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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Securitisation and Covered Bonds
Article	249
Paragraph	7
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	n.a.
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Calculating RWAs for the portion of the securitisation position benefitting from credit protection
Question	<p>In case of an institution buying credit protection, which approach has to be applied for calculating RWAs for the portion of the securitisation position benefitting from credit protection, if the SEC-SA Approach is used for the portion of the securitisation position not benefitting from credit protection, and the institution is allowed to apply the IRB Approach to the direct exposures to the protection provider?</p> <p>May the institution (buying credit protection) calculate the RWAs for the portion of the securitisation position benefitting from credit protection as a direct exposure to the protection provider using the IRB Approach?</p>
Background on the question	<p>Article 249(6) CRR describes the requirements if a securitisation position benefits from full credit protection or a partial credit protection on a pro-rata basis. Article 249(7) CRR states that “In all cases not covered by paragraph 6, the following requirements shall apply: “(a) the institution providing credit protection shall treat the portion of the position benefitting from credit protection as a securitisation position and shall calculate risk-weighted exposure amounts as if it held that position directly in accordance with</p>

	<p>Subsection 3, subject to paragraphs 8, 9 and 10; (b) the institution buying credit protection shall calculate risk-weighted exposure amounts for the protected portion of the position referred to in point (a) in accordance with Chapter 4. The institution shall treat the portion of the securitisation position not benefiting from credit protection as a separate securitisation position and shall calculate risk-weighted exposure amounts in accordance with Subsection 3, subject to paragraphs 8, 9 and 10". In our understanding, Article 249(6) CRR is only applicable if a securitisation position benefits from "full credit protection" or a "partial credit protection on a pro-rata basis", but our question refers to a situation where the credit protection is partial, but not on a pro-rata basis. Consequently, the institution buying credit protection would apply the requirements of Chapter 4 for the protected portion of the securitisation position. However, in Chapter 4, Article 234 CRR states that "where an institution transfers a part of a loan in one or more tranches, the rules set out in Chapter 5 shall apply", i.e. the regulation actually refers back to Article 249(7) CRR.</p>
Final answer	<p>According to Article 249(7)(b) of Regulation (EU) No 575/2013 as amended (CRR), in case of credit protection for a securitisation position that is provided neither in the form of full credit protection nor in the form of partial credit protection on a pro-rata basis, the institution buying credit protection has to treat the portion of the securitisation position not benefiting from credit protection as a separate securitisation position and calculate the risk-weighted exposure amount according to Article 249 (8) to (10) CRR. For the portion of the securitisation position benefiting from credit protection, Article 249(7)(b) CRR stipulates that the institution buying protection shall apply the credit risk mitigation framework according to Part 3 Title II Chapter 4 CRR.</p> <p>Where the institution buying credit protection is allowed to apply the IRB Approach for direct exposures to the protection provider, it shall calculate the risk weighted exposure amount for the portion of the securitisation position benefitting from credit protection by applying the risk weight that is applicable under Article 236 CRR to a direct exposure to the protection provider using the IRB Approach. For this purpose the PD, regulatory LGD and the risk weight function applicable for direct exposures to the IRB protection provider shall be applied.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5176</p>

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