Single Rulebook Q&A

Question ID	2019_4986
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	111
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
Date of submission	05/11/2019
Published as Final Q&A	24/09/2021
Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Partially collateralised loans: CCF - collateral simple method approach
Question	How is the RWA is calculated for the undrawn amount of a partially collateralised loan?
Background on the question	Consider a bank that adopts the Standardised Approach as per the CRR for the calculation of capital regarding credit risk. Exposure categorisation and appropriate risk weights will be assigned according to the CRR. This bank adopts the Financial Collateral Simple Method for credit risk mitigation purposes. Eligible funded and unfunded credit protection as per CRR

	requirements. Under the standardised Approach, the risk weighted capital for commitments are estimated based on a credit conversion factor (CCF) that is intended to reflect the expected usage of the commitment. The CCF factors may differ for each type of the contingent security and its maturity. When calculating the collateral value for the off balance sheet items, this is adjusted by the CCF as well. This results in lowering the collateral value and increasing the value of the calculated RWA for these commitments. The above is observed only for the cases where the commitment is partially collateralised.
EBA answer	Article 111 of Regulation (EU) No 575/2013 establishes how to calculate the exposure value of assets and off-balance sheet items under the standardised approach for credit risk. In a loan where part of the amount has already been drawn and another part has not, the exposure value of the undrawn amount part is calculated following the rules for off balance sheet items. According to Article 111(1), the exposure value of an off-balance sheet item shall be a percentage ranging between 0% and 100%, as applicable, of its nominal value after reduction of specific credit risk adjustments. Nevertheless, whenever an institution uses either funded credit protection as a mitigant of the exposure, the exposure value of an off-balance sheet item will always be 100% of its value, as Article 222(3), 223(4) and 235 require. More specifically, Article 222(3) CRR requires assigning to those portions of exposure values that are collateralised by the market value of eligible financial collateral the risk weight that the institution would assign under Chapter 2, i.e. under the standardised approach for credit risk, where the lending institution had a direct exposure to the financial collateral instrument while the risk weight assigned to the unsecured part of the exposure is the same as that assigned to the original exposure. Furthermore, the value of eligible collateral under the Financial Collateral Simple Method (FCSM) is determined by the market value and is not further adjusted. Lastly, if the exposure is secured by a mortgage on immovable property and fulfills the requirements set out in Articles 124, 125 or 126, the secured part of the exposure is assigned a specific risk weight provided for this exposure class, while the unsecured part is assigned the risk weight of the exposure class to which the obligor belongs. The treatment under the FCSM only applies to funded credit protection. Under the standardised approach, immovable property can be recognised as credit risk mitigation only according to the requirements in Article 124 and

	in Articles 125 or 126 CRR, as applicable and the exposure value of an off-balance sheet item secured by immovable property is determined by the percentage of its nominal value according to points (a), (b), (c) or (d) of Article 111(1) CRR, as applicable. In any case, according to Article 193(1) CRR, no exposure in respect of which an institution obtains credit risk mitigation shall produce a higher risk-weighted exposure amount or expected loss amount than an otherwise identical exposure in respect of which an institution has no credit risk mitigation.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2019_4986