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& financial services

European Banking Authority

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)

11 August 2015

Dear Sirs

The British Bankers' Association ("BBA") is the leading trade association for the UK banking sector with 200 member banks headquartered in over 50 countries with operations in 180 jurisdictions worldwide. Eighty per cent of global systemically important banks are members of the BBA. As the representative of the world's largest international banking cluster the BBA is the voice of UK banking.

All the major banking players in the UK are members of our association as are the large international EU banks, the US banks operating in the UK and financial entities from around the world. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum encompassing services and products as diverse as primary and secondary securities trading, insurance, investment banking and wealth management, as well as deposit taking and other conventional forms of banking.

Our members manage more than £7 trillion in UK banking assets, employ nearly half a million individuals nationally, contribute over £60 billion to the UK economy each year and lend over £150 billion to UK businesses.

The BBA is pleased to respond to the EBA's consultation on Assigning Risk Weights to Specialised Lending Exposures.¹

We would be happy to have further discussion with the EBA to explain in further detail our comments.

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¹ <https://www.eba.europa.eu/documents/10180/1068081/EBA-CP-2015-09+CP+on+Assigning+RWs+to+Specialised+Lending+Exposures.pdf>

Use of Supervisory Slotting within the UK

In 2011 the PRA removed UK regulated firms permission to use PD models to calculate regulatory capital requirements for Income Producing Real Estate exposures and instead mandated the use supervisory slotting. UK firms have built-up a wealth of experience as they have implemented and operated this slotting approach. In addition, many selected UK firms also apply supervisory slotting to types of specialised lending other than Income Producing Real Estate exposures.

Slotting has therefore been in place for a number of years and UK firms have revised their risk appetites and adjusted their portfolios in response to the level of capital required under each slot category. This is observed within the consultation paper's cost-benefit analysis which notes that the majority of UK exposures occur within the "strong" and "good" categories which reflects the viability of originating exposures within the lower slot categories and not necessarily inconsistent application of the slotting criteria compared to other jurisdictions.

The consultation paper observes that the UK accounts for in excess of 60% of all EU slotted exposures and as a result we believe that the UK experience should be given significant weight by the EBA as it finalises the standard. We are concerned that the proposed RTS does not seem to give weight to evidence this.

CRR Approach to Supervisory Slotting

CRR Article 153(5) requires: *In assigning risk weights to specialised lending exposures institutions shall take into account the following factors: 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.*

For each of the factors there is a further set of sub-factors which were originally defined in Annex 6 of the Basel Accord. We appreciate the EBA objective of promoting international consistency by adopting the Basel Accord slotting criteria which are already being used by UK firms and, we understand, many other jurisdictions. The EBA may wish to conduct a review of all the approaches that are being used to calculate risk weighted assets and expected loss worldwide in conjunction with the Basel Committee before finalising the RTS.

Our interpretation of the EBA Regulatory Technical Standards

Article 153 (9) requires that the *EBA shall develop draft regulatory technical standards to specify how institutions shall take into account the factors referred to in the second subparagraph of paragraph 5 when assigning risk weights to specialised lending exposures.*

The EBA has interpreted the CRR as also requiring an additional prescriptive methodology, to be adopted by all institutions, to assess the factors and combine the outcome in one of two ways (Option 1 and Option 2).

Our interpretation of the level 1 text is that this additional methodology has not been mandated by the CRR and our interpretation is that this additional mandatory step to set out mandatory prescriptive methodology is not required.

If the EBA believe it is required we recommend an assessment of the UK firm's approaches which have been reviewed by the UK PRA.

If the EBA has specific concerns on the implementation of slotting within the UK we would recommend a review - in conjunction with UK PRA - of current industry UK practice, rather than trying to address perceived issues through this RTS.

Overall Comments

Our interpretation of the consultation paper is that the EBA is inviting industry response on two different – but related – topics, namely 1) the interpretation of Article 153 (9) and 2) the overall scope of the approach to Specialised Lending Exposures (SLE).

The focus of our response is on the former and with respect to the latter, we have – where appropriate – included comments as they relate to the RTS, but where our comments relate to the overall scope of SLE we have set out these in Appendix 2.

Key Messages

- 1) Our opinion is that the existing standards developed and implemented in the UK that have undergone extensive internal model governance, in accordance with IRB standards, and reviewed by the UK PRA, are compliant with the CRR ². Recent reviews by the UK PRA have not indicated any material concerns with the approaches that UK regulated entities (and UK head-quarters of foreign subsidiaries) have adopted to determine the risk weighting percentage.
- 2) We think that the implementation of either Option 1 or Option 2 would be a retrograde step for the identification of the risk of these exposures to UK regulated institutions which account for in excess of 60% of all EU exposure reported using this approach and would not be a proportionate response.
- 3) Therefore we do not support either of options as we believe the harmonisation of the slotting criteria is sufficient to meet the CRR requirement.
- 4) We think that the EBA should pause to conduct a thorough review of all SLE within the EU inclusive of those exposures that are reported on the Standardised Approach and IRB (Foundation and Advanced) approaches before reaching any decision on the need for any prescriptive approach to determining the slotting.
- 5) However, if the EBA still decide that its only choice is Option 1 or 2 we observe that Option 2 has fewer limitations than Option 1.
- 6) For Option 2 we think that the EBA should eliminate both a minimum weighting of 10% for each factor and the requirement to use contractual maturity (- please refer to our comments set out below).

² In order to achieve consistency in the assignment of specialised lending exposures to categories and in line with the requirement of consistency in the assignment to grades or pools, referred to in point (a) of Article 171(1) of Regulation (EU) No 575/2013, institutions should specify for each type of exposure how the different factors are combined in the final assignment of the specialised lending exposure according to one of the categories of Table 1 of the first subparagraph of Article 153(5) of that Regulation.

Comments on the overall scope of SLE

We support European consistency for the determination of RWA and EL and comparability across institutions.

However, in this context, the EBA consultation paper does not consider how the RWAs under Slotting compare to those for similar portfolios under a FIRB, AIRB or Standardised approaches, which may be used in other EU jurisdictions. We note that the CRR mandate does not extend to this.

The supervisory discretion to allow IRB modelling vs slotting has a much greater impact on comparability of the capital requirement (and estimation of expected losses) than the methodology used to assign an exposure to a slot.

We suggest that the EBA should undertake a Hypothetical Portfolio Exercise or Benchmarking across all models, slotting, securitisation and standardised approaches to help establish comparability across the entire scope of EU regulated banks.

The EBA may then go on to consider a holistic review of the IRB treatment for all Specialised Lending not simply the Slotting approach in isolation.

In summary we think that if the wider industry concerns are addressed it will be more conducive to creating consistent risk weights for the same type of risk across jurisdictions. In particular we would make the following observations:-

1. We think that the consultation paper's proposal for harmonisation, beyond aligning with the criteria in the Basel Accord, will deliver little benefit for the costs it will incur to implement.
2. Currently, granularity of the slotting categories results in heterogeneous exposures being assigned the same risk weight. Further down the risk spectrum, transactions with quite different risk characteristics will be grouped together in the same category due to the small number of categories.
3. We think that there should be more granularity in slot categories with risk weights below 70% to allow domestic UK banks, for example, to support the range of risks to Property companies and allow more balanced risk management of their exposures.
4. Slotting has had the desired effect of diversifying the debt investor base and adding liquidity. With a minimum 70% RWA weighting for Slotted debt investors, it has been relatively easy for new entrants or other jurisdictional competitors to support transactions towards the safer end of the range of exposures. We are concerned that if the cycle turns these institutions may retrench to domestic markets. This may result in the indigenous banks picking up only the low risk weighted exposures during a downturn.
5. It is our desire to have a more even playing field for all participants through analysis across jurisdictions and also more in-depth understanding of the UK / Spanish slotting approaches.

6. Slotting if done properly is an effective tool in assessing what can be esoteric deals, whose risk characteristics vary greatly transaction by transaction the assessment of which cannot easily be automated. Thus the PRA (FSA) original guidance, explicitly avoided rigid models, an approach which we continue to support and should be replicated in the EBA RTS.
7. We think that the consultation paper's proposal for harmonisation, beyond aligning European practice with the existing criteria in the Basel framework, will deliver little benefit when balanced against the likely implementation costs..

8. Question 1:

- **What are the operational challenges of using the slotting approach?**
- **Is it possible to obtain comparable capital requirements across institutions using the slotting approach?**
- **Should the slotting approach in your view be extended to other types of exposures, and if yes, for which types of exposures would this be particularly useful?**

Operational challenges

The existing slotting approach methodologies developed by UK institutions do not present particular operational challenges as they have been used by UK banks for a number of years. The processes are embedded in credit risk management, and in IT systems, they comply with IRB model governance and have been tailored to take into account geographical nuances of the exposures of institutions regulated by the PRA.

However, implementation of either of the proposed EBA Options would result in operational challenges and costs for UK institutions as they modify (needlessly in our view) their methodologies, systems and processes in order to comply with the RTS.

If institutions are required to redesign their existing Specialised Lending approaches to use any of the proposed approaches in their current format, this would have the following implications:

- 1) A full re-design and re-calibration of the slotting approaches.
- 2) A higher level of human intervention as the outputs of the approaches will have a greater divergence from expert opinion which may undermine confidence in the use of the approach.

with the consequence that there will be an increased and unnecessary level of review to specifically calibrate the subjective opinion of their experts across each of the risk factors as well as the final grade.

We understand that compliance would be required soon after the final RTS is published. We think that this requirement is unrealistic and a number of years to transition to a new methodology will be required.

We urge the EBA to take into account the cost-benefit analysis, administrative, management and systems costs that would be imposed on firms if they were required to move to a prescriptive approach to assigning risk weights.

Comparability

We recognise that addressing incomparability falls outside the scope of this consultation, but it is worth noting how much less significant the comparability challenges within the Supervisory Slotting Approach are relative to those between it and the IRB PD/LGD Approach. Therefore, it might only be possible to obtain a high degree of consistency through a pan-European application of the Slotting approach.

Supervisory slotting is a simple approach. It does not provide granularity of risk-sensitivity because the effect is that exposures are grouped into 4 - just four - broad buckets.

The proposed approach leads to the same regulatory risk weights and expected loss being applied across a wide range of heterogeneous exposures within each category for institutions that can not model PD /LGD and or are not permitted to do so by their regulator e.g. the UK PRA.

The outcome gives the illusion of comparability because of the absence of granularity of risk weights.

This lack of granularity can impact upon an institution's ability to write business and hence support its customers. Specifically, it may lead to step jumps in capital and reductions in client returns, thus forcing institutions to turn down business, which would be otherwise acceptable under a more granular risk assessment.

One mitigation to the above might be to introduce more granular categorisation, as under the current EBA proposals a 10% LTV, well structured credit, attracts the same level of RWA as a 50% LTV 'Strong' rated entity, this leads to a bifurcation of the market for those that are requiring to apply slotting and allowing other institutions to house a safer, broader portfolio distribution derived from PD models.

Extension of the approach to other types of exposures

We do not believe there are other types of exposures for which extension would be appropriate.

Question 2:

- **What would be the preferred approach for the combination of the factors into a final assignment to a category?**
- **What are the advantages and drawback of either approach?**
- **Are both Options equally clear or should further guidance be provided?**
- **Are there other approaches that could be used to harmonise how the different factors are combined into a final assignment for the risk weight?**

We do not support either Option and do not believe that it is a requirement of CRR for the EBA to prescribe this level of application.

The following table shows the outcome of Option 1 v Option 2 based upon the same score for each factor with a minimum weighting of 10% as proposed.

Factor	Option 1		Option 2	
	Score	Score	Weighting	Weighted Score
1	1	1	22.50%	0.225
2	1	1	22.50%	0.225
3	1	1	22.50%	0.225
4	4	4	10.00%	0.400
5	1	1	22.50%	0.225
			100.00%	1.300
Overall	3	1		

Option 1 results in the risk being assessed whereby the final assignment can only be at most one step lower than the cardinal number of the highest category of all factors. Therefore, if four of the factors are rated Strong and one factor is rated Weak, this rule implies the overall final assignment cannot be better than Satisfactory. The approach results in a de-facto implied increase - but indeterminate – in the weighting of every factor that is higher than the lowest factor. This approach may therefore result in an inappropriate weighting of one factor such as the strength of the sponsor and ignore the overall strength derived from the four factors. Refer to the example set out above:

We do not support Option 1 as it is conceptually unsound from a common sense perspective and as seen in the example above, will result in the overall risk been assessed as Satisfactory. On a pure expert judgment assessment the overall assignment of the risk should be no worse than Good and may even be judged to be Strong.

Option 2 comes with a weighting for each factor.

The proposed RTS could promote consistency across institutions if the Slotting approach was adopted across the European countries (i.e. eliminating IRB (Foundation and Advanced Approaches) and the weights are prescribed in a similar fashion.

Yet, with a proposed floor of a minimum 10% weighting for each factor, the draft RTS ignores the fact each factor has a different number of sub-factors and assumes all factors must have an impact upon the overall weighting. This may not be the case thus leading to the assignment of a risk weight that may not be appropriate.

For instance it may be that for certain facilities the intrinsic strength of the exposure is unaffected by a poor sponsor and or by the absence of security. Imposing a minimum weight for some factors may therefore inappropriately change the risk weighting.

In the example under Option 2 the overall risk would be assessed as Strong. However, Option 2 also has deficiencies as:

- Each factor can only be rated with a cardinal number. In effect each factor is assessed as 100% Strong, 100% Good, 100% Satisfactory or 100% Weak while in reality each sub-factor and thus each factor will be within a range of exceptionally Strong to exceptionally Weak derived from the assessment of the sub-factors.
- Not all sub-factors and or factors may be relevant to every exposure. For example the strength of the sponsor may be less relevant at different points of the cycle or for real estate with very strong locational and other characteristics. The LTV may not be appropriate determinant of the current risk etc.

We disagree with a floor (other than 0%) for the weighting of any factor. We think that any floor:

- a) is contrary to the application of human judgement that is a necessary part of any credit assessment process,
- b) fails to sufficiently take into account all the factors provided by CRR Article 153(5) and
- c) ignores the possibility that, having considered a particular factor (as required by the Basel framework), a firm might quite legitimately conclude that it merits a lower weighting (potentially down to zero).

We observe that a floor of 0% would provide the opportunity and responsibility for institutions to set out and document their approach and this would be preferable and we think would be in compliance with the RTS and internal development and review standards.

We therefore consider that Option 2 - although better than Option 1 - is also unsatisfactory from a slotting perspective.

We recommend that further guidance is given on:

- a) Clarification of whether the factor weighting floor under Option 2 would be EBA prescribed, will be subject to local regulatory discretion and or individual bank discretion.
- b) Confirmation that the EBA does not intend to provide any direction on the weighting of the sub-factors.

Further guidance - Maturity

The EBA proposes *that given that the remaining maturity of a specialised lending exposure is crucial in the determination of the appropriate risk weights for specialised lending exposures, and given that the remaining maturity of such exposures is not merely established in the contractual provisions, but might be altered subsequently, the determination of the length of the remaining maturity of the exposure as either 'less than 2.5 years' or 'equal or more than 2.5 years' as provided in Table 1 of Article 153(5) of Regulation (EU) No 575/2013, should be based on the higher of the contractual remaining maturity and the expected remaining maturity of the exposure.*

We think that this proposal is outside the EBA's mandate set by Article 153(9), which relates to the second subparagraph of Article 153(5) and does not cover table 1, and we believe should be removed in the final technical standard.

Having said that, our opinion is that the applicable remaining maturity for slotting should be the contractual maturity. This would be consistent with the A-IRB and Standardised Approaches for credit risks. This is also consistent with the guidance set out in the Basel text para 277.

At national discretion, supervisors may allow banks to assign preferential risk weights of 50% to "strong" exposures, and 70% to "good" exposures, provided they have a remaining maturity of less than 2.5 years or the supervisor determines that banks' underwriting and other risk characteristics are substantially stronger than specified in the slotting criteria for the relevant supervisory risk category.

Other approaches

It is our opinion that there are alternative approaches to determine the risk weighting. Our members have a range of practises that comply with IRB governance and have been reviewed by the UK PRA. We think that it would be useful for the EBA to conduct a review of those approaches. The BBA would be happy to work with the EBA to conduct the research.

Proposed enhancements

We believe that there is still further work is required in order to avoid the threat of the draft RTS methodology introducing and or exacerbating pro-cyclicality. The current slotting approach is dominated by point-in-time market conditions with no distinct forward-looking elements that could have positive counter-cyclical effects. Please refer Appendix 1 Q2 for our proposals.

Overrides

We do not agree with the inclusion of references to CRR Article 172(3) in the draft standard.

Slotting is not a modelled approach and using human judgement is a key input into the slotting assignment, but not an override. Article 172(3) is an IRB model requirement and applying this to slotting is not appropriate. We note that if the EBA opts to mandate either of the super-prescriptive Options 1 or 2, for determining the final slot, any adjustments after this step could be considered an override.

Question 3: Do you agree with the classification of specialised lending and the descriptions given?

The classification and descriptions are set out in the Basel text and the CRR. We note that the CRR differs slightly from the Basel text, however, do not think changing the CRR is within the scope of this RTS. We therefore do not see how any changes can be legitimately proposed.

Nonetheless, for the record, the proposed definitions appear to de-link the cash flows generated by the asset from the prospects for recovery and repayment. Given that the risk weights are intended to reflect a combination of the Probability of Default (repayment) and Loss Given Default (recovery), it is unclear to us why the EBA has chosen to make these changes in the definitions of these asset classes.

In our view, the final RTS could be enhanced by describing the rationale as to why the EBA sought it necessary to change the definitions of the various specialised classes while retaining the original Basel assessment criteria.

We also note that the IPRE asset class is also being renamed 'real estate' – dropping the 'Income Producing' at the beginning.

Nevertheless, we do not believe that the proposed definitional changes will materially affect the existing categorisation across our Specialised Lending portfolios.

Question 4: Do you agree with these documentation requirements for each specialised lending exposure for which risk weights are assigned according to this Regulation?

Yes, we agree.

Question 5: Do you have any suggestions or comments on the assessment criteria for project finance?

No.

Question 6: Do you have any suggestions or comments on the assessment criteria for real estate?

Whilst we support the EBA's approach of avoiding divergence from the Basel text we have identified the following specific areas where changes might nevertheless be considered. These are:

1. In relation to loans against properties under construction where the existing criteria do not, in our view, make appropriate provision;
2. The need to distinguish appropriately between loans against single tenant and multi-tenanted properties where the different considerations that apply are not adequately recognised by the criteria;
3. Clarification of the definitions / requirements for some of the criteria in relation to:
 - a. Financial Strength (b) – the text offers the alternative of ICR in place of DSC. This is positive, as it does not penalise amortising structures. Consideration might also be given to how scores may be improved by the provision of partial capital recourse to the relevant sponsor / sponsors.
 - b. Financial Strength (c): the text addresses lending secured on a single property, however a specialised lending SPV can contain multiple properties. The criteria could be expanded to advise upon how LTV / leverage against cross-collateralised pools of loans and entities with other assets on their balance sheet should be treated.
 - c. Financial Strength (d): in the case of development transactions, contingencies are usually found outside of the property / site in question (i.e. within the project budget or via a cost overrun guarantee). This fact could be brought into scope of the criteria.
 - d. Financial Strength (e), third bullet – we are uncomfortable with the term “investment grade” being employed as (1) it only covers entities with publically issued debt and (2) it compromises the independence of a bank's credit process with a third party view.
 - e. Strength of Sponsor/Developer (a) – the term “substantial” could be better defined.
 - f. There is scope to simplify the assessment criteria by removing the following specific sub-factors, which are adequately accounted for in other sub-factors:
 - i. Strength of sponsor – Relationship with Real Estate participants
 - ii. Financial Strength - Market Conditions
 - iii. Asset Characteristics - Design and Condition of asset

- g. Better differentiation can be achieved by including separate assessments of LTV, DSCR and Interest Cover rather than combining these into one assessment.
- h. Debt Yield should be considered as a financial assessment.
- i. Specific reference should be made to refinance risk under Transaction Characteristics.

Question 7: Do you have any suggestions or comments on the assessment criteria for object finance?

No.

Question 8: Do you have any suggestions or comments on the assessment criteria for commodities finance?

No.

Question 9: Do you have any suggestions or comments on the Impact Assessment?

We believe the stated objectives of the RTS over-emphasise the perceived benefits of harmonising the combination of factors into a final category assignment which may not be within the legislative remit of the EBA. In our opinion the RTS under-emphasises the need for mitigation of systemic risk associated with SLEs (notably, in the case of IPRE, by building counter-cyclicality into the criteria or the way they are used). The EBA may wish to provide guidance on this matter on which our members would be willing to provide input.

More than three quarters of exposures subject to slotting occur only in two countries (the UK and Spain) - and there are significant difference between the market conditions and the nature and condition of the banking systems in different member states. So we do not reach the same conclusion as the EBA that a prescriptive allocation approach is required in order to promote harmonisation.

We agree that harmonisation through consistent criteria makes sense and therefore support the alignment with the Basel framework. However, it is difficult to see how the need for harmonisation in terms of permitted methodologies for assigning risk weights can be fairly assessed without more information than the EBA has provided (for example, a comparison similar to that in Tables 1 and 2 in relation to the SLE lending under F-IRB and A-IRB alongside SLE lending under slotting).

We suggest a Hypothetical Portfolio Exercise would help establish RWA comparability for the portfolios under Slotting and for similar portfolios under a FIRB, AIRB or Standardised approaches.

Based on the potential advantages and disadvantages of harmonising the combination of different factors set out in Table 5 of the EBA consultation paper, we do not agree that *“it is reasonable to conclude that harmonising the combination of the different factors would to a certain extent contribute to a greater consistency of capital requirements at a minimum cost”*, nor that *“it is therefore the most cost-effective approach”*.

The redevelopment and implementation costs, which will proportionally more greatly affect UK and Spanish institutions, have not been fully considered, and the benefits (of solving a problem we do not think exists) have not been quantified. Due to the broad nature of each slot category we would not expect significant movements in allocation of exposures to slots, and therefore the capital impact of undertaking this exercise is expected to be immaterial and does not justify the additional implementation costs for firms and regulators.

In conclusion, we support step (a) to mandate a harmonisation of the slot criteria used to determine an assignment, and welcome this step. We do not support step (b) to further prescribe how the factors are combined and the introduction of a maturity definition, and believe forcing this additional step on predominantly UK and Spanish banks is not required and not proportional to any perceived EU-wide harmonised outcome.

Appendix 1: Suggestions for further guidance

Question 2:

- Are both Options equally clear or should further guidance be provided?

For IPRE

- 1) The assessment of security should be binary (adequate/not adequate) and where considered to be “not adequate” the case cannot be better than the “weak” category. For cases which have adequate security, the assessment then takes into account all the other factors.
- 2) Specification of material questions whose factor (or sub factor) category assessment cap the overall Slotting category assessment. The assessment can be no better than the best answer to any of the material questions. To achieve consistency the material factors/sub-factors should be defined by the regulator. We apply this principle at sub-factor level and consider the following to be the material sub-factors:
 - I. Financial Ratios and advance rate
 - II. Cash Flow Predictability, Complete & Stabilised
 - III. Location
 - IV. Strength of Sponsor: Financial Capacity & Willingness to support the property
 - V. Strength of Sponsor: Reputation and track record with similar properties.
- 3) The addition of a category reserved for deals of the very highest quality reflected in the Risk Weight of < 70% (for maturities of >2.5 years).

For Project Finance

- 1) Specification of material factors or sub-factors whose score acts as a cap for the assessment. The assessment can be no better than the best rating for any of the material questions. Material questions could be defined by the Regulator. This principle would be applied at sub-factor level and consider the following to be the material sub-factors.
 - I. Stress Analysis.
 - II. Stability of Legal and Regulatory Environment (Risk of Change in Law).
 - III. Enforceability of Contracts, Collateral and Security.

Appendix 2
Supplementary Comments
Question 1:

- **Is it possible to obtain comparable capital requirements across institutions using the slotting approach?**

The current approach suffers from the fact that the risk weight percentage and expected loss percentage values are not calibrated with IRB PD/LGD approaches that are permitted by many competent authorities. The consequence is that the most material incomparability between institutions comes not from the outcome from the Supervisory Slotting Approach, but from the difference between the outcomes derived from the IRB PD/LGD vs the Supervisory Slotting Approach.

Question 2:

- **Are there other approaches that could be used to harmonise how the different factors are combined into a final assignment for the risk weight?**

A weight-based methodology could be successful if it is applied consistently across the various countries to ensure RWA comparability at pan-European level. But, the subjective judgement should remain a significant part of the Slotting assessment.

If concerns remain regarding the specific slotting outcomes in the UK this should not be addressed through prescribing the methodology for combining factors into a final slot. We would instead recommend the EBA conduct a review of the actual approaches in place in those institutions (together with the relevant competent authorities) which have long-term experience of developing methodologies to determine the overall final assignment of risk. We believe that a review of the UK institutions would result in confirmation that existing slotting processes are robust and comply with the IRB governance standards and results in appropriate allocation of counterparties to slots.

We draw the EBA's attention to data that has been published with regard to CRE loans that have been securitised. For example Barclays and Bank of America Merrill Lynch publish interesting research on the performance of these asset classes from time to time.

We would suggest that the EBA may wish to review all the SLE within all European bank's balance sheets, to compare CRE loans to securitised CRE loans, review loss data and loss recovery rates, model performance of IRB models, to assess which metrics and features in lending are associated with particular performance outcomes.

We recognise that all this is outside the scope of the EBA mandate, but nonetheless think that this could be carried out in conjunction with a wider review of SLE before the EBA finalise the RTS, which as we have set out in this response we do not support.

END