Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	162
Paragraph	2
Subparagraph	(a)
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	Credit institution
Subject matter	Maturity calculation under IRB for exposures that only have contractual cashflows in the form of fees
Question	Does Article 162(2)(a) of Regulation (EU) No 575/2013 (CRR) apply to exposures for which cash flow schedules contractually payable by the obligor are only fee-related (e.g., as in the case of guarantees)?
Background on the question	Article 162(2) of CRR sets forth how to calculate the maturity parameter (M) for institutions that have received the permission of the competent authority to use own LGDs and own conversion factors for exposures to corporates, institutions or central governments and central banks pursuant to Article 143. Under point (a) of Article 162(2), the CRR defines how to calculate M for an instrument subject to a cash flow schedule. Under the formula to calculate M, cash flows are defined as principal, interest payments and fees contractually payable by the obligor. In this context, we are seeking for clarification on whether exposures that only have contractual cashflows in the form of fees are also subject to maturity calculation as per Article 162(2)(a).
Final answer	Article 162(2) of Regulation (EU) No 575/2013 as amended (CRR) describes how the maturity value (M) shall be calculated for institutions that have

	received a permission in accordance with the second subparagraph of paragraph 1 of that Article or have received the permission of the competent authority to use own LGDs and own conversion factors for exposures to corporates, institutions or central governments and central banks pursuant to Article 143 CRR. Article 162(2)(a) CRR describes how M shall be calculated for instruments subject to a cash-flow schedule where “cash-flows (principal, interest payments and fees)” are contractually payable by the obligor in a period t. For the purpose of said point (a) of Article 162(2) CRR, cash-flows in a certain period t should be considered as any amount of principal, interest payments and fees (if any), contractually payable by the obligor in that period t. It does not mean that the formula set out in that point shall only be applied where the respective instrument is subject to cash-flows composed by all three components - principal, interest payments and fees. Therefore, if the instrument is subject to a cash-flow schedule, where cash-flows are exclusively composed by fees contractually payable by the obligor in period t, the requirements in accordance with point (a) of Article 162(2) shall apply.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_5773