

Brussel, 09<sup>th</sup> June 2017

## **Annex 1 to circular NBB\_2017\_20**

### ***Assessment of own funds tables for the institutions that use the standard method to calculate own funds requirements for credit risk***

#### Scope

*Credit institutions governed by Belgian law, stockbroking firms governed by Belgian law, settlement institutions and institutions equivalent to settlement institutions governed by Belgian law, financial holding companies governed by Belgian law.*

Title of the provisions	Description of the provisions	Prior consent of the NBB	Role of the NBB	Role of the statutory auditor
<b>Definition of the risk classes</b>	Article 122 of the CRR <sup>1</sup> distinguishes between 17 different exposure classes, including a category for retail exposures (including exposures to SMEs) that meet certain conditions (including a threshold of 1 million euros).	Not required	Institutions are advised to make use of Article 501(2)(b) of the CRR for defining the term 'SME'. The NBB must ensure that the definition of the different risk categories is in line with the provisions of the CRR.	Specifically regarding the retail risk category, the statutory auditor verifies whether the institution has in place an appropriate procedure that allows it to identify all retail clients and to ensure a consistent calculation and monitoring of the threshold.
<b>Allocation of the exposures among the risk classes</b>	The institution should allocate the exposures to the appropriate risk class.	Not required		The statutory auditor ensures that the institution has in place an adequate control procedure for the proper allocation of all exposures to the different risk classes referred to in Article 112 of the CRR.
<b>Allocation of the risk positions among the rating classes</b>	The CRR allows institutions to use external ratings for determining the risk weight, taking into account the requirements and conditions referred to in Articles 134 to 140 of the CRR.	Not required		This is a "mechanical" calculation component. The statutory auditor is positioned in the first line. The allocation of the risk positions among the rating (or risk weight) classes is part of the reporting.  Moreover, this implies that the statutory auditor verifies whether the institution

<sup>1</sup> Regulation (EU) No 575/2013

				effectively nominates the accredited rating agencies the credit assessments of which it uses for determining the risk weight, whether the institution has a procedure for monitoring the counterparties' external ratings used, and whether it has a procedure for correctly mapping the credit assessments used to the proper credit quality categories.
<b>Calculation of the risk position value for the balance sheet items</b>	Pursuant to Article 111(1) of the CRR, the institution should determine the exposure value of its balance sheet items based on the accounting values remaining after specific credit risk adjustments, additional value adjustments in accordance with Articles 34 and 110 of the same Regulation and other own funds reductions related to the asset item. The institution should also take the measures necessary to ensure that all exposures are effectively taken into account.	Not required		As this aspect is very closely linked with accounting (particularly bringing the inventories and risk positions into line with each other) the statutory auditor is positioned in the first line.
<b>Calculation of the risk position value for the off-balance sheet items and derivatives</b>	Pursuant to Article 111(2) of the CRR, the institution should determine the exposure value of its off-balance sheet items by applying a conversion factor, using the accounting values as a basis. The institution should also take the measures necessary to ensure all	Not required		As this aspect is linked with accounting (particularly bringing the inventories and risk positions in line with each other), the statutory auditor is positioned in the first line.

	risk positions are effectively taken into account.			
<b>Calculation of the risk position value for the derivatives - use of netting</b>	For the calculation of the exposure value of derivatives, the CRR allows institutions to take into account the effects of contracts of novation and other netting agreements. .	YES	In the context of the prior consent it is required to give, the NBB verifies whether the methodologies and the systems are in line with each other.	The role of the statutory auditor is limited to ensuring that the outcome of the models used is reported correctly and completely.  The statutory auditor verifies whether the institution has the necessary organisation with regard to the required inventories and legal documentation of the agreements referred to, assuring an accurate calculation of the net value of the risk position. .
<b>Calculation of the risk position value for the derivatives - use of an internal model</b>	The CRR allows institutions to calculate the exposure value of derivatives based on internal models.	YES	In the context of the prior consent it is required to give, the NBB verifies whether the methodologies and the systems are in line with each other.	The role of the statutory auditor is limited to verifying whether the relevant transactions have effectively been included in the calculation (in accordance with accounting). However, the statutory auditor is not authorized to validate the models himself.

<b>Recognition of collateral - simple or comprehensive method</b>	The institution may recognise financial collateral if it meets certain qualitative criteria. A haircut should be applied to the collateral, based on its quality (counterparty and rating to be specified) and maturity.	Not required	Compliance with the qualitative criteria can only be verified by assessing the organisation put in place.	The statutory auditor at least ensures that the collateral is present, that it complies with all conditions of the CRR and that it is valued correctly, and that the method is applied correctly with regard to the mechanical aspects.
<b>Recognition of collateral - internal model or own haircut method</b>	The institution may calculate its own haircuts or apply an internal model.	YES	As the methodology must be approved by the NBB, it should verify whether the qualitative and quantitative criteria have been met.	The statutory auditor at least ensures that the collateral is present and is valued correctly.  However, the statutory auditor is not authorized to validate the models himself.