1. **<u>Respond to a question stated</u>**

<u>Question 4: Do you have specific concerns related to the recognition of collateral in the modelling of LGD? How do you currently recognise collateral in your LGD estimates?</u>

We have concerns in the implementation of the Article 181(1)(c) of the CRR for eligible collaterals, related on the conservative manner to adopt in cases where an institution identifies a *"significant degree of dependence", "between the risk of the obligor with that of the collateral or collateral provider"*. We believe further clarification on what is a "significant degree of dependence" would be beneficial for banking institutions.

2. **<u>Indicate the specific point to which a comment relates</u>**

Chapter 3.4.1 §26 provides an example of such dependence:
"*<u>When the collateral provided by the obligor corresponds to one of its own liability</u> (e.g. obligor's own bonds or equity) which ranks lower or pari-passu in terms of seniority of the claim with respect to the obligation of the obligor which they collateralise (e.g. this is always the case for the obligor's own equity) <u>this dependence is full</u>"*.

Following that:
"*Consistent with the fact that such liabilities are residual claims with respect to the main obligation <u>the draft GL clarify in paragraph 28 that such collateral types should not lead to any reduction in the institutions' LGD estimates</u>*".

Thus, in Chapter 6.1 §28 of the Draft GL:
"*For the purposes of assessing the effects of funded credit protection in accordance with Article 181(1)(c) of Regulation (EU) No 575/2013, <u>the criteria specified by institutions for adjusting LGD estimates should not lead to a decrease in the value of the LGD estimates when the collateral is a liability of the obligor</u> which ranks either lower or pari-passu with respect to the obligation the obligor has with the institution*".

So, with this example we can understand <u>what should not lead</u> to any reduction (using conservatism manner), but we have not further declinations or clarification regarding <u>what instead should lead to a reduction</u>, or specific criteria or references to criteria that could take into consideration to identify the dependence that shall be addressed in a conservative manner. To be clear, they only define the dependence that should not, without specifying the drivers that will trigger *"The effects of funded credit protection".*

3. **<u>Describe any alternative regulatory choices the EBA should consider</u>**

The main problem we are facing as an institution is the lack of criteria to identify this dependence by the regulator, especially in Retail products, and this is the main concern regarding this estimation.