

Single Rulebook Q&A

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Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	224
Paragraph	1
Subparagraph	Table 1
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
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Disclose name of institution / entity	No
Type of submitter	Law firm
Subject matter	Use of the “maturity of the tranche” (MT) as defined in Article 257 CRR as the “residual maturity” for purposes of the volatility adjustments for securitisation positions under Table 1 of Article 224(1) CRR.
Question	Where collateral takes the form of securitisation positions meeting the criteria in Article 197(1)(h) CRR, can the institution use the “weighted average maturity” (WAM) as defined in Article 257 CRR as the “residual maturity” for purposes of the volatility adjustments set out in Table 1 of Article 224(1) CRR?
Background on the question	Table 1 of Article 224(1) CRR sets out the volatility adjustments to be applied to the market value of collateral in the form of debt securities and securitisation positions (other than short term) when institutions value collateral for the purposes of the Financial Collateral Comprehensive Method (FCCM). One of the parameters to determine the appropriate volatility adjustment is the “residual maturity” of the debt security or securitisation position. “Residual maturity” is not a defined term under CRR. With respect to securitisation positions, Article 257 CRR, as amended by Regulation (EU) 2017/2401, provides for two alternative approaches for the determination of the maturity of a tranche (MT) in order to calculate risk-weighted exposure amounts in relation to securitisation positions: the “weighted average

	<p>maturity” (WAM) or the “final legal maturity”. It could be argued that the “weighted average maturity” (WAM) can be used for the purposes of the “residual maturity” set out in Table 1 of Article 224(1) CRR, for the following reasons: 1.The fact that the notion of MT in Article 257 CRR refers to the notion of “final legal maturity” as opposed to “residual maturity”, and that “residual maturity” in Article 224 CRR applies to both debt securities and securitisation positions tends to indicate that “residual maturity” (which is not defined in CRR) should be interpreted as a general concept rather than as strictly speaking the final legal maturity of the instrument. 2.The intent of the legislator in Article 224 CRR appears to have been to provide for a specific treatment of securitisation positions in terms of volatility adjustments, and the specific manner in which the legislator defines maturity of securitisation positions in Chapter 5 of CRR is relevant in this respect. 3. WAM appears to be economically more relevant than the final legal maturity to the assessment of the risk of a securitisation position, given that it takes into account both the contractual payments of the borrowers in relation to the securitised loan agreement and the contractual payments due by the SSPE, whereas the final legal maturity is set on the basis of the longest possible maturity among the securitised assets, without taking into account the amortisation method.</p>
<p>Final answer</p>	<p>The methods for measuring the maturity of a tranche according to Article 257 CRR for the purpose of calculating risk-weighted exposure amounts for securitisation exposures are not applicable to determine the residual maturity of a securitisation position for the purpose of Article 224(1) CRR.</p> <p>This follows from Article 224(1) CRR, which states how to apply the volatility adjustments for financial collateral under the Supervisory Volatility Adjustments Approach. In case the collateral takes the form of securitisation positions meeting the criteria in Article 197(1)(h) CRR - that is when they are not resecuritisation positions and subject to a 100% risk weight or lower in accordance with Article 261 to Article 264 - the residual maturity to be considered for securities and securitisation positions is the final legal maturity as stated in the conditions governing the instrument.</p> <p>Therefore it cannot be considered that Article 109 CRR - according to which institutions shall calculate the risk-weighted exposure amount for a position they hold in a securitisation in accordance with Chapter 5 - requires the application of Article 257 CRR with regard to how to determine the tranche maturity.</p>
<p>Link</p>	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5211</p>

