

EBA/CP/2024/11

13/05/2024

Consultation Paper

Draft Regulatory Technical Standards

on equivalent mechanism for unfinished property under Article
124(12) of EU Regulation 575/2013

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in .5.1.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 13.08.2024. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

Article 124 of CRR sets out the requirements for the assignment of risk weights for exposures secured by mortgages on immovable property, i.e. both for residential and commercial property lending. Specifically, Article 124(3)(a)(iii) CRR extends the possibilities to be eligible to the preferential risk weight treatment for retail immovable property under article 125(1) CRR for exposures which are still under construction, where any of the following conditions is met:

- the immovable property does not have more than four residential housing units and will be the primary residence of the obligor and the lending to the natural person is not indirectly financing ADC exposures;
- a central government, regional government or local authority or a public sector entity involved, exposures to which are treated in accordance with Articles 115(2) and 116(4), respectively, has the legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame; alternatively, there is an equivalent legal mechanism to ensure that the property under construction is completed within a reasonable timeframe.

Against this background, the EBA is mandated under Article 124(12) to specify what constitutes an equivalent legal mechanism to ensure that the property under construction is completed within a reasonable timeframe. The CP clarifies that an equivalent legal mechanism requires the existence of a counter guarantee provided by a central government or assimilated entities, on an entity which should have the legal powers and ability to ensure that the property under construction will be finished within a reasonable timeframe and should be required to or have committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable timeframe.

Accordingly, this RTS provide a harmonized framework at European level for the prudential treatment of residential real estate exposures under construction, ensuring comparability of own funds requirements and ultimately achieving a level playing field across the EU.

3. Background and rationale

CRR Article 124(3)(a)(iii) transposes a Basel national discretion under [20.71\(1\)](#), which extends the possibilities to be eligible to the preferential risk weight treatment under article 125(1) for exposures secured by residential immovable property which is still under construction¹, and where the lending is to a natural person.

Among these conditions in Article 124(3)(a)(iii), it is specified that for properties under construction or planned for construction, one of the two conditions must be met: 1) lending is limited to an individual's primary residence, with up to four housing units, and avoids indirect financing of ADC exposures; 2) an involved central government, or an entity risk-weighted as such according to Articles 115(2) or 116(4), with legal powers and ability to ensure timely completion of construction and is either required to ensure this or provide a legally binding commitment. Alternatively, an equivalent legal mechanism is in place to ensure completion of the construction within a reasonable timeframe.

With regard to point 2) above, concerning the possibility that an involved central government or entity risk weighted as such has the legal powers and ability to ensure the completion of the property, this scenario is currently absent in almost the entirety of European Union member states, which currently prevents from using this exception in the majority of them and making this exception applicable could require introducing respective national laws. Therefore, de facto, currently the only possibility for recognising an unfinished immovable property with more than four residential housing units as an exposure secured by an immovable property treated for prudential purposes in accordance with Article 124(2) is that of the equivalent legal mechanism in accordance with the second indent of Article 124(3)(a)(iii).

The approach adopted in this standard specifies three possible conditions in Article 124(3)(a)(iii) that could be further developed under the equivalent mechanism:

- a) **Condition 1:** Where a central government, regional government or local authority or a public sector entity involved, exposures to which are treated in accordance with Articles 115(2) and 116(4) of the CRR, respectively, ...
- b) **Condition 2:** ...has the legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame...
- c) **Condition 3:** ...and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame.

¹ Or it is land upon which a residential property is planned to be constructed where that plan has been legally approved by all relevant authorities, as applicable.

Under the proposed approach, condition 1 is replaced by a counter-guarantee by: i) a central government or ii) by an entity for which exposures are treated in accordance with Articles 115(2) or 116(4) of the CRR. Furthermore, this counter-guarantee should meet all the requirements in Article 214(1) of the CRR other than the requirement for the original guarantee in point (b) of Article 214(1) of the CRR. However, conditions 2 and 3 set out in the previous paragraph are maintained, i.e. an entity (other than a central government or for which exposures are treated in accordance with Articles 115(2) or 116(4) of the CRR), should have the legal powers and ability to ensure that the property under construction will be finished within a reasonable timeframe and should be required to or have committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable timeframe.

Explanatory Box

The approach proposed in the CP requires the existence of a counter guarantee provided by a central government or assimilated entities, on an entity which meets the other conditions specified in the CRR:

- The legal mechanism ensures that this entity has the legal powers and ability to ensure that the property under construction will be finished within a reasonable timeframe and
- the entity is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame.

Q1(a): Are there some practical cases where a central government, regional government or local authority or a public sector entity involved, exposures to which are treated in accordance with Articles 115(2) and 116(4) of the CRR, respectively, has the legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame (i.e. existence of cases referred to in Article 124(3)(a)(iii) of the CRR)?

In the context of Q1(a), please describe in detail the sources of the legal powers and the ability of central government, regional government or local authority or a public sector entity as well as the arrangements regarding the requirement or the commitment to finish the construction in a reasonable timeframe.

Q1(b): Are there some practical cases where legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame is given to an entity that is neither a central government, nor an entity for which exposures are treated in accordance with Articles 115(2) or 116(4) of the CRR (i.e. existence of cases referred to in the current Article 1 of the RTS)?

In the context of Q1(b), please describe in detail the sources of the legal powers and the ability of this entity as well as the arrangements regarding the requirement or the commitment to finish the construction in a reasonable timeframe.

4. Draft regulatory technical standards specifying what constitutes an equivalent legal mechanism ensuring that the property under construction is completed within a reasonable time frame

COMMISSION DELEGATED REGULATION (EU) .../...

of **XXX**

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying what constitutes an equivalent legal mechanism ensuring that the property under construction is completed within a reasonable time frame

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and in particular Article 124(12), thereof,

Whereas:

- (1) Taking into account proportionality while at the same time ensuring strict prudential standards, it is appropriate to consider a legal mechanism as equivalent for the second indent of Article 124(3)(a)(iii) of Regulation (EU) 575/2013 if this legal mechanism ensures that an entity, other than a central government or an entity for which exposures are treated in accordance with Articles 115(2) or 116(4) of that Regulation, has the legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame, and that these obligations of the entity are protected by a counter-guarantee provided by the central government or an entity for which exposures are treated in accordance with Articles 115(2) or 116(4) of that Regulation.
- (2) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (3) The European Supervisory Authorities have conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

HAS ADOPTED THIS REGULATION:

Article 1 – Equivalent Legal mechanism

A legal mechanism shall be deemed as equivalent for the second indent of Article 124(3)(a)(iii) of Regulation (EU) 575/2013 if this legal mechanism meets both conditions in points (a) and (b):

- a. The legal mechanism ensures that an entity, other than a central government, regional government or local authority or a public sector entity involved, exposures to which are treated in accordance with Articles 115(2) and 116(4), respectively, has the legal powers and ability to ensure that the property under construction will be finished within a reasonable timeframe and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame.
- b. The entity's obligations set out in point (a) are counter-guaranteed by a central government, regional government or local authority or a public sector entity, exposures to which are treated in accordance with Articles 115(2) and 116(4), respectively, and this counter-guarantee meets all the requirements in Article 214(1) of that Regulation other than the requirement for the original guarantee in point (b) of Article 214(1) of that Regulation.

Explanatory Box

The EBA has also contemplated an alternative approach, which could capture completion guarantees already in place in several jurisdictions, that provide real estate buyers with a protection against the default of the real estate developer. In case of default of the developer, the guarantor would be responsible for ensuring that the construction is finalised under the terms foreseen in the sale contract for properties under construction signed by the buyer. In some jurisdictions, such completion guarantees are put under national law as a mandatory requirement. From a practical perspective, it means that the guarantor will have the responsibility and the related power to:

- Step in the project and find counterparties on which it could rely to ensure that the project can be finalised. As an example, the guarantor should agree on the involvement of technical companies based on financial considerations to ensure a sound financial management of the construction allowing to respect the initial terms of the sale contract. To achieve it, it may also consider all measures that it considers appropriate to satisfy the completion guarantee. It may appoint an ad-hoc administrator to assist it in the management of the construction project.
- Provide financial support by ensuring the financing of the remaining construction costs to make sure that the project can be finalised.
- Compensating the payments already made by the buyer only in the case of termination of the contract for failure to deliver for specific reasons.

Leveraging on these practical cases, the EBA is asking feedback from the industry on the possibility to recognise private completion guarantees, encompassing institutions or financial sector entities as eligible protection providers as long as they adhere to the following safeguards:

- a) The mechanism is to be enforced by law in a mandatory manner, in particular to ensure that the completion of a residential immovable property with several housing units requires the completion of all the housing units' and any mutually owned parts of this property.
- b) The protection provider is an institution or a financial sector entity subject to capital requirements comparable to those applicable to institutions or insurance undertakings.
- c) The protection provider must meet a minimum level of creditworthiness, represented by a maximum risk weight (RW) associated with a comparable direct exposure to the protection provider of 20%.
- d) Ensuring the equivalent mechanism delivers actual completion of the unfinished property:
 - i. The protection provider should be committed to finance all the remaining construction costs until completion of the property, in case the construction of the property is not finished as originally planned. No caps should be in place for the financing, to prevent that potential budget over-runs lead the construction works to stop, leaving the property unfinished.
 - ii. In the exceptional situation where a completion guarantee is turned into a repayment guarantee for the disbursements already made by the buyer and any other costs expected for the completion of the property (e.g. registration rights costs, costs to early termination of the loan), any financial compensation paid to the buyer should be ultimately pledged to the credit institution granting the loan secured by the unfinished property, to ensure it is not at the free disposal of the obligor (such that the amount paid is either used to finalise the construction or to reimburse the loan secured by the unfinished property).
 - iii. Any guarantee on the completion of the property should meet the following minimum standards:
 - The completion guarantee is direct for the obligor of the exposure for which the unfinished immovable property is recognised as if the construction was already completed, and the rights of this obligor under the completion guarantee are pledged to the institution in a way equivalent to direct credit protection as required by Article 213(1)(a) of Regulation (EU) 575/2013.
 - The extent of the completion guarantee is clearly set out and incontrovertible.
 - The completion guarantee contract does not contain any clause, the fulfilment of which is outside the direct control of the buyer, that would increase the effective cost of the completion guarantee as an

increased risk that the construction is not completed by the real estate developer or that would allow the protection provider to cancel or reduce the completion guarantee unilaterally or could allow the maturity of the protection to be reduced by the protection provider.

- The completion guarantee contract does not contain any clause, the fulfilment of which is outside the direct control of the buyer, that could prevent the protection provider from being obliged to finish the construction or pay out (in case the completion guarantee is turned into an reimbursement guarantee) in a timely manner in the event that the developer fails to finish the construction,
- The completion guarantee contract does not have a fixed maturity, but instead is provided for the period until the completion of the property.
- The completion guarantee contract is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the sales contract between the buyer and the real estate developer.
- Where the construction of the property is discontinued, the buyer has the right to pursue, in a timely manner, the guarantor for completion or re-imbursement under the claim in respect of which the protection is provided. The guarantee is an explicitly documented obligation assumed by the protection provider.

iv. The completion guarantee provider should be independent from and not economically connected to the institution financing the obligor, so that the provider of the mortgage loan (institution) is independent of and not economically connected to the provider of the risk mitigation to that mortgage (protection provider).

v. Finally, a single provider of completion guarantees should be in place for all the housing units in a given residential immovable property under construction, as the coexistence of several providers may hinder coordination for the completion of the whole property.

Q2: With regard to subparagraph (d)(iii)(first indent) above, could you provide insights into how pledging the rights under the completion guarantee functions from both a legal and practical perspective? Specifically, in current market practices, are the rights pledged only upon the default of the obligor? If so, are any measures being considered or implemented to mitigate the legal risks associated with the pledge potentially needing to be upheld by the insolvency administrator under applicable insolvency law, and at last to ensure effective protection of the institution's interests?

ASSESSMENT OF THE REQUIREMENTS FOR AN ALTERNATIVE APPROACH

Minimum credit worthiness (point c)

The maximum RW required for the protection provider has been defined in relation to the minimum RW granted for the secured part under the so-called loan splitting approach (Article 125(1)(a) of the

CRR). This is because the 20% risk weight normally applies to a completed property, while in the case of an unfinished property with a completion guarantee, the institution relies primarily on the protection provider to ensure the completion of the property.

Alternatively, the completion guarantees with higher RW could be recognised, as long as meeting the other requirements set up above, as a financial guarantee (via the substitution approach as defined in Article 235 of the CRR). However, the value of this credit protection (as defined in Article 233(1) of the CRR) is 55% of the property value. The protection provider does not pay any cash amount to the institution but has solely undertaken to pay the costs for completing the property, which for the institution is equivalent to a cash payment of 55% of the property value because the completed property is only recognised with 55% of the property value.

Q3: Could you provide the RW assigned to the entities that are currently protection providers for such completion guarantees, as well as the type of counterparty (i.e. financial institution, other financial sector entity or corporate)? Would, in view of these RW, the alternative treatment as financial guarantee achieve sufficient recognition of completion guarantee?

Minimum requirements on the guarantee (point d)

The approach described above is requesting a wide coverage of the construction risk from the guarantee, i.e. it is not limited to the simple case where the construction works is impeded by financial difficulties faced by the real estate developer.

As such, there are other reasons, not linked to the creditworthiness of the real estate developer, where the construction of the property would not be finished and where the protection provider under a completion guarantee would be required (under the current alternative approach) to intervene. This choice was made on the ground that the equivalent legal mechanism would allow to treat the exposures with unfinished immovable property as if the construction was completed. Hence, the recognition of a guarantee not covering for the whole construction risk would mean that the construction risk beyond the creditworthiness of the real estate developer would not be adequately capitalised. This choice also follows the third condition in the CRR (*“is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame”*), which does not introduce any conditionality on ensuring that the completion will be completed, beyond the completion within a reasonable time frame. Therefore, it should be noted that the equivalent legal mechanism proposed in Article 1 of this consultation paper, which does not change condition 3 of the CRR, is also *de facto* requesting a wide coverage of the construction risk.

Q4: In the case where the requirements on the guarantee would be limited to cover the simple case where the construction works are impeded by financial difficulties faced by the real estate developer, which other mechanisms could ensure the appropriate recognition of the construction risk beyond the creditworthiness of the real estate developer in the own fund requirements?

Scope of application of the approach

The approach described above does not differentiate the equivalent legal mechanism between the type of exposures on which it is used to. Nevertheless, the EBA is considering the relevance of introducing such differentiation between IPRE and non-IPRE exposures.

Q5: Which specificities of IPRE and non-IPRE exposures could warrant differentiated requirements on the equivalent mechanism?

EMPIRICAL ASSESSMENT OF THE EFFECTIVENESS OF THE EQUIVALENT LEGAL MECHANISM UNDER AN ALTERNATIVE APPROACH

Q6: Could you provide empirical evidence of cases where a sovereign outside Europe has intervened to complete an unfinished property?

Q7: The text of Article 124(3)(a)(iii)(second indent) refers to the completion of the property under construction within a reasonable time frame. What is the average time for the protection provider to step in once the real estate developer fails to meet its obligations? What is the average time for the protection provider to complete the construction of an immovable property, once the completion guarantee is triggered? For the previous responses, please specify at what stage the construction was and how many housing units it comprised, if such data is available.

Q8: Do you have any empirical evidence regarding the historical average loss rates for both real estate developers and entities providing completion guarantees? If available, please provide the pertinent empirical data.

Q9: In order to conduct a comprehensive assessment of the completion guarantee risk, could you provide data related to the following indicators over the longest possible time horizon on a yearly basis: [for data collection purposes, we assume that there is only one completion guarantee per project, so that a credit institution should not double count the trigger of a completion guarantee for several housing units in the same property]

- b) Ratio of number of times completion guarantees have been triggered over the total number of projects covered by the guarantees;
- c) Ratio of number of times completion guarantees have been triggered and resulted in completion divided by number of times completion guarantees have been triggered;
- d) Ratio of number of times completion guarantee have been triggered and were ultimately transformed into repayment guarantee divided by number of times completion guarantees have been triggered;
- e) For cases where the Real Estate Developers (REDs) defaulted, ratio of number of times completion guarantees have been triggered but for which the protection provider failed to meet its obligations (e.g. due to deficiency of the protection provider) divided by number of times completion guarantees have been granted.

Article 2

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

[Please choose one of the options below.]

*For the Commission
The President*

*[For the Commission
On behalf of the President*

[Position]

5. Accompanying document

.5.1 Draft cost-benefit analysis / impact assessment

Article 124 CRR sets out the requirements for assigning risk weights to exposures secured by mortgages on immovable property, with Article 124(3)(a)(iii) CRR extending the possibilities for property under construction to be eligible for the preferential risk weight treatment for retail immovable property under article 125(1) CRR, provided that one of the two conditions is met:

- a. Lending is limited to an individual's primary residence, with up to four housing units, and avoids indirect financing of ADC exposures;
- b. An involved central government, or an entity risk weighted as such according to Articles 115(2) and 116(4), respectively, has the legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame; alternatively, there is an equivalent legal mechanism to ensure completion of the property under construction within a reasonable time frame.

Against this background, the EBA is mandated under Article 124(12) CRR to specify what constitutes an 'equivalent legal mechanism in place to ensure that the property under construction is completed within a reasonable time frame'.

As per Article 10(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any RTS developed by the EBA shall be accompanied by an Impact Assessment (IA) annex which analyses 'the potential related costs and benefits' before submitting to the European Commission. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

The EBA has prepared the IA contained in this consultation paper, which analyses the policy options considered. Given the nature of the topic, the IA is qualitative.

Problem identification and baseline scenario

Article 124(3)(a)(iii) second indent CRR states that an involved central government or an entity risk weighted as such that has the legal powers and ability to ensure the completion of the property under construction is a sufficient condition for preferential risk weight treatment for retail immovable property. However, this setup is not widespread in EU Member States, rendering this condition obsolete in most of them.

Alternatively, an equivalent legal mechanism to be eligible for the preferential risk weight treatment can be in place. Yet, the definition or specification of what constitutes an equivalent legal mechanism is not sufficiently addressed in the current text.

Policy objectives

The main objective of this RTS is to provide a harmonized framework at European level for the prudential treatment of residential real estate property under construction, ensuring comparability of own funds requirements, and ultimately achieving a level playing field across the EU.

Options considered

In preparing this RTS, the EBA considered two policy options:

- a. **Baseline approach** toward an equivalent legal mechanism. Such an approach requires the existence of a counter-guarantee provided by a central government or assimilated entities, assuming that the additional conditions set out in Article 124(3)(a)(iii) CRR are maintained; that is, (i) the entity has the legal powers and ability to ensure the property under construction will be finished within a reasonable time frame, and (ii) the entity is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame;
- b. **Alternative approach** toward an equivalent legal mechanism. Such an approach captures completion guarantees, which offer real estate buyers protection against the default of the real estate developer, which could be triggered by a lack of funds to complete the property. To this end, questions naturally arise in connection with the minimum credit worthiness, the minimum requirements for the guarantee, or the scope of application.

Assessment of the options and the preferred option(s)

Taking into account proportionality and ensuring strict prudential standards, the assessment considers both the applicability and the equivalence of the legal mechanism.

In terms of applicability, it is expected that Option a. is unlikely to cover many existing schemes, as the setup outlined in the provisions of the CRR simply does not exist in almost all EU Member States. Option b., due to its more comprehensive approach, is likely to allow some more national schemes to be at least partially eligible as an equivalent legal mechanism.

In view of the equivalence with the provisions in the second indent of Article 124(3)(a)(iii) CRR, it is expected that the relatively marginal changes to the outlined provisions will ensure equivalence in Option a. For Option b., equivalence from a risk assessment perspective is not easily ensured in practice—inter alia in relation to issues such as the pledging of guarantee rights, the minimum credit worthiness of the protection provider, or the conditions under which the guarantee is ultimately triggered. In particular, the criteria put forward in the alternative approach are unlikely

to be sufficient to ensure that the mechanism can actually be considered equivalent to the CRR provisions.

Consequently, the preferred option is the baseline approach (**Option a.**) toward an equivalent legal mechanism that effectively ensures strict prudential standards and effective equivalence with the provisions of the CRR.

.5.2 Overview of questions for consultation

Q1(a): Are there some practical cases where a central government, regional government or local authority or a public sector entity involved, exposures to which are treated in accordance with Articles 115(2) and 116(4) of the CRR, respectively, has the legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame (i.e. existence of cases referred to in Article 124(3)(a)(iii) of the CRR)?

In the context of Q1(a), please describe in detail the sources of the legal powers and the ability of central government, regional government or local authority or a public sector entity as well as the arrangements regarding the requirement or the commitment to finish the construction in a reasonable timeframe.

Q1(b): Are there some practical cases where legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame is given to an entity that is neither a central government, nor an entity for which exposures are treated in accordance with Articles 115(2) or 116(4) of the CRR (i.e. existence of cases referred to in the current Article 1 of the RTS)?

In the context of Q1(b), please describe in detail the sources of the legal powers and the ability of this entity as well as the arrangements regarding the requirement or the commitment to finish the construction in a reasonable timeframe.

Q2: With regard to subparagraph (d)(iii)(first indent) above, could you provide insights into how pledging the rights under the completion guarantee functions from both a legal and practical perspective? Specifically, in current market practices, are the rights pledged only upon the default of the obligor? If so, are any measures being considered or implemented to mitigate the legal risks associated with the pledge potentially needing to be upheld by the insolvency administrator under applicable insolvency law, and at last to ensure effective protection of the institution's interests?

Q3: Could you provide the RW of the entities that are currently protection providers for such completion guarantees, as well as the type of counterparty (i.e. financial institution, other financial sector entity or corporate)?

Q4: In the case where the requirements on the guarantee would be limited to cover the simple case where the construction works are impeded by financial difficulties faced by the real estate developer, which other mechanisms could ensure the appropriate recognition of the construction risk beyond the creditworthiness of the real estate developer in the own fund requirements?

Q5: Which specificities of IPRE and non-IPRE exposures could warrant differentiated requirements on the equivalent mechanism?

Q6: Could you provide empirical evidence of cases where a sovereign outside Europe has intervened to complete an unfinished property?

Q7: The text of Article 124(3)(a)(iii)(second indent) refers to the completion of the property under construction within a reasonable time frame. What is the average time for the protection provider to step in once the real estate developer fails to meet its obligations? What is the average time for the protection provider to complete the construction of an immovable property, once the completion guarantee is triggered? For the previous responses, please specify at what stage the construction was and how many housing units it comprised, if such data is available.

Q8: Do you have empirical evidence regarding the historical average loss rates for both real estate developers and entities providing completion guarantees? If available, please provide the pertinent empirical data.

Q9: In order to conduct a comprehensive assessment of the completion guarantee risk, could you provide data related to the following indicators over the longest possible time horizon on a yearly basis: [for data collection purposes, we assume that there is only one completion guarantee per project, so that a credit institution should not double count the trigger of a completion guarantee for several housing units in the same property]

- a) Ratio of number of times completion guarantees have been triggered by the total number of projects covered by the guarantees;
- b) Ratio of number of times completion guarantees have been triggered and resulted in completion divided by number of times completion guarantees have been triggered;
- c) Ratio of number of times completion guarantee have been triggered and were ultimately transformed into repayment guarantee divided by number of times completion guarantees have been triggered;
- d) For cases where the Real Estate Developers (REDs) defaulted, ratio of number of times completion guarantees have been triggered but for which the protection provider failed to meet its obligations (e.g. due to deficiency of the protection provider) divided by number of times completion guarantees have been granted.