

## Promemoria

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# Finansinspektionen's view on internal credit risk models following amendments to the Capital Requirements Regulation (CRR3)

The EU's second banking package implements the final components of the Basel III accord and contains, among other things, amendments to the European Capital Requirements Regulation (CRR3) that went into force on 1 January 2025. The implementation of CRR3 entails in part that banks currently applying internal credit risk models are given more flexibility to apply different methods for calculating risk-weighted exposures amounts for credit risk. In conjunction with this, Finansinspektionen (FI) would like to clarify the expectations for model application given both the authority's experiences from previously performed model assessments and considering the flexibility that is now being introduced.

The overarching purpose of internal models is to improve banks' risk management. Therefore, FI would like to emphasise the need for a bank and its management to adopt a unified strategy for how it applies internal models. It is important that this strategy is sustainable in the long term and rests on a clear assessment of which methods are appropriate given each portfolio's characteristics and the bank's capacity for maintaining sufficient model quality over time. Where needed, FI will hold bilateral discussions with banks about future model strategies.

It has been apparent over time that the quality of the model applications FI has received has not been sufficient under current regulations. Common deficiencies are related to, among other things, limited data, portfolios with few exposures, or uncertainties linked to external factors. Therefore, FI

notes that it may be challenging for many banks to achieve sufficient quality in their applications and that some types of exposures are particularly difficult to model.

Given these challenges, FI ~~finansinspektionen~~ views positively that the implementation of CRR3 allows banks greater possibilities for adapting their model ~~landscapecreation~~ to the conditions of each portfolio. At the same time, the regulatory framework is clear that a return to less advanced methods is not driven by ~~regulatorysupervision~~ arbitrage. The increased flexibility aims instead to allow for a more proportionate and risk-adapted application of internal models. In this way, resources and focus can target the portfolios where models are judged to reliably reflect risk. In this context, FI ~~finansinspektionen~~ would like to underline that there will still be strict demands on quality and robust risk management, regardless of the method chosen.