



The banking book

Upcoming changes in credit risk

Robert Jan Sopers

Agenda

Basel IV

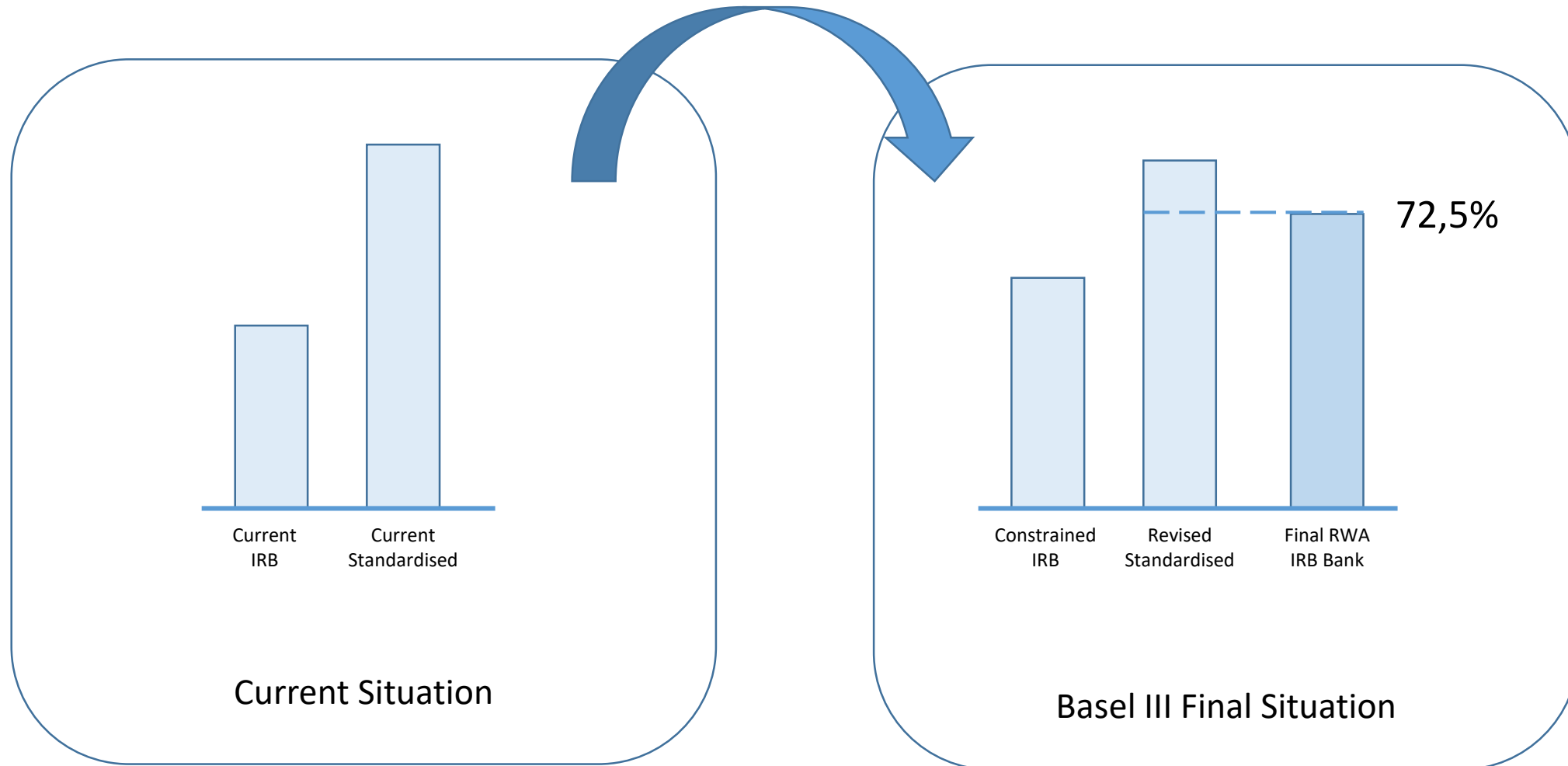
Definition of Default

EBA review of IRB

Main changes Basel IV on Credit Risk

- More sensitive standardized approach
 - New risk weights for the majority of the asset classes
 - Higher granularity of risk-weights (e.g. depending on the LTV)
 - New methodologies for bank exposures (external and standardized credit risk assessments, CET1 ratio category removed)
- Advanced approach (A-IRB / F-IRB)
 - Removing use of A-IRB for specific asset classes
 - Input floors on the IRB parameters
 - Expert models are no longer allowed
 - Removal of the scaling factor
- Output floor on the IRB approach from standardized approach

High level impact of reforms on Credit Risk RWA: Impact of the floor



Definition of default

- ▲ 90 days past threshold (90 DPT)
 - ▲ Absolute threshold
 - ▲ Relative threshold
- ▲ Unlikelihood to pay (UTP) triggers
- ▲ Conditions for a return to non-defaulted status and treatment (probation periods)
- ▲ The definition of default in external data

EBA review of IRB

- ▲ Review plan EBA of the IRB approach published February 2016
 - ▲ Reduce unwanted variability between institutions
 - ▲ Phase 1: IRB assessment methodology
 - ▲ Phase 2: Definition of default
 - ▲ Phase 3: Risk parameter estimation
- ▲ In November 2017 Guidelines were published by EBA on
 - ▲ PD estimation
 - ▲ LGD estimation
 - ▲ General estimation
 - ▲ Treatment of defaulted exposures
- ▲ In March 2019 Guidelines were published by EBA on estimation of the Downturn LGD

Thank you!

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