

Single Rulebook Q&A

Question ID	2019_4717
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Liquidity risk
Article	412
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Delegated Regulation (EU) 2015/61 - DR with regard to liquidity coverage requirement
Article/Paragraph	23
Date of submission	14/05/2019
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Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Classification of “Undrawn term loans” under Article 23(1)(b) LCR DA
Question	Where the drawdown of undrawn term loans is gradually disbursed in phases over a certain drawing window and where these drawdowns are contingent to predefined milestones whereby the credit institution has to evaluate whether the milestone is achieved, could these term loans be classified as ‘Undrawn loans and advances to wholesale customers’ according to Article 23(1)(b) of the Commission Delegated Regulation (EU) 2015/61?
Background on the question	In some situations, term loans are not fully drawn at the initiation of the loan. Instead, they are gradually disbursed in phases over a certain drawing window before the repayment period begins. In project finance, such a gradual disbursement of loans is usually linked to milestones of project achievements. Such milestones are predefined and documented in the lending documentation. The credit institution has to evaluate whether a particular milestone is achieved before a disbursement is made. As the project’s progress and the consequent achievement of milestones depends on several contingent factors, an immediate outflow of the full loan over a 30-day period is highly unlikely.
Final answer	Where the drawdown of undrawn term loans is gradually disbursed in phases

over a certain drawing window and where these drawdowns are contingent to predefined milestones that are not linked to the occurrence of idiosyncratic stress of the reporting credit institution or market wide stress circumstances as referred to in Article 5 of the Delegated Regulation (EU) 2015/61, the undrawn portion of such a loan should be included under Article 23 of Delegated Regulation (EU) 2015/61, if (a) the relevant milestone has already been achieved and the amount at the customer's disposal cannot be classified as a credit or liquidity facility according to Articles 31 or 31a (1) of Delegated Regulation (EU) 2015/61, or (b) the relevant milestone has not yet, but might be achieved within the next 30 days. In these cases, the outflow rate to be applied should reflect the likelihood of the undrawn portion of such a loan being drawn down within 30 calendar days.

If the portion of such a term loan, where the relevant milestone has been achieved, can be classified as a credit or liquidity facility, the outflow rate for the corresponding type of counterparty according to Article 31 of Delegated Regulation (EU) 2015/61 applies.

The portion of such a term loan, where all relevant milestones have been achieved and where a disbursement within 30 days has already been agreed by the institution and the customer, the outflow rate for expected outflows to the corresponding type of counterparty according to Article 31a (1) of Delegated Regulation (EU) applies.

In the context of Article 23 of the Delegated Regulation (EU) 2015/61, the undrawn portion would have to be reported in column 010 ('Amount'). The estimated outflow rate should be reported in column 050 ('Applicable weight'). The outflows to be included in the calculation of the LCR should be calculated by multiplying the undrawn portion of such a loan by the corresponding outflow rate and should be reported in column 060 ('Outflow').

Link

https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4717

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