

Single Rulebook Q&A

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Article	155
Paragraph	2 and 3
Subparagraph	na
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	na
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Disclose name of institution / entity	No
Type of submitter	Consultancy firm
Subject matter	Definition of private equity exposures in articles 155(2) and 155(3)
Question	Do “private equity exposures in sufficiently diversified portfolios” eligible to a Risk Weight (RW) of 190% in simple risk weight approach in Article 155(2) and a PD of 65% in the PD/LGD approach in article 155(3) refer to any non-listed equity instrument and/or shares in a CIU or units in a CIU for which the underlying exposures are non-listed equity instruments, provided that they are part of a sufficiently diversified portfolio?
Background on the question	n order to validate the weights applicable to non-listed equity instruments, it is important to clarify the meaning of “exposures to private equity” in articles 155(2) and 155(3) under the Internal Ratings Based Approach. We understand two interpretations could be made, with the second one being the interpretation we understand is aligned with the CRR: there are different possible interpretations 1: “Private Equity” is sometimes used in English to refer to “Private Equity Funds” (i.e. CIUs for which the underlying exposures are non-listed equity instruments), which would imply that “private equity exposures in sufficiently diversified portfolios” in articles 155(2) and 155(3) would only include exposures to private equity funds. 2: “Private equity” could also be interpreted as equity instruments held privately, i.e. non-listed equity instruments. This interpretation would be in line with the CRR

because: Article 151(4) clearly states that risk-weighted amounts for credit risk for all exposures belonging to the equity class as defined in article 147(6)(a) (which are defined as “non-debt exposures conveying a subordinated, residual claim on the assets or income of the issuer”, which include any equity instruments, listed, non-listed and in the form of shares or units of a CIU) should be calculated in accordance to article 155, therefore Article 151(4) refers to exposure types in the sense of the underlying assets and not a type of fund. Article 152(1) states that institution shall look through to the underlying exposures of a CIU to assess the treatment of exposures in the form of units or shares in CIU. Article 152(2)(a) states that, for exposures belonging to the “equity” exposure class referred to in Article 147(2)(e), institutions shall apply the simple risk-weight approach set out in Article 155(2). Article 152(1) also states that where an underlying exposure of the CIU is itself another exposure in the form of units or shares in another CIU, the first institution shall also look through to the underlying exposures of the other CIU. Therefore, institutions should always look through the underlying exposures of any investments in private equity funds, and those cannot be private equity funds (i.e. shares or units of a CIU for which the underlying exposures are non-listed equity instruments), thus a private equity fund cannot be an exposure type. As stated in Article 152(3), only where institutions are unable to differentiate between private equity, exchange-traded and other equity exposures, they should treat the exposures concerned as other equity exposures and assign non equity exposures to the other equity class. This means that private equity is an underlying type of exposure included in a CIU and could not refer to a private equity fund, which is a type of CIU. Furthermore, the second interpretation is aligned with the treatment proposed under the Standardized approach as defined in Article 128(2)(c) for private equity investments. In Article 128, “private equity investments” refer to a high risk category in itself and, as clarified by Q&A 374, those include units or parts of a CIU for which the underlying exposures are high risk category exposures, i.e. private equity investments. Additionally, the second interpretation is aligned with the Spanish translation of the CRR in which “private equity exposures in sufficiently diversified portfolios” in Article 155 is translated as “exposiciones de renta variable no cotizada en carteras suficientemente diversificadas”.

Final answer

The notion “private equity exposures in sufficiently diversified portfolios” in Article 155(2) and 155(3) CRR does not refer to the colloquial term “private equity fund” but is rather applicable to:

- i) any non-listed equity exposures;
- ii) or exposures to shares or units of CIUs, for which among the underlying exposures there are non-listed equity exposures.

In both cases, in order to be eligible for the treatment set out for private

	equity in Article 155(2) and 155(3) CRR, the respective exposures should be part of sufficiently diversified portfolios. Furthermore, for the case under ii), the conditions set out in Article 152 CRR shall be met.
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