



Application under Article 143 for Permission to use the IRB Approach (IRB Application)

This pack should be used by institutions applying under Article 143 of Regulation (EU) No 575/2013 for permission to use the Internal Ratings Based (IRB) approach to calculate risk-weighted exposure amounts for credit risk.

The application process is modular and there are eight separate forms that need to be completed for each module of the application process. Please see the 'Notes for Completion' section for details of how and when to submit each module. Applicants will initially need to submit a completed application form for Module 1 with responses to requests for information contained in the module (the PRA may request further information, including additional documentation, at a later stage). Please include the following with the completed Module 1 application form:

- The declarations and signatures form, signed by your firm's chief executive or equivalent (as agreed with the PRA supervision team).
- The fee for the application or proof of payment.

Completed forms should be marked for the attention of the PRA Authorisations - Assessment and Monitoring Team.

All information must be submitted in electronic format by email to CRRModelPermissions@bankofengland.co.uk with the exception of the declaration form where a hard copy must be forwarded to the address below.

PRA Authorisations - Assessment and Monitoring Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

NOTE: Submitting a signed application confirms the applicant's consent for any information provided to be shared with other EU and non-EU regulators for the purposes of the approvals process.

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Declaration form

Notes for completion

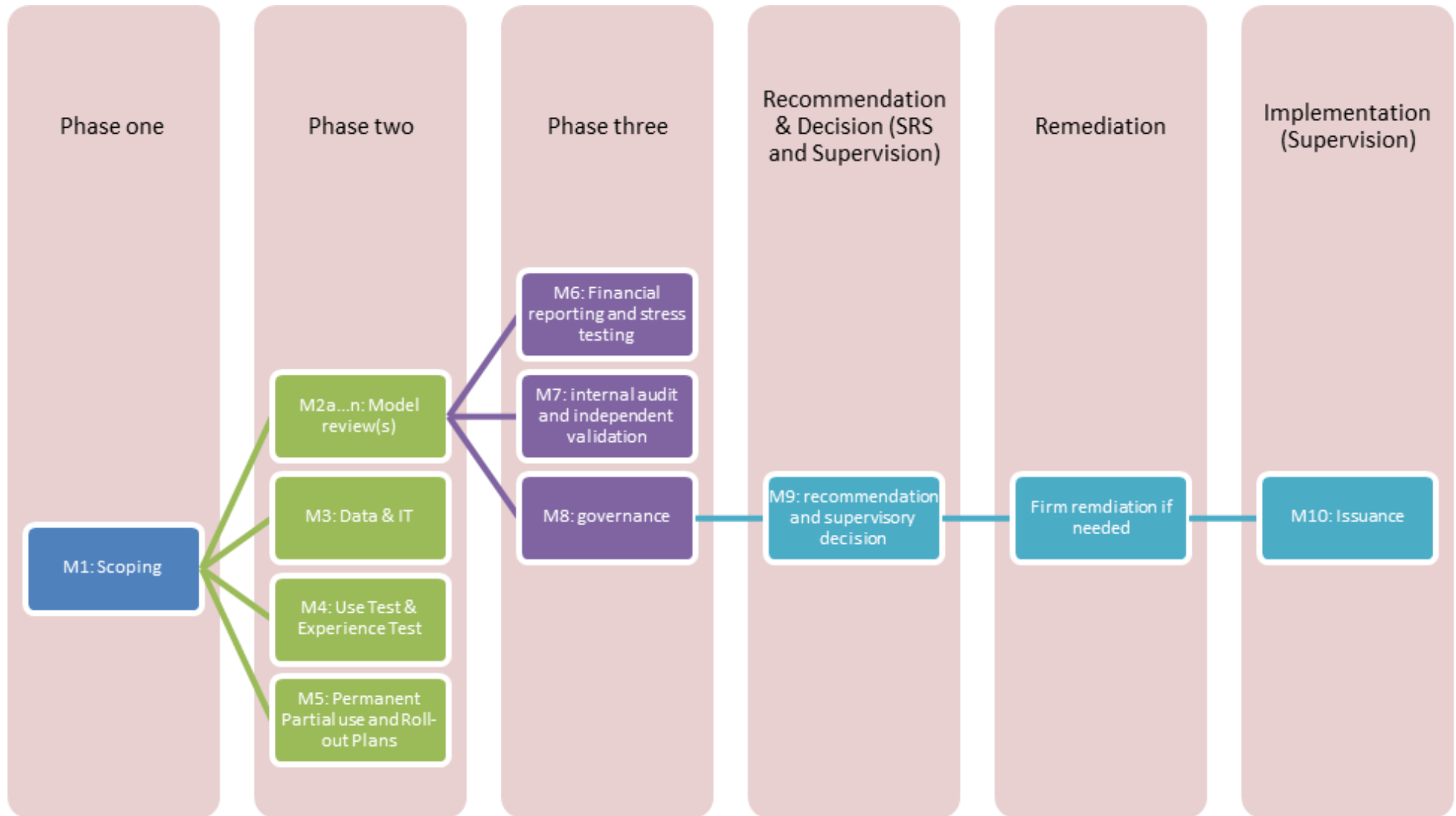
This pack sets out the information to be submitted by a firm making an initial IRB application under Article 143 of Regulation (EU) No 575/2013. This Regulation is commonly referred to as the Capital Requirements Regulation (the CRR) and should be read in conjunction with Directive 2013/36/EU (the Capital Requirements Directive (CRD)).

The PRA's review process is designed to:

- establish compliance with the CRR;
- assess prudential risk; and
- ensure a consistent treatment for all firms.

The IRB application process has been split into three phases made up of 8 modules. Each module covers a different aspect of a firm's plans for IRB implementation and applicants are required to provide a response to all of the questions in each module. Each module submitted to the PRA must be signed off by the firm's CEO or other appropriate senior manager as agreed with your supervisory team.

The process is summarised in the diagram below.





A separate form must be completed for modules 1-8 and submitted in the following order

- Phase 1 - Module 1
- Phase 2 - Modules 2-5
- Phase 3 - Modules 6-8

The PRA will offer non-binding feedback at completion of each phase. However firms should not assume that positive feedback guarantees approval, that non-communication implies there are no issues, or that remediation will not be required. The final decision is taken at completion of the full review, through a formal governance framework. This ensures:

- we hold all firms to the same standards;
- we can holistically consider the materiality of issues found against the quality of application in other areas; and
- input is taken from specialists at the PRA and wider Bank, and other stakeholders as required.

The PRA may offer the firm an opportunity to remediate prior to final decision where prudentially appropriate.

The information required in module 1 will inform the scope of supervisory review work with regard to assessing a firm's IRB application. Specifically, it should enable the:

- understanding of the work the firm has undertaken and confirm that it has a credible strategy in its roll-out plan for meeting the CRR's requirements; and
- identification, from an IRB perspective, of the key areas of risk on which to focus PRA resource.

In responses to all modules, the PRA expects applicants to highlight clearly any material gaps against the CRR, [Supervisory Statement 11/13](#), PRA rules, relevant Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) and to provide a credible and timely plan for remedying them where appropriate.

The information contained in the application should be as complete and accurate as possible. This is because the PRA will rely on the information to determine whether or not to grant an IRB permission under CRR Article 143. Firms are reminded that under Fundamental Rule 7, they must deal with regulators in an open and cooperative way, and must appropriately disclose anything the PRA would reasonably expect notice of.

As part of its assessment of each module, the PRA will request, and analyse, further detailed information on particular topics, business lines, rating systems or models. The PRA expects that most of this information will already be contained in internal documents and so can be delivered quickly.

The PRA will undertake visits as part of this follow up work and has indicated where these are always required ('will require') and where visits may be undertaken on a risk-based judgement / firm-specific basis ('may require').

Firms with international activities should be aware that the PRA will share the information contained within the application pack with other regulators (including both UK and non-UK regulators) as needed to support the approval process.

If CRR Article 20 (Joint Decisions) applies, firms should only complete this application pack if the PRA is the consolidating supervisor.

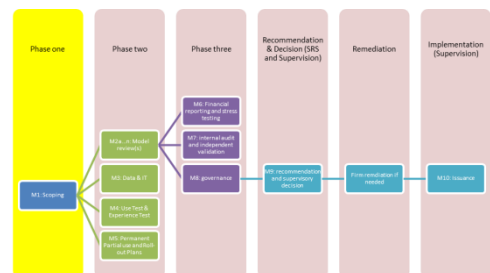


Phase One

Review of IRB applications is conducted in phases. There is no need to submit information for later phases until the completion of preceding phases. However, when necessary the PRA may request specific additional documents or information. At the completion of Phase One (scoping) indicative timescales will be agreed between the PRA and the applicant for subsequent phases and enable planning of key meetings.

Module 1 – Scoping

This section requires a high-level overview of the firm's proposed IRB approach and implementation plans. The information requested here will be used to define the scope of the detailed review, and further information on these topics will be requested in later modules. Firms will be required to provide more detailed information in later modules.



In order to support the scoping process, the PRA will arrange to meet with the relevant teams involved in the IRB application, these are likely to include the following:

Attendees	To discuss
Chair of the Designated committee	<ul style="list-style-type: none"> Reasons for applying for IRB Governance of IRB Models overview Use test and experience test Roll-out and permanent partial use Project Plan of IRB application review (PRA)
Head of the model development team	<ul style="list-style-type: none"> Overview of each rating system
Senior business manager	<ul style="list-style-type: none"> Overview of commercial plans for modelled portfolios
Senior manager from Credit Risk Management	<ul style="list-style-type: none"> Overview of credit risks for modelled portfolios

The PRA will expect firms to provide a presentation at each meeting giving an overview of the topics for discussion. These presentations should be submitted as part of the application / or as agreed with the firm's supervision team. The PRA welcomes discussion of potential dates for this meeting prior to submission of the application but will be unable to start the review or hold the meetings until receipt of the completed application and accompanying fee.

Please submit the following information for module 1:

General

- 1.1 A summary of why the firm is applying for the IRB approach and what it aims to achieve as a consequence.
- 1.2 An indication of whether the application is for individual, sub-consolidated or consolidated group use.
- 1.3 A list of all regulated entities making the application, and all members of the relevant consolidated or sub-consolidated group (as defined by CRR Part 1, Title II ("Level of application of requirements")) if the application is on a consolidated or sub-consolidated basis. If the application is on an individual

basis indicate whether the applicant has an active CRR Article 9 (individual consolidation) permission and list the entities included in that permission.

- 1.4 If CRR Article 20 (Joint Decisions) applies, provide a list of all relevant EEA regulators, grouped by Rating System.
- 1.5 If the group application includes exposures arising in non-EEA subsidiaries, provide the total exposures by each non-EEA subsidiary and Rating System.
- 1.6 If non-EEA regulators might reasonably be expected to have an interest in the IRB application (for instance if part of the group or a subsidiary is based in a non-EEA country), provide a list of all relevant non-EEA regulators, listed by Rating System.
- 1.7 A high-level model inventory listing which exposures, legal entities and geographical locations are covered by which rating systems, including any that will be excluded (eg through permanent partial use).
- 1.8 If the firm is applying for sequential implementation under CRR Article 148 then supply a copy of the roll-out plan. Include the timetable for the roll-out of IRB approaches in a GANTT chart or similar. Where relevant, include model rollout for overseas subsidiaries.
- 1.9 A financial assessment of the impact of IRB approval, including on capital ratios.
- 1.10 A single point of contact for the IRB application.

Structure

Please submit a summary of the structure of your firm – including from a credit control, risk management and capital allocation perspective. The explanation on the structure of your firm should cover:

- 1.11 A description of the group and legal entity structure.
- 1.12 The organisation of business units and reporting lines.
- 1.13 An overview of management committee structure and relevant sub-committees.
- 1.14 A summary of the structure and role of internal audit.
- 1.15 The role of external audit and/or other independent third parties.
- 1.16 IRB reporting structures – how and with what frequency IRB specific management information are reported to risk management, internal audit and board functions. (ref. CRR Articles 99 to 101, 185 and 189 to 191; Commission Implementing Regulation (EU) No 680/2014 (ITS on Supervisory Reporting); and any other relevant management information and committee reports).
- 1.17 A brief summary of how the requirements of CRR Article 189 (Corporate Governance) and Article 190 (Credit Risk Control) are met.
- 1.18 Summary of any significant changes to the structure that are planned for the future.
- 1.19 An overview of the IT, data and reporting infrastructure and governance.
- 1.20 An overview of the stress testing framework and supporting governance, infrastructure and models.
- 1.21 A list of key senior staff and their planned responsibilities for IRB.
- 1.22 Any key areas of compliance, business or prudential risk related to the application. While the PRA expects the application to be compliant when received, applicants retain a responsibility to notify the PRA of any changes to the information provided during the course of the application process.

Self-assessment and attestation

This section requires an overview of the firm's own self-assessment. Self-assessment is a necessary and important part of the application because it provides evidence that the firm has considered and assessed compliance against relevant CRR, CRD, ITS and RTS rules, as well as all relevant supervisory statements and PRA rules. The PRA will take into account the comprehensiveness and quality of the work undertaken as part of the self-assessment when scoping out our own supervisory review work.

The scope of self-assessment should include, but not necessarily be restricted to, a paragraph by paragraph assessment of compliance against all the relevant CRR, CRD, RTS and ITS articles, and PRA Supervisory Statements that are relevant to the approach for which your firm is applying.

- 1.23 Confirmation that self-assessment has taken place and been reviewed by signatory.
- 1.24 Description of the self-assessment process undertaken by the firm.
- 1.25 Exception-based results of self-assessment, including an indication of the firm's view of materiality. Outline the steps being taken to bring the firm into compliance and when these steps are expected to be completed.
- 1.26 Full self-assessment.



Declaration

This section should be signed by the firm's chief executive or equivalent and accompany the first module.

Warning

Knowingly or recklessly giving the PRA information which is false or misleading in a material particular may be a criminal offence (Sections 398 and 400 of the Financial Services and Markets Act 2000). Notifications 6 requires an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the PRA and to notify the PRA immediately if materially inaccurate information has been provided. Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the PRA. It should not be assumed that information is known to the PRA merely because it is in the public domain or has previously been disclosed to the PRA or another regulatory body.

Data Protection

For the purposes of complying with the Data Protection Act, the personal information in this form will be used by the Prudential Regulation Authority to discharge its statutory functions under the Financial Services and Markets Act 2000 and other relevant legislation. It will not be disclosed for any other purposes without the permission of the applicant.

Declaration

This is an application under Article 143 of Regulation (EU) No 575/2013 for permission to use the IRB approach, made by:-

Name of firm or group: (please insert here)

By submitting this application:

- I sign this application on behalf of all the legal entities making the joint application.
- I confirm that the information contained with this application represents a true and fair view, to the best of my knowledge and belief and that I have taken all reasonable steps to ensure that this is the case.
- I confirm I am aware that it may be a criminal offence knowingly or recklessly to give the PRA information that is false or misleading in a material particular.
- I acknowledge that some questions do not require us to provide supporting evidence in response. However, the records which demonstrate the applicant firm's compliance with the proposed rules in relation to the questions will be available to the PRA on request.
- I acknowledge that I will notify the PRA immediately if there is a significant change to the information given in the form. If I fail to do so, this may result in a delay in the application process.
- I confirm that I give agreement for any information provided in relation to this application to be shared with other EU and non-EU regulators at the PRA's discretion.

Date

Name of signatory

Position of signatory

Individual Registration Number

Signature



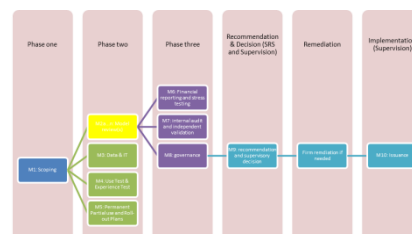
Phase Two

Please do not complete these modules until advised by the firm's supervisor.

Modules 2-5 comprise phase two of the application process and should be completed in parallel.

Module 2 – Technical model review

This module requires more detailed information on the rating systems and internal models that the firm is seeking permission to use for the IRB approach. This information will enable the PRA to build a picture of the key characteristics of the component parts of the firm's IRB approach and help focus supervisory review work on material rating systems, poorly performing rating systems and rating systems used in challenging areas.



This module will require meetings with the:

- model development team; and
- model validation team.

For each rating system please submit:

- 2.1 Full self-assessment.
- 2.2 Complete model development documentation (CRR Article 175), including that of underlying scorecards (eg application scorecards).
- 2.3 Independent Validation report.
- 2.4 Relevant Internal Audit (or equivalent) reports.
- 2.5 Model validation and monitoring reports if available. If the firm is not yet monitoring the rating system then please submit evidence of how the monitoring and validation requirements will be met going forwards (CRR Article 185).
- 2.6 Minutes of committee discussion and decisions relating to the above (including non-approval decisions where appropriate).
- 2.7 Any other relevant information.

For mortgage rating systems please submit a completed [Rating System Structured Information Request](#) and [Probability of Possession template](#) for each rating system.

Applicants must also provide the following information where specific CRR permissions are applicable if these are relevant to the rating system:

- 2.8 If the firm wishes to apply to use 180 days past due (rather than 90 days past due) for this rating system under Article 178 indicate that here.
- 2.9 If the application relates to the equity exposure class, state whether or not the firm requires permission to use the approaches set out in article 155(3) and (4) of the CRR (ref. CRR Article 151(4)).

- 2.10 If the application relates to retail exposures or to own LGD estimates for exposures to corporates, institutions, central governments or central banks, state whether you are applying for permission to recognise conditional guarantees (ref. CRR Article 183(1)) for these exposures.
- 2.11 A complete list of all other CRR permissions or treatments being sought for this rating system.



Module 3 – IT and Data

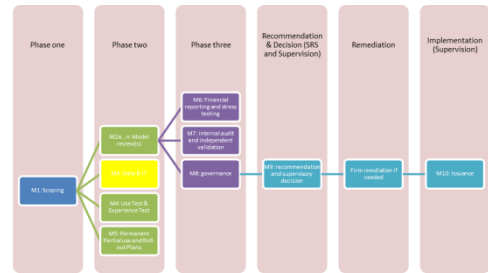
This module requires more detailed information on your IT systems used for IRB model management and reporting and your approach to data governance.

This module will require meetings with:

- Chairs of committees that review or approve data governance reports or policies.

Please submit the following information:

- 3.1 A summary of the firm's approach to data management.
- 3.2 A high level map of data and reporting systems used for IRB model management and capital requirements reporting. State for each system whether the system is used for other (non-IRB) purposes currently.
- 3.3 A description of how the firm ensures that it meets IRB data standards. An explanation of how the firm reconciles between finance and risk systems; a copy of that reconciliation and commentary on any differences.
- 3.4 Relevant Internal Audit or other independent review material relating to the IT and Data systems.
- 3.5 Copies of Data Quality, Data Governance standards or similar.
- 3.6 Copies of the latest management information (MI) and committee minutes related to Data Quality and Governance where appropriate.





Module 4 – Use test and experience test

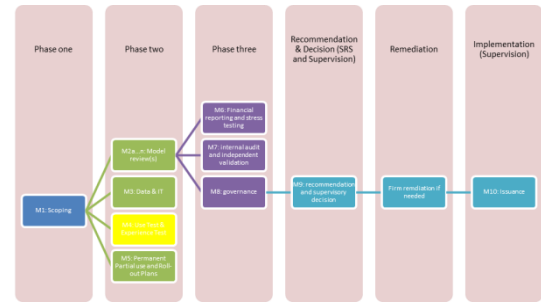
This module requires more detail on the firm's compliance with the use test and experience test requirements for IRB models.

This module may require meetings with the:

- Chair of the designated committee; and
- Business or Credit Risk teams.

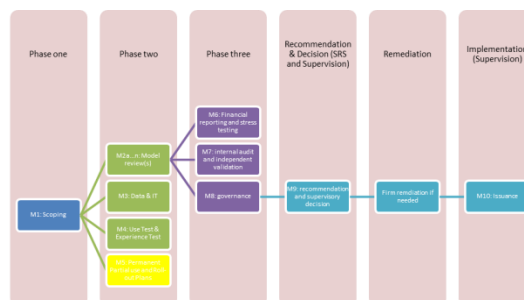
Please submit the following:

- 4.1 A description of how the IRB approach currently forms an essential part of the firm's business and risk management processes and procedures. In particular, the use and integration of rating systems for each of the following areas:
 - Credit approval
 - Individual and portfolio limit setting
 - Reporting of credit risk information
 - Provisioning
 - Other significant criteria used in decisions relating to credit risk or its assessment
 - Economic capital
 - Total regulatory credit risk capital requirements
 - Risk appetite
 - Strategy and acquisitions
 - Profitability and performance
 - Performance-related remuneration
 - Carrying out your firm's obligations under the requirement for individual capital assessment
 - Other activities you deem relevant
- 4.2 A summary of any planned changes to the firm's compliance with the use test.
- 4.3 An outline of the differences, if any, between the parameters used for regulatory capital purposes and those used for internal purposes.
- 4.4 A brief description of the infrastructure put in place to support the IRB framework. The description should cover information technology, skills and resources, organisational culture, model development and other standard processes, internal acceptance of new systems and any other areas deemed relevant by your firm.
- 4.5 A detailed explanation of how the firm meets the prior experience requirement (CRR Article 145). Please include all relevant evidence including at least three years of monitoring, validation and audit of the firm's IRB framework and evidence that a complete IRB governance framework has been through at least one annual cycle since approval.



Module 5 – Permanent partial use and roll out

For this module, firms are required to submit details of the capital impact of the IRB implementation roll out plan, broken down by business unit, CRR exposure class (Articles 112 and 147 and specified according to Annex 1 of this document if IRB), and rating system. Business Unit for these purposes is defined as “any separate organisational or legal entities, business lines, geographical locations”. All Business Units subject to regulatory consolidation should be included, including those for which IRB permission is not being sought at this time. This information will enable us to ensure that our supervisory review work is risk based and proportionate.



The contents of this module should be clearly linked to the rating systems in Module 2.

It is not expected that this module will require meetings with the firm.

- 5.1 Please submit a completed [Permanent Partial Use self-assessment and Roll-out plan self-assessment](#).
- 5.2 Please submit any other relevant material.

Phase Three

Please do not complete this phase until advised by your supervisor.

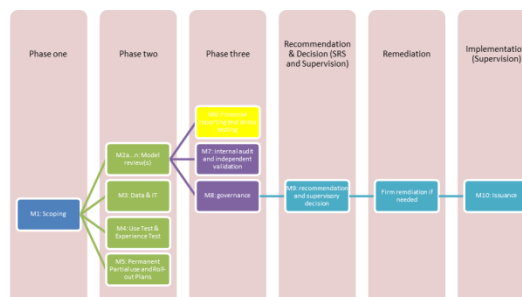
Modules 6-8 comprise phase 3 of the application process and should be completed in parallel.

Module 6 – Financial reporting and stress testing

This module requires firms to provide details of the approach to credit risk stress testing and the financial reporting of IRB outputs.

This module may require meetings with:

- Chairs of committees that review or approve stress testing model projections
- Chairs of committees that will have responsibility for reviewing regular reporting model outputs



Please submit the following:

- 6.1 A description of the firm's approach to credit risk stress testing – in particular, how the firm has met the requirements for stress testing in Article 177 of the CRR; the frequency of reporting to senior management; and the design and impact of the economic cycle stress test.
- 6.2 Copies of stress testing methodologies and models for IRB rating systems (including underlying impairment distributions), supporting documents and independent validation reports.
- 6.3 Copies of minutes of approval of the above methodologies and latest annual reviews of them.
- 6.4 Copies of the minutes or other relevant evidence of the governance of the final projections used for capital planning. If not available please indicate when these will become available.
- 6.5 Other relevant material.
- 6.6 A description of the governance of financial reporting of IRB outputs once approved, including key responsibilities and committees. If completed on an IRB basis, the latest ICAAP. Otherwise projections under stress of:
 - 6.6.1 IRB model outputs; and
 - 6.6.2 Impairment forecasts for these portfolios.

Module 7 – Internal Audit and Independent validation functions

This module requires you to provide more details of your approach to independent validation of IRB models and the approach that Internal Audit will take to meeting the IRB requirements.

This module will typically require meetings with:

- Internal Audit;
- Independent Validation (if internal) or Senior Manager responsible for commissioning external independent validation reports; and
- Chair of the Board Audit Committee.

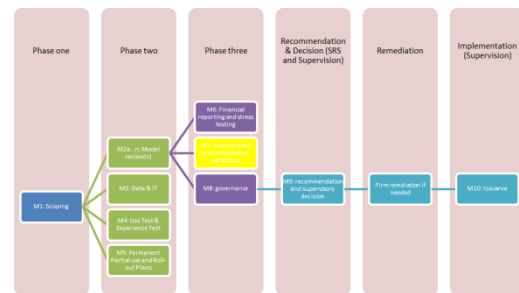
Please submit the following information.

Internal Audit

- 7.1 The role of the Audit Committee and of internal audit (CRR Article 191).
- 7.2 Latest copies of relevant Internal Audit reports.
- 7.3 Forward plan of Internal Audit work.

Validation

- 7.4 A summary of the firm's approach to independent validation. The summary should cover the following areas: reporting lines, accountability, independence, commissioning process, approval process, scope, documentation and continuing validation. To the extent that your firm depends on external support for this function a description of how that functions.
- 7.5 A brief description of your firm's general approach to IRB rating system performance monitoring (CRR Article 185). The summary should include how the assumptions, the discriminative power and the calibration of rating systems and/or models are monitored, particularly with regard to low default portfolios. Indicate the granularity and frequency of management information approved by each committee.
- 7.6 A copy of the firm's modelling and validation standards.
- 7.7 A description of what gives your firm's senior management comfort that the outputs from the rating systems and/or models are sufficiently robust.
- 7.8 A copy of the Validation reports for the last twelve months.

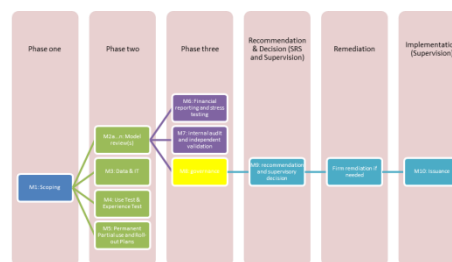


Module 8 – Governance

This section requires a summary of your firm's approach in a number of key areas – including governance, the use of internal ratings, data management and model validation.

This module will require meetings with:

- CEO, Chairman, Chair of Board Risk Committee.
- Chair of relevant committees that review model performance MI and annual model reviews.
- Chairs of Risk Committees.
- Relevant other Senior Managers.



Governance of credit risk – independent oversight to support your approach for IRB

8.1 A summary of your firm's approach to governance of credit risk. The summary should include:

- The role of the board.
- How and where the board delegates activity/authority to a sub-committee of the board or to senior management Please include details of the composition of the designated committee and how it ensures independent oversight and how you have addressed any potential conflicts of interest.
- The role of senior management in governing credit risk more generally.
- The role and independence of the credit risk control unit, including how the requirements in CRR Article 190 are met.
- The outsourcing of any relevant functions.
- How external models are controlled.

8.2 Set out the level of understanding and engagement expected of different levels of management (CRR Article 189) and how that is validated.

8.3 Latest MI reports for evaluating performance of IRB rating systems. If not available yet please supply the monitoring reports used to meet the XP/Use Test requirements (CRR Article 185).

8.4 Associated minutes with the above.

Model changes

8.5 Policies or processes by which material changes are to be identified that require prior permission from the competent authority, as per CRR Article 143 and Commission Delegated Regulation (EU) No 529/2014 (RTS for assessing the materiality of extensions and changes of the IRB approach and the Advanced Measurement Approach).



ANNEX 1 – Categories of IRB exposure class

Exposure class	Definition
Central banks and central governments	Article 147(2)(a) CRR
Institutions	Article 147(2)(b) CRR
Corporate – SME	Article 147(2)(c) CRR classified as SME under Article 501
Corporate – Specialised lending	Article 147(8) CRR
Corporate – Other	All corporates according to Article 147(2)(c), not reported as SME or Specialised.
Retail – Secured by immovable property SME	Exposures reflecting Article 147(2)(d) in conjunction with Article 154(3) CRR (secured by immovable property) classified as SME under Article 501.
Retail – Secured by immovable property non-SME	Exposures reflecting Article 147(2)(d) CRR in conjunction with Article 154(3) CRR (secured by immovable property).
Retail – Qualifying revolving	Article 147(2)(d) in conjunction with Article 154(4) CRR.
Retail – Other SME	Article 147(2)(d) not reported as secured by immovable property or as qualifying revolving and classified as SME under Article 501.
Retail – Other non – SME	Remaining Article 147(2)(d) CRR exposures.
Equity exposures	Article 147(2)(e)
Securitisation positions	Article 147(2)(f)
Other non-credit-obligation assets	Article 147(2)(g)