

Appendix 1: Draft amendments to SS 11/13 'Internal Ratings Based (IRB) approaches'

In this appendix, underlining indicates new text.

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19 Notification and approval of changes to approved models

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Adjustment to RWAs for UK Residential Mortgage Exposures in the Retail Exposure Class

19.19 The PRA expects models to be appropriately conservative and capture all relevant risks. Responsibility for ensuring this lies with firms.

19.20 It may be the case that some IRB mortgage models – despite receiving regulatory approval and otherwise complying with relevant regulatory standards – have material risk capture deficiencies resulting in inappropriately low modelled RWAs.

19.21 There may therefore be instances where it is prudent and correct for firms to adjust upwards the RWAs produced by their models on a permanent basis.

19.22 The PRA considers that models producing risk-weights lower than 7% for individual UK residential mortgage exposures are likely to be materially deficient in risk capture. The PRA therefore expects firms to increase those risk weights to at least 7% for each UK residential mortgage exposure.

19.23 Similarly, at a portfolio level, the PRA considers that models resulting in an exposure-weighted average portfolio risk-weight for UK residential mortgage exposures of less than 10% are likely to be materially deficient in risk capture. The PRA therefore expects firms to adjust the overall exposure-weighted average portfolio risk-weight to ensure it is at least 10%.

19.24 Firms may make post-model adjustments to meet these expectations.

19.25 Firms should include any RWA adjustments in their regulatory returns. In the FSA045 return the total RWA figure for each of the PD grades should reflect the 7% exposure-level risk-weight expectation. Relevant figures should be further increased where the portfolio level risk-weight expectation is applied.