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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	4 March 2015
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2015) 1365 final - ANNEX 1
Subject:	ANNEX to the COMMISSION DELEGATED REGULATION (EU) amending Delegated Regulation (EU) No 529/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards regulatory technical standards for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for market risk

Delegations will find attached document C(2015) 1365 final - ANNEX 1.

Encl.: C(2015) 1365 final - ANNEX 1

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ANNEX 1

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COMMISSION DELEGATED REGULATION (EU)

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<u>**Annex**</u>

'ANNEX III

EXTENTIONS AND CHANGES TO THE IMA
Part I

EXTENSIONS TO THE IMA
SECTION 1

Extensions requiring competent authorities' approval ('material')

1. Extension of the market risk model to an additional location in another jurisdiction, including extending the market risk model to the positions of a desk located in a different time zone, or for which different front office or IT systems are used.

2. Integration in the scope of an IMA model of product classes, for which the VaR number, computed according to Article 364(1)(a)(i) of Regulation (EU) No 575/2013, exceeds 5% of the VaR number, computed according to Article 364(1)(a)(i) of Regulation (EU) No 575/2013, of the total portfolio forming the scope of that IMA model before the integration.

3. Any reverse extensions such as cases where the institutions aim at applying the standardized method to risk categories for which they are granted permission to use an internal market risk model.

SECTION 2

Extensions requiring ex ante notification to competent authorities

The inclusion in the scope of an IMA model of product classes requiring other risk modeling techniques than those forming part of the permission to use that IMA model, such as path-dependent products, or multi-underlying positions, according to Article 367 of Regulation (EU) No 575/2013.

Part II

CHANGES TO THE IMA

SECTION 1

Changes requiring competent authorities' approval ('material')

1. Changes between historical simulation, parametric or Monte Carlo VaR.

2. Changes in the aggregation scheme such as where a simple summation of risk numbers is replaced by integrated modelling.

SECTION 2

Changes requiring ex ante notification to competent authorities

1. Changes in the fundamentals of statistical methods according to Articles 365, 374 or 377 of Regulation (EU) No 575/2013, including but not limited to any of the following:

   (a) reduction in the number of simulations;

   (b) introduction or removal of variance reduction methods;

   (c) changes to the algorithms to generate the random numbers;

   (d) changes in the statistical method to estimate volatilities or correlations between risk factors;

   (e) changes in the assumptions about the joint distribution of risk factors.

2. Changes in the effective length of the historical observation period, including a change in a weighting scheme of the time series according to Article 365(1)(d) of Regulation (EU) No 575/2013.

3. Changes in the approach for identifying the stressed period in order to calculate a Stressed VaR measure, according to Article 365(2) of Regulation (EU) No 575/2013.

4. Changes in the definition of market risk factors applied in the internal VaR model, including migration to an OIS discounting framework, a move between zero rates, par rates or swap rates.

5. Changes in how shifts in market risk factors are translated into changes of the portfolio value, such as changes in instrument valuation models - used to calculate sensitivities to risk factors or to re-value positions when calculating risk numbers -, changes from analytical to simulation-based pricing model, changes between Taylor-approximation and full revaluation, or changes in the sensitivity measures applied, according to Article 367 of Regulation (EU) No 575/2013.

6. Changes in the methodology for defining proxies.

7. Changes in the hierarchy of sources of ratings used for determining the rating of an individual position in the IRC.

8. Changes in the methodology regarding the loss given default rate (LGD) or the liquidity horizons for IRC or correlation trading models according to Section 4 or Section 5 of Chapter 5 of Title IV of Regulation (EU) No 575/2013.

9. Changes in the methodology used for assigning exposures to individual exposure classes in the IRC or correlation trading models according to Section 4 or Section 5 of Chapter 5 of Title IV of Regulation (EU) No 575/2013.

10. Changes of methods for estimating exposure or asset correlation for IRC or correlation trading models according to Section 4 or Section 5 of Chapter 5 of Title IV of Regulation (EU) No 575/2013.

11. Changes in the methodology for calculating either actual or hypothetical profit and loss when used for back-testing purposes according to Article 366(3) and 369(2) of Regulation (EU) No 575/2013.

12. Changes in the internal validation methodology according to Article 369 of Regulation (EU) No 575/2013.

13. Structural, organisational or operational changes to the core processes in risk management or risk controlling functions, according to Article 368(1) of Regulation (EU) No 575/2013 including any of the following:

    (a) senior staff changes;

    (b) the limit setting framework;

    (c) the reporting framework;

    (d) the stress testing methodology;

    (e) the new product process;

    (f) the internal model change policy.

14. Changes in the IT environment, including any of the following:

    (a) changes to the IT system, which result in amendments in the calculation procedure of the internal model;

    (b) applying vendor pricing models;

    (c) outsourcing of central data collection functions.’