervisors)	Section 2.2.1	<p data-bbox="765 323 1145 350">Advanced Measurement Approach</p> <p data-bbox="765 386 2555 413">A supervised entity planning to use this Approach shall submit an application to the FIN-FSA at least 12 months prior to implementation. The application shall include:</p> <ol data-bbox="765 417 1012 506" style="list-style-type: none"> <li data-bbox="765 417 908 445">1. basic data <li data-bbox="765 449 973 476">2. self-assessment <li data-bbox="765 480 1012 508">3. implementation plan <p data-bbox="765 541 2555 659">In the basic data, the supervised entity shall provide the FIN-FSA with an overview of the AMA model used, including a description of the methodologies applied, such as loss distribution approach (LDA), scenario based approach (SBA) and risk drivers and controls approach (RDCA). The supervised entity shall also indicate the extent to which the model is based on the use of internal and external statistics, scenario analyses, and on changes in its business environment and internal control. The supervised entity shall also provide detailed explanations of factors related to certain internal and external loss data and the external environment and internal control.</p> <p data-bbox="765 693 2555 905">The self-assessment allows the supervised entity to demonstrate to the FIN-FSA how it meets the minimum qualitative requirements for the Advanced Measurement Approach. For the self-assessment, the supervised entity shall provide the FIN-FSA with such instructions, reporting descriptions and other material that can be considered to support fulfilment of qualitative minimum requirements laid down in Standard 4.3i, sections 5.1 and 9.1. A supervised entity gradually changing to the AMA environment (pre-implementation roll-out sequence) shall attach a detailed implementation plan (roll-out plan) to its application. The plan shall include detailed timetables for rolling out the AMA for specified supervisory exposure classes and business units, the development work required for methods and information systems at each stage and the resources devoted thereto. To ensure AMA implementation, the FIN-FSA requires that the implementation plan and its realisation be monitored at a sufficiently high level within the supervised entity's organisation.</p>
Supervisory assessment: main criteria and process (use of self assessment, reliance on external auditors, on on-site inspections)	Section 2.2.2	<p data-bbox="765 911 1733 938">The FIN-FSA's AMA assessment and approval process proceeds in the following phases:</p> <ol data-bbox="765 942 1754 1094" style="list-style-type: none"> <li data-bbox="765 942 1754 970">1.) Supervised entity's announcement of its intention to apply for permission to use an AMA <li data-bbox="765 974 1264 1001">2.) Acknowledgement of receipt of application <li data-bbox="765 1005 1065 1033">3.) Treatment of application <li data-bbox="765 1037 985 1064">4.) Decision-making <li data-bbox="765 1068 1151 1096">5.) Granting or rejecting permission <p data-bbox="765 1100 2555 1251">The FIN-FSA's approval process and particularly inspection process in the treatment phase of the application are based on material submitted in the application and self-assessment carried out by the supervised entity and, if necessary, on the FIN-FSA's on-site inspections. The approval process underscores fulfilment of all minimum requirements laid down in Standard 4.3i, with a particular emphasis on descriptions of various methodologies, internal and external loss data, external environment and internal control. In respect of the implementation plan, attention is focused on the coverage and feasibility of the plan and the resources devoted thereto. In the self-assessment, the applicant is expected to assess compliance with the minimum requirements and potential gaps and deficiencies and areas requiring development.</p>
Decision by competent authorities and communication to applicant (content of the reasoned decision)	Section 2.2.3	<p data-bbox="765 1283 2555 1373">The FIN-FSA decides on granting permission for the use of an AMA on the basis of the application process and in particular the assessment process as part of the application procedure. In the implementation of models and methods, situations may arise where the granting of permission requires cross-border supervisory cooperation. Approval processes involving cross-border supervised entities are implemented in cooperation between supervisory authorities.</p> <p data-bbox="765 1377 2555 1493">The approval process ends with a decision and communication of the decision to the applicant. The applicant shall be given a thorough explanation of any decision taken by the FIN-FSA. Granting permission for the use of an AMA may also be subject to conditions laid down by the supervisor. As a post-decision measure, the FIN-FSA will monitor, through ongoing supervision, compliance with the terms and conditions to which the permission was subject and the requirements set for the use of methods and models.</p>

[Link to FSA standard 4.3d and appendices \(only available in Finnish\)](#)