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ANNEX

**ANNEX**

**to the**

**COMMISSION DELEGATED REGULATION (EU) .../...**

**supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the conditions for assessing the materiality of extensions of, and changes to, the use of alternative internal models, and changes to the subset of the modellable risk factors**

## **ANNEX**

### **PART I**

#### **EXTENSIONS AND CHANGES REQUIRING COMPETENT AUTHORITIES' PERMISSION ('MATERIAL')**

1. Significant changes to the structure or organisation of an institution's trading desks, for which permission has been granted to calculate the own funds requirements for market risk by using alternative internal models, including significant changes to the booking models, to the risk management structure or to the business strategy, including any of the following cases:
  - (a) significant changes where the institution aims to apply internal risk transfers for the first time;
  - (b) significant changes where trading desks capture foreign exchange (FX) or commodity risk in the non-trading book for the first time;
  - (c) significant changes where trading desks start to include positions in asset classes different from those forming part of the permission to use the alternative internal models.
2. Inclusion in the scope of the alternative internal model approach of a trading desk, which, at the moment of the request for a permission as referred to in Article 325az(7), first subparagraph, of Regulation (EU) No 575/2013, is not part of the permission to calculate the own funds requirements for market risk by using alternative internal models, and which fulfils any of the following conditions:
  - (a) for that trading desk, front office systems or IT systems that are different from those forming part of the permission to use the alternative internal models are used;
  - (b) that trading desk is located in a third country jurisdiction where, at the moment of the request, no trading desk in the scope of the alternative internal models is located;
  - (c) that trading desk entails positions in asset classes that are different from those forming part of the permission to use the alternative internal models.
3. Changes to the fundamental approach to calculate the partial expected shortfall measures referred to in Article 325bb(1) of Regulation (EU) No 575/2013, including between historical simulation, parametric or Monte Carlo approach.
4. Changes to the fundamental approach to calculate the own funds requirement for default risk referred to in Article 325ba(2) of Regulation (EU) No 575/2013, including significant changes to the choice of the systematic risk factors or to the correlation structure of the model.

### **PART II**

#### **EXTENSIONS AND CHANGES REQUIRING NOTIFICATION WITH ADDITIONAL INFORMATION**

1. The inclusion in the scope of a trading desk under the alternative internal models of product classes requiring other risk modelling techniques than those forming part of the permission to use those alternative internal models, such as path-dependent

products, or multi-underlying positions, including cases where a change in booking models leads to products for which the institution was transferring the market risk to another entity of the group outside the scope of the highest level of consolidation within the Union at the time when permission for internal models was granted start being risk-managed in the institution.

2. Changes to the structure or organisation of an institution's trading desks consisting of the merging or the splitting of desks for which permission has been granted to calculate the own funds requirements for market risk by using the alternative internal models, provided that those changes do not meet the conditions set out in Article 2 of this Regulation.
3. Changes to the methodology used to assess the modellability of risk factors in accordance with Article 325be of Regulation (EU) No 575/2013.
4. Changes to the methodology for calculating actual or hypothetical profit and loss, where such changes have the effect of reducing the number of overshootings of a trading desk for which permission has been granted to use alternative internal models, restoring its compliance with the conditions on back-testing referred to in Article 325bf(3) of Regulation (EU) No 575/2013.
5. Changes to the methodology for calculating hypothetical or theoretical profit and loss, where such changes have the effect of increasing the Spearman correlation coefficient or reducing the Kolmogorov-Smirnov test metric of a trading desk for which permission has been granted to use alternative internal models, changing its classification as laid down in Article 9 of Commission Delegated Regulation (EU) 2022/2059<sup>1</sup>, for the purpose of meeting the P&L attribution requirements set out in Article 325bg of Regulation (EU) No 575/2013.
6. Fundamental changes to the internal validation methodology referred to in Article 325bj of Regulation (EU) No 575/2013 which lead to significant changes in the way the institution assesses the overall performance and integrity of the alternative internal models, including:
  - (a) where the scope of the internal validation review, its frequency or the quantity or quality of the tests and controls performed are reduced;
  - (b) where there are significant changes to the decision-making process in place to ensure that the findings and recommendations resulting from the validation process are properly taken into account by the senior management of the institution.
7. Structural, organisational or operational changes to the core processes in risk management or risk controlling functions referred to in Article 325bi(1) of Regulation (EU) No 575/2013, including:
  - (a) significant changes to the limit setting framework;
  - (b) changes to the reporting framework leading to a loss of information or to a change of addressees in the senior management;

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<sup>1</sup> Commission Delegated Regulation (EU) 2022/2059 of 14 June 2022 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the technical details of back-testing and profit and loss attribution requirements under Articles 325bf and 325bg of Regulation (EU) No 575/2013 (OJ L 276, 26.10.2022, p. 47, ELI: [http://data.europa.eu/eli/reg\\_del/2022/2059/oj](http://data.europa.eu/eli/reg_del/2022/2059/oj)).

- (c) changes to the stress testing methodology leading to significant differences in the stress testing results;
  - (d) changes to the policies and approval processes for new products or internal model changes.
8. Fundamental extensions and changes in the IT infrastructure, including data storage, relevant for the calculation of the own funds requirements for market risk using the alternative internal models, including:
- (a) an extension of the IT system to vendor pricing models;
  - (b) the outsourcing of central data collection functions to data vendors;
  - (c) the introduction of cloud computing or data storage.