Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	132a
Paragraph	2
Subparagraph	-
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	The risk-weighted exposure amount of the CIU's exposures in mandate based approach
Question	Could the institution use the information from the CIU management company about the notional amount of derivative positions of CIU to assess the value of those derivatives in calculating risk-weighted exposure amount of CIU when using the mandate based approach in accordance with Article 132a(2) CRR? In particular, is the institution allowed to use the information from the CIU management company, that CIU doesn't have derivatives in their portfolio and assess the value of those derivatives as zero in calculating risk-weighted exposure amount of CIU when using the mandate based approach in accordance with Article 132a(2) CRR?
Background on the question	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 collective investment undertaking (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. To calculate risk-weighted assets

	using the MBA institution should take into account balance sheet exposures, off-balance-sheet items and the Counterparty Credit Risk associated with the fund's derivative exposures. Assume, that the CIU’s mandate allow CIU to invest in derivatives only for hedging purposes. But the CIU’s mandate doesn’t specify the notional amount of derivatives position. The institution has information from the CIU management company about: current CIU’s notional amount of derivatives position or lack of derivatives in the CIU’s portfolio. Is the institution allowed to use such an information as base to calculate risk-weighted exposure amount of CIU when using the mandate based approach in accordance with Article 132a(2) of CRR?
Final answer	According to the last subparagraph Article 132(2) of Regulation (EU) 575/2013, as amended by Regulation (EU) 2019/876 (CRR), institutions may use a combination of the look-through approach (LTA), the mandate-based approach (MBA) and the fallback approach (FBA) to determine their minimum capital requirements for credit risk for their exposures in the form of units or shares in collective investment undertakings (CIU), provided that the relevant conditions for applying the LTA or the MBA are met. This also applies at the level of an individual underlying exposure of the CIU. The use of the LTA and the MBA are subject to the conditions set out in Article 132(3) and depend on if institutions have sufficient information about the individual underlying exposures of a CIU or not. Thus, an institution can apply a combination of the LTA for determining the exposure value of an underlying exposure of the CIU, where it has sufficient information provided by the CIU or the CIU management company – even if that information reveals that the CIU does not hold certain types of exposures – and the MBA for determining the maximum risk weight of that underlying exposure, where the necessary information can be drawn from the CIU’s mandate or relevant law, and vice versa.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2022_6670