

EBA Draft Regulatory Technical Standards on Assigning Risk Weights to Specialised Lending Exposures under Article 153(9) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

Key Points

1. We welcome the initiative of the European Banking Authority (EBA) to review the assignment of risk weights to Specialised Lending Exposures. The slotting criteria is a very important framework that allows banks, without the capacity to estimate internal PDs, to compute capital requirements and to enhance their internal risk management processes through the usage of a more simplified approach.
2. We remind that specialized lending segment includes operations that are very unique and specific in nature, with strong links with the jurisdictions' laws and environment which support the need for a more general approach, rather than a more prescriptive one (e.g. legal, political and economical environment are very important aspects when assessing the risk of these exposures).
3. We agree with the use of the slotting criteria for other IRB segments. There are obvious advantages in extending it to other asset classes, namely for IRB corporate exposure segments that are characterized by low default populations. As highlighted in the EBA's discussion paper "The Future of IRB approach", low default/ low population portfolios represent a risk for the credibility of the IRB approach and, in our opinion, one way to tackle it could be by adopting a similar slotting criteria as the one defined for specialized lending.
4. We also welcome the maintenance of the majority of the variables defined by Basel Committee on Banking Supervision (BCBS), almost 10 years ago, which allows the existence of a comprehensive approach, with an extensive set of variables, available for banks to correctly assign a category and calculate the corresponding capital requirements.
5. Although we support the need for harmonized rules regarding the combination of each factor score to compute the overall category of a specific operation, we do not agree with the options proposed (as they stand). A too prescriptive approach as the one proposed in the consultation document does not allow the flexibility needed to accommodate different realities, different jurisdictions as well as different and very unique operations and clients.
6. Regarding option 1, the imposition of a category ceiling if just one of all factors receives a category 4 "grade", regardless of how all the remain factors are scored, should be avoided. Although we agree that some variables could be absorbent in their status (in which a bad category score for a specific variable is extended to the overall operation through the assignment of the worst category), this should not be applied, as a "blind rule", to every single variable/ factor. The selection of the variables to which an absorbing status is applied should be defined by banks according to their experience and credit policies, not by the regulators/supervisors that should assess, subsequently, if the rules defined by banks effectively address the risk of the exposure and are align with the bank's risk appetite.

7. Although we are more supportive of option 2, there are two major concerns if it is adopted as it stands. First, due to the specific characteristics of each specialized exposure, there are cases in which some factors do not apply. As such, if a set of variables are not applicable for a specific operation, it does not make sense that “administrative” floors are put in place as they could undermine the true risk profile and risk assessment of the exposure. Second, the definition of a 10% floor does not account for possible changes on the significance of each variable over time for the overall “score” of the exposure.
8. Based on these aspects and concerns, we conceptually support an approach more in line with option 2, but without making the 10% floor mandatory. Any floor should be indicative and subject to the supervisor assessment and approval, on a case by case basis.