



## Single Rulebook Q&A

<b>Question ID</b>	2017_3295
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Credit risk
<b>Article</b>	153
<b>Paragraph</b>	5
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	n.a.
<b>Date of submission</b>	16/05/2017
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Individual
<b>Subject matter</b>	Unfunded credit risk mitigation for specialised lending exposures
<b>Question</b>	How should RWA be calculated for unfunded credit risk mitigation when the protected exposure is a specialised lending exposure in respect of which an institution is not able to estimate PDs and used the risk weights in Article 153(5) CRR?
<b>Background on the question</b>	It is common for some specialised lending exposures (especially project finance and object finance) to carry explicit government guarantees or export credit agency (ECA) guarantees. Generally, these guarantees cover

90%-95% of the lending amount and could be from EEA member states as well as non-EEA states. Institutions using the IRB approaches are explicitly allowed to recognize unfunded credit protection by adjusting PD or LGD (according to Article 161 CRR). However, when they are using the risk weights of Article 153(5) CRR under the IRB approach, they are not able to adjust through PD or LGD as the underlying exposure does not have any of these parameters, but only the risk weight as per Article 153(5). On the other hand, Article 193 CRR confirms that eligible unfunded credit risk mitigation should be used under both standardised and IRB approaches and does not specifically exclude the method in Article 153(5) CRR. This causes confusion about how the impact of government and ECA guarantees should be calculated when institutions are using the risk weights in Article 153(5).

**EBA answer**

Article 108 of Regulation (EU) No 575/2013 (CRR) states that for an exposure to which an institution applies the IRB Approach under Part Three, Title II, Chapter 3 but without using its own estimates of loss given default (LGD) and conversion factors under Article 151, the institution may use CRM in accordance with Part Three, Title II, Chapter 4.

However, it is further clarified in Article 193(2) CRR that institutions may use credit protection in accordance with Chapter 4 of the CRR only to the extent that it is not taken into account in the risk-weighted exposure amounts under Chapter 2 or Chapter 3.

Where institutions use an approach for specialised lending exposures as specified in Article 153(5) CRR they assign risk weights to these exposures taking into account factors such as financial strength, political and legal environment, transaction and/or asset characteristics, strength of the sponsor and developer, including any public private partnership income stream, and security package.

The [Commission Delegated Regulation \(EU\) 2021/598 on assigning risk weights to specialised lending exposures](#) (RTS) in accordance with Article 153(5) CRR specifies how institutions should take into account the abovementioned factors when assigning the risk weights to the specialised lending exposures. Those factors are further specified in the form of sub-factors and for some in sub-factor components. The assessment criteria are specified in the Annexes of the Commission Delegated Regulation.

Furthermore, in accordance with Article 3(3) of the RTS, institutions may take into account additional relevant information (an 'additional risk driver') in accordance with Article 171(2) CRR, as far as they consider it jointly with the sub-factor which most closely corresponds to that additional risk driver.

Any unfunded credit protection, including unfunded credit protection associated with a specialised lending exposure, is to be taken into account within these criteria, and hence the effect of such protection should be recognised in the risk weight through classification of exposures to an

	adequate category in accordance with Article 153(5) CRR and not in accordance with Chapter 4.
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