

<b>Question ID</b>	2020_5629
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Credit risk
<b>Article</b>	132a
<b>Paragraph</b>	-
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	Not applicable
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Individual
<b>Subject matter</b>	Treatment of non-performing exposures underlying a CIU
<b>Question</b>	<p>Could you clarify if non-performing exposures underlying a CIU should be subject to deductions in accordance with point (m) of Article 36(1) of CRR when using the look-through approach in accordance with Article 132a(1) of CRR or the mandate based approach in accordance with Article 132a(2) of CRR?</p>
<b>Background on the question</b>	<p>According to Article 132a(1) CRR, where the conditions set out in Article 132(3) of CRR are met, institutions that have sufficient information about the individual underlying exposures of a CIU shall look through to those exposures to calculate the risk-weighted exposure amount of the CIU, risk weighting all underlying exposures of the CIU as if they were directly held by those institutions. According to Article 132a(2) CRR, where the conditions set out in Article 132(3) CRR are met, institutions that do not have sufficient information about the individual underlying exposures of a CIU to use the look-through approach may calculate the risk-weighted exposure amount of those exposures in accordance with the limits set in the CIU's mandate and relevant law. It is however not entirely clear if risk weighting the underlying exposures means that they also shall be subject to deductions in accordance with point (m) of article 36(1) CRR, or if they should merely be assigned a</p>

	risk weight in accordance with Article 127 of CRR.
<b>Final answer</b>	<p>According to Article 36(1)(m) of Regulation (EU) No 575/2013 (CRR) the applicable amount of insufficient coverage for non-performing exposures shall be deducted from CET1. Article 47a(1) CRR clarifies that, for this purpose, non-performing exposures shall include certain items (basically, debt instruments and commitments given), provided that they are not included in the trading book of the institution.</p> <p>Article 132a CRR sets two approaches that institutions can use for the purposes of calculating the risk-weighted exposure amount of the CIU, provided that certain conditions are met. On the one hand, when the institution has sufficient information about the underlying exposures of a CIU, it can look through to those exposures, risk weighting all underlying exposures of the CIU as if they were directly held by the institution (“look through approach”). On the other hand, institutions that do not have sufficient information about the individual underlying exposures of a CIU to use the look-through approach, may calculate the risk-weighted exposure amount of those exposures in accordance with the limits set in the CIU’s mandate and relevant law (“mandate-based approach”).</p> <p>According to Article 132(3) CRR institutions may determine the risk-weighted exposure amount of a CIU's exposures in accordance with the approaches set out in Article 132a where all the conditions set in said paragraph are met. It follows that both approaches solely aim to calculate the risk-weighted exposure amount of the CIU taking into account the risk of the underlying exposures of the CIU, but the use of such approaches does not affect the classification of the institutions’ exposures under Article 112(o) CRR, that is “exposures in the form of units or shares in collective investment undertakings (‘CIUs’)”. As such, the exposures do not represent any of the elements laid down in Article 47a(1) CRR. Therefore, non-performing exposures underlying a CIU should not be subject to deductions according to Article 36(1)(m) CRR when the institution applies the look-through approach or the mandate-based approach according to Article 132a(1) and Article 132a(2) CRR.</p>
<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5629">https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5629</a>