

# Bank of England PRA

## Appendix 4: Draft amendments to near-final SS4/24: Credit risk: Internal ratings based approach

**Draft supervisory statement**

October 2024

Draft for consultation



# Draft amendments to near-final supervisory statement SS4/24 – Credit Risk: internal ratings based approach

In this appendix, new text is underlined and deleted text is struck through.

## Application of requirements to UK groups applying the IRB approach on a unified basis

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2.8 Rule 2.1A of the Credit Risk: Internal Ratings Based Approach (CRR) Part ~~CRR Article 20(6)~~ provides that, where the Internal Ratings Based (IRB) approach is used on a unified basis by a UK group, ~~the PRA is required to permit certain IRB requirements~~ may be complied with to be met on a collective basis by members of that group. The PRA considers that, where a firm is reliant upon a rating system or data provided by another member of its group, it will not meet the condition that it is using the IRB approach on a unified basis unless:

- (a) the firm only does so to the extent that it is appropriate, given the nature and scale of the firm's business and portfolios, and the firm's position within the UK group;
- (b) the integrity of the firm's systems and controls is not adversely affected;
- (c) the outsourcing of these functions meets the requirements of the Outsourcing Part of the PRA Rulebook; and
- (d) the ability of the PRA to carry out its responsibilities is not adversely affected.

2.9 Prior to reliance being placed by a firm on a rating system, or data provided by another member of the group, the PRA expects the proposed arrangements to have been explicitly considered, and found to be appropriate, by the governing body of the firm.

2.10 If a firm uses a rating system or data provided by another group member, the PRA expects the firm's governing body to delegate those functions formally to the persons or bodies that are to carry them out.

2.11 Where a firm's rating systems are used on a unified basis pursuant to Rule 2.1A of the Credit Risk: Internal Ratings Based Approach (CRR) Part, ~~CRR Article 20(6)~~, the PRA considers that the governance requirements in Article 189 of the Credit Risk: Internal Ratings Based Approach (CRR) Part can be met only if the subsidiary undertakings have delegated to the governing body or designated committee of the UK parent institution, UK parent

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financial holding company, or UK parent mixed financial holding company, responsibility for approval of all material aspects of rating and estimation processes.

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