

Bank of England PRA

The PRA's approach to Internal Model Method (IMM) permission under the Counterparty Credit Risk (CRR) Part

Statement of policy 6/25

January 2026

Effective 1 January 2027



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1: Introduction

1.1 This statement of policy (SoP) sets out the Prudential Regulation Authority's (PRA) approach to considering applications from PRA authorised persons to not apply rules, or to apply them with modifications, under section 138BA of the Financial Services and Markets Act 2000 (FSMA). The SoP relates to rules in the Counterparty Credit Risk (CRR) Part of the PRA Rulebook.

1.2 This SoP is relevant to banks, building societies, PRA-designated investment firms and PRA-approved, or PRA-designated, financial or mixed financial holding companies. It is not relevant to credit unions, third-country branches, or small domestic deposit takers (SDDTs) and SDDT consolidation entities.¹

¹ Relevant as of 1 January 2027.

2: General matters

2.1 In determining whether to grant a regulatory permission, the PRA would be exercising its powers under section 138BA of FSMA. This allows the PRA to disapply, or modify the application of, PRA rules upon the application or with the consent of a firm. The PRA may give such permission subject to conditions. It also has power to revoke or vary a permission which has been issued.

2.2 The exercise of the PRA's permission power is discretionary. In exercising its discretion, the PRA will consider whether the conditions set out in relation to each of the permissions in PRA rules are satisfied, as well as the additional conditions relating to certain permissions which are set out in this SoP.

2.3 As set out in the SoP9/24 – **The Prudential Regulation Authority's approach to rule permissions and waivers**, if a firm applies for a rule permission under s138BA where the PRA has not set out specific criteria, the PRA will consider, and place significant weight upon, the statutory criteria that apply to the PRA's power under s138A, ie whether:

- compliance by a firm with the unmodified rules would be unduly burdensome or would not achieve the purpose for which the rules were made; and
- the direction would not adversely affect the advancement of any of the PRA's objectives.²

2.4 Although s144G and s192XC of FSMA do not set out any additional general considerations for the exercise of the permission power, the PRA will consider whether granting a permission in any particular case would be consistent with advancing its statutory objectives as set out in Part 1A, Chapter 2 of FSMA. The PRA will also consider whether granting the permission in a particular case may undermine any of the purposes for which the rule was made, including the matters set out in s144C of FSMA ('Matters to be considered when making CRR rules').

² These criteria should be interpreted in the same way as the criteria in s138A, including reading the reference to the PRA's objectives in accordance with s2F of FSMA.

3: PRA's approach to Internal Model Method (IMM) permission under the Counterparty Credit Risk (CRR) Part

Right to withdraw

3.1 A firm which has applied for an IMM permission may withdraw that application by notifying the PRA in writing at any time before it reaches a decision on the application.

Factors considered in the PRA's decision

3.2 The PRA will expect firms to satisfy the relevant conditions in the Appendix of this SoP to receive IMM permission, unless otherwise stated.

3.3 After the PRA has granted a permission, it expects that the firm promptly notifies it if it does not, or expects that it soon will not, continue to meet any of those criteria as are set out in the Counterparty Credit Risk (CRR) Part of the PRA Rulebook for as long as the permission remains effective.

3.4 The PRA further expects that firms promptly notify it of any material change in circumstances, which may affect the PRA's assessment of this permission. The scope of material changes where notifications are expected for the purposes of IMM are defined in Section 6 of supervisory statement (SS) 12/13 – Counterparty Credit Risk, and the documentation that the PRA expects firms to submit for material changes to IMM models is outlined in Appendix B of the same publication.

3.5 These expectations are an elaboration of firms' obligations to inform the PRA of relevant information under the PRA Fundamental Rules.

3.6 The PRA may decide not to revoke or modify a permission that it has granted when it receives the notifications set out in paragraphs 3.3 to 3.5 above.

The PRA's power to vary or revoke IMM permissions

3.7 The PRA's power to grant IMM permissions under s138BA of FSMA also permits the PRA to vary or revoke a permission. The PRA expects to use its power to vary a firm's IMM permission to enable a firm to make a material change to its model, and to modify existing conditions, set new conditions, and remove conditions as appropriate. The PRA may also

exercise its power to vary a firm's IMM permission in order to waive or modify the PRA's rules on IMM that apply to the firm.

3.8 The PRA's power to vary a firm's IMM permission may also be exercised to unilaterally reduce the scope of a firm's IMM. It may be considered appropriate where the PRA has concerns that the IMM is no longer compliant with IMM requirements, or that part or all of the firm's IMM is inadequate or no longer appropriately reflects the firm's (or group's) risk profile and, for example, where the firm has failed to remedy this situation itself.

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Appendix

1. PERMISSION TO USE THE INTERNAL MODEL METHOD

2. EXPOSURE VALUE

3. EXPOSURE VALUE FOR NETTING SETS SUBJECT TO A MARGIN AGREEMENT

4. USE TEST

5. REQUIREMENTS FOR THE RISK MANAGEMENT SYSTEM

6. VALIDATION REQUIREMENTS

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Appendix

1. Counterparty Credit Risk (CRR) Part: PERMISSION TO USE THE INTERNAL MODEL METHOD

1.1 When considering whether to grant permission to use IMM for the calculations referred to in Article 283(1), the PRA will assess whether an institution has demonstrated that it complies with the requirements set out in Section 6 of the Counterparty Credit Risk (CCR) Part of the PRA Rulebook, and whether the systems for the management of CCR maintained by an institution are sound and properly implemented.

1.2 When considering whether to grant permission to revert from the use of IMM to the methods set out in Sections 3 to 5 of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the PRA Rulebook (see Article 283(5)), the PRA will take into account whether the institution demonstrates good cause.

2. Counterparty Credit Risk (CRR) Part: EXPOSURE VALUE

2.1 When considering whether to grant permission to use the IMM, the PRA will consider whether an institution requires a higher (or lower) alpha factor than is specified in Article 284(4) for calculating the exposure value.

3. Counterparty Credit Risk (CRR) Part: EXPOSURE VALUE FOR NETTING SETS SUBJECT TO A MARGIN AGREEMENT

3.1 When considering whether to grant permission for an institution to use its model's expected exposure (EE) directly in the equation in Article 284(5) (see Article 285(1) of the Counterparty Credit Risk (CRR) Part of the PRA Rulebook), the PRA will take into account whether an institution can verify that their models can properly capture the effects of margining when estimating EE.

4. Counterparty Credit Risk (CRR) Part: USE TEST

4.1 When considering whether to grant permission to use IMM for the calculations referred to in Article 283(1), the PRA will take into account whether the institution has demonstrated that it has been using a model to calculate the distribution of exposures upon which the expected positive exposure (EPE) calculation is based; and that this broadly meets the requirements set in Section 6 of the Counterparty Credit Risk (CRR) Part of the PRA Rulebook for at least one year prior to permission to use the IMM in accordance with Article 283.

4.2 Depending on the materiality of changes, the requirements with regards to parallel running of models may change. There will be no formal requirement for parallel running applied to material changes of IMM systems.

5. Counterparty Credit Risk (CRR) Part: REQUIREMENTS FOR THE RISK MANAGEMENT SYSTEM

5.1 When considering whether to grant permission to use the IMM, the PRA will take into account the extent to which an institution meets the requirements set out under Article 293(1) when setting alpha in accordance with Article 284(4). Only those institutions which fully

comply with the requirements set out under Article 293(1) will be eligible for application of the minimum multiplication factor.

6. Counterparty Credit Risk (CRR) Part: VALIDATION REQUIREMENTS

6.1 When considering whether to grant permission to use IMM for the calculations referred to in Article 283(1), the PRA will take into account whether an institution, as part of the initial validation of its CCR exposure model and its risk measures, ensures that their CCR exposure model and risk measures meet the requirements set out under subsections (b) – (o) of Article 294(1).

6.2 When considering whether to grant permission to use IMM for the calculations referred to in Article 283(1), the PRA will take into account whether an institution carries out back-testing using historical data on movements in market risk factors prior to the permission. The back-testing should consider a number of distinct prediction time horizons out to at least one year, a range of various initialisation dates, and cover a wide range of market conditions.

6.3 When considering whether to grant permission to use IMM for the calculations referred to in Article 283(1), the PRA will take into account whether an institution's model is sufficiently accurate as evidenced by back-testing.

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