

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 (Text with EEA relevance)

[<sup>X1</sup>PART THREE

**CAPITAL REQUIREMENTS**

TITLE II

**CAPITAL REQUIREMENTS FOR CREDIT RISK**

[<sup>X1</sup>CHAPTER 2

**Standardised approach**

Section 1

**General principles**

*Article III*

**Exposure value**

[<sup>F1</sup> The exposure value of an asset item shall be its accounting value remaining after specific credit risk adjustments in accordance with Article 110, additional value adjustments in accordance with Articles 34 and 105, amounts deducted in accordance with point (m) Article 36(1) and other own funds reductions related to the asset item have been applied. The exposure value of an off-balance sheet item listed in Annex I shall be the following percentage of its nominal value after reduction of specific credit risk adjustments and amounts deducted in accordance with point (m) Article 36(1):]

- a 100 % if it is a full-risk item;
- b 50 % if it is a medium-risk item;
- c 20 % if it is a medium/low-risk item;
- d 0 % if it is a low-risk item.

The off-balance sheet items referred to in the second sentence of the first subparagraph shall be assigned to risk categories as indicated in Annex I.

When an institution is using the Financial Collateral Comprehensive Method under Article 223, the exposure value of securities or commodities sold, posted or lent under a repurchase transaction or under a securities or commodities lending or borrowing transaction, and margin lending transactions shall be increased by the volatility adjustment appropriate to such securities or commodities as prescribed in Articles 223 to 225.

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2 The exposure value of a derivative instrument listed in Annex II shall be determined in accordance with Chapter 6 with the effects of contracts of novation and other netting agreements taken into account for the purposes of those methods in accordance with Chapter 6. The exposure value of repurchase transaction, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions may be determined either in accordance with Chapter 6 or Chapter 4.

3 Where an exposure is subject to funded credit protection, the exposure value applicable to that item may be amended in accordance with Chapter 4.

#### **Textual Amendments**

- F1** Substituted by [Regulation \(EU\) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation \(EU\) No 575/2013 as regards minimum loss coverage for non-performing exposures \(Text with EEA relevance\).](#)

### *Article 112*

#### **Exposure classes**

Each exposure shall be assigned to one of the following exposure classes:

- (a) exposures to central governments or central banks;
- (b) exposures to regional governments or local authorities;
- (c) exposures to public sector entities;
- (d) exposures to multilateral development banks;
- (e) exposures to international organisations;
- (f) exposures to institutions;
- (g) exposures to corporates;
- (h) retail exposures;
- (i) exposures secured by mortgages on immovable property;
- (j) exposures in default;
- (k) exposures associated with particularly high risk;
- (l) exposures in the form of covered bonds;
- (m) items representing securitisation positions;
- (n) exposures to institutions and corporates with a short-term credit assessment;
- (o) exposures in the form of units or shares in collective investment undertakings ('CIUs');
- (p) equity exposures;
- (q) other items.

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## Article 113

### Calculation of risk-weighted exposure amounts

1 To calculate risk-weighted exposure amounts, risk weights shall be applied to all exposures, unless deducted from own funds, in accordance with the provisions of Section 2. The application of risk weights shall be based on the exposure class to which the exposure is assigned and, to the extent specified in Section 2, its credit quality. Credit quality may be determined by reference to the credit assessments of ECAs or the credit assessments of export credit agencies in accordance with Section 3.

2 For the purposes of applying a risk weight, as referred to in paragraph 1, the exposure value shall be multiplied by the risk weight specified or determined in accordance with Section 2.

3 Where an exposure is subject to credit protection the risk weight applicable to that item may be amended in accordance with Chapter 4.

4 Risk-weighted exposure amounts for securitised exposures shall be calculated in accordance with Chapter 5.

5 Exposures for which no calculation is provided in Section 2 shall be assigned a risk-weight of 100 %.

6 With the exception of exposures giving rise to Common Equity Tier 1, Additional Tier 1 or Tier 2 items, an institution may, subject to the prior approval of the competent authorities, decide not to apply the requirements of paragraph 1 of this Article to the exposures of that institution to a counterparty which is its parent undertaking, its subsidiary, a subsidiary of its parent undertaking or an undertaking linked by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC. Competent authorities are empowered to grant approval if the following conditions are fulfilled:

- a the counterparty is an institution, a financial institution or an ancillary services undertaking subject to appropriate prudential requirements;
- b the counterparty is included in the same consolidation as the institution on a full basis;
- c the counterparty is subject to the same risk evaluation, measurement and control procedures as the institution;
- d the counterparty is established in the same Member State as the institution;
- e there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities from the counterparty to the institution.

Where the institution, in accordance with this paragraph, is authorised not to apply the requirements of paragraph 1, it may assign a risk weight of 0 %.

7 With the exception of exposures giving rise to Common Equity Tier 1, Additional Tier 1 and Tier 2 items, institutions may, subject to the prior permission of the competent authorities, not apply the requirements of paragraph 1 of this Article to exposures to counterparties with which the institution has entered into an institutional protection scheme that is a contractual or statutory liability arrangement which protects those institutions and in particular ensures their liquidity and solvency to avoid bankruptcy where necessary. Competent authorities are empowered to grant permission if the following conditions are fulfilled:

- a the requirements set out in points (a), (d) and (e) of paragraph 6 are met;

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- b the arrangements ensure that the institutional protection scheme is able to grant support necessary under its commitment from funds readily available to it;
- c the institutional protection scheme disposes of suitable and uniformly stipulated systems for the monitoring and classification of risk, which gives a complete overview of the risk situations of all the individual members and the institutional protection scheme as a whole, with corresponding possibilities to take influence; those systems shall suitably monitor defaulted exposures in accordance with Article 178(1);
- d the institutional protection scheme conducts its own risk review which is communicated to the individual members;
- e the institutional protection scheme draws up and publishes on an annual basis, a consolidated report comprising the balance sheet, the profit-and-loss account, the situation report and the risk report, concerning the institutional protection scheme as a whole, or a report comprising the aggregated balance sheet, the aggregated profit-and-loss account, the situation report and the risk report, concerning the institutional protection scheme as a whole;
- f members of the institutional protection scheme are obliged to give advance notice of at least 24 months if they wish to end the institutional protection scheme;
- g the multiple use of elements eligible for the calculation of own funds (hereinafter referred to as ‘multiple gearing’) as well as any inappropriate creation of own funds between the members of the institutional protection scheme shall be eliminated;
- h the institutional protection scheme shall be based on a broad membership of credit institutions of a predominantly homogeneous business profile;
- i the adequacy of the systems referred to in points (c) and (d) is approved and monitored at regular intervals by the relevant competent authorities.

Where the institution, in accordance with this paragraph, decides not to apply the requirements of paragraph 1, it may assign a risk weight of 0 %.

## Section 2

### Risk weights

#### Article 114

#### Exposures to central governments or central banks

1 Exposures to central governments and central banks shall be assigned a 100 % risk weight, unless the treatments set out in paragraphs 2 to 7 apply.

2 Exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 1 which corresponds to the credit assessment of the ECAI in accordance with Article 136.

TABLE 1

Credit quality step	1	2	3	4	5	6
Risk weight	0 %	20 %	50 %	100 %	100 %	150 %

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- 3 Exposures to the ECB shall be assigned a 0 % risk weight.
- 4 Exposures to Member States' central governments, and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0 %.
- 6 For exposures indicated in Article 495(2):
  - a in 2018 the risk weight applied to the exposure values shall be 20 % of the risk weight assigned to these exposures in accordance with paragraph 2;
  - b in 2019 the risk weight applied to the exposure values shall be 50 % of the risk weight assigned to these exposures in accordance with paragraph 2;
  - c in 2020 and onwards the risk weight applied to the exposure values shall be 100 % of the risk weight assigned to these exposures in accordance with paragraph 2.
- 7 When the competent authorities of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the Union assign a risk weight which is lower than that indicated in paragraphs 1 and 2 to exposures to their central government and central bank denominated and funded in the domestic currency, institutions may risk weight such exposures in the same manner.

For the purposes of this paragraph, the Commission may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2), a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, institutions may continue to apply the treatment set out in this paragraph to the exposures to the central government or central bank of the third country where the relevant competent authorities had approved the third country as eligible for that treatment before 1 January 2014.

#### *Article 115*

### **Exposures to regional governments or local authorities**

1 Exposures to regional governments or local authorities shall be risk-weighted as exposures to institutions unless they are treated as exposures to central governments under paragraphs 2 or 4 or receive a risk weight as specified in paragraph 5. The preferential treatment for short-term exposures specified in Article 119(2) and Article 120(2) shall not be applied.

2 Exposures to regional governments or local authorities shall be treated as exposures to the central government in whose jurisdiction they are established where there is no difference in risk between such exposures because of the specific revenue-raising powers of the former, and the existence of specific institutional arrangements the effect of which is to reduce their risk of default.

EBA shall maintain a publicly available database of all regional governments and local authorities within the Union which relevant competent authorities treat as exposures to their central governments.

3 Exposures to churches or religious communities constituted in the form of a legal person under public law shall, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as exposures to regional governments and local authorities. In this case, paragraph 2 shall not apply and, for the purposes of Article 150(1)(a), permission to apply the Standardised Approach shall not be excluded.

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4 When competent authorities of a third country jurisdiction which applies supervisory and regulatory arrangements at least equivalent to those applied in the Union treat exposures to regional governments or local authorities as exposures to their central government and there is no difference in risk between such exposures because of the specific revenue-raising powers of regional government or local authorities and to specific institutional arrangements to reduce the risk of default, institutions may risk weight exposures to such regional governments and local authorities in the same manner.

For the purposes of this paragraph, the Commission may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2), a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, institutions may continue to apply the treatment set out in this paragraph to the third country where the relevant competent authorities had approved the third country as eligible for that treatment before 1 January 2014.

5 Exposures to regional governments or local authorities of the Member States that are not referred to in paragraphs 2 to 4 and are denominated and funded in the domestic currency of that regional government and local authority shall be assigned a risk weight of 20 %.

#### Article 116

#### Exposures to public sector entities

1 Exposures to public sector entities for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight in accordance with the credit quality step to which exposures to the central government of the jurisdiction in which the public sector entity is incorporated are assigned in accordance with the following Table 2:

TABLE 2

Credit quality step to which central government is assigned	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	100 %	150 %

For exposures to public sector entities incorporated in countries where the central government is unrated, the risk weight shall be 100 %.

2 Exposures to public sector entities for which a credit assessment by a nominated ECAI is available shall be treated in accordance with Article 120. The preferential treatment for short-term exposures specified in Articles 119(2) and 120(2), shall not be applied to those entities.

3 For exposures to public sector entities with an original maturity of three months or less, the risk weight shall be 20 %.

4 In exceptional circumstances, exposures to public-sector entities may be treated as exposures to the central government, regional government or local authority in whose

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jurisdiction they are established where in the opinion of the competent authorities of this jurisdiction there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government, regional government or local authority.

5 When competent authorities of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the Union, treat exposures to public sector entities in accordance with paragraph 1 or 2, institutions may risk weight exposures to such public sector entities in the same manner. Otherwise the institutions shall apply a risk weight of 100 %.

For the purposes of this paragraph, the Commission may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2), a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, institutions may continue to apply the treatment set out in this paragraph to the third country where the relevant competent authorities had approved the third country as eligible for that treatment before 1 January 2014.

#### *Article 117*

### **Exposures to multilateral development banks**

1 Exposures to multilateral development banks that are not referred to in paragraph 2 shall be treated in the same manner as exposures to institutions. The preferential treatment for short-term exposures as specified in Articles 119(2), 120(2) and 121(3) shall not be applied.

The Inter-American Investment Corporation, the Black Sea Trade and Development Bank, the Central American Bank for Economic Integration and the CAF-Development Bank of Latin America shall be considered multilateral development banks.

2 Exposures to the following multilateral development banks shall be assigned a 0 % risk weight:

- a the International Bank for Reconstruction and Development;
- b the International Finance Corporation;
- c the Inter-American Development Bank;
- d the Asian Development Bank;
- e the African Development Bank;
- f the Council of Europe Development Bank;
- g the Nordic Investment Bank;
- h the Caribbean Development Bank;
- i the European Bank for Reconstruction and Development;
- j the European Investment Bank;
- k the European Investment Fund;
- l the Multilateral Investment Guarantee Agency;
- m the International Finance Facility for Immunisation;
- n the Islamic Development Bank<sup>[F2]</sup>;
- <sup>[F3]</sup>o the International Development Association;
- p the Asian Infrastructure Investment Bank.]

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[<sup>F3</sup>The Commission is empowered to amend this Regulation by adopting delegated acts in accordance with Article 462 amending, in accordance with international standards, the list of multilateral development banks referred to in the first subparagraph.]

3 A risk weight of 20 % shall be assigned to the portion of unpaid capital subscribed to the European Investment Fund.

#### Textual Amendments

- F2** Substituted by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (Text with EEA relevance).
- F3** Inserted by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (Text with EEA relevance).

### *Article 118*

#### **Exposures to international organisations**

Exposures to the following international organisations shall be assigned a 0 % risk weight:

- (a) [<sup>F2</sup>the European Union and the European Atomic Energy Community;]
- (b) the International Monetary Fund;
- (c) the Bank for International Settlements;
- (d) the European Financial Stability Facility;
- (e) the European Stability Mechanism;
- (f) an international financial institution established by two or more Member States, which has the purpose to mobilise funding and provide financial assistance to the benefit of its members that are experiencing or threatened by severe financing problems.

#### Textual Amendments

- F2** Substituted by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (Text with EEA relevance).



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## Article 119

### Exposures to institutions

1 Exposures to institutions for which a credit assessment by a nominated ECAI is available shall be risk-weighted in accordance with Article 120. Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be risk-weighted in accordance with Article 121.

2 Exposures to institutions of a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight that is one category less favourable than the preferential risk weight, as described in Article 114(4) to (7), assigned to exposures to the central government in which the institution is incorporated.

3 No exposures with a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight less than 20 %.

4 Exposure to an institution in the form of minimum reserves required by the ECB or by the central bank of a Member State to be held by an institution may be risk-weighted as exposures to the central bank of the Member State in question provided:

- a the reserves are held in accordance with Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves<sup>(1)</sup> or in accordance with national requirements in all material respects equivalent to that Regulation;
- b in the event of the bankruptcy or insolvency of the institution where the reserves are held, the reserves are fully repaid to the institution in a timely manner and are not made available to meet other liabilities of the institution.

5 Exposures to financial institutions authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to institutions in terms of robustness shall be treated as exposures to institutions.

## Article 120

### Exposures to rated institutions

1 Exposures to institutions with a residual maturity of more than three months for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 3 which corresponds to the credit assessment of the ECAI in accordance with Article 136.

TABLE 3

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	50 %	100 %	100 %	150 %

2 Exposures to an institution of up to three months residual maturity for which a credit assessment by a nominated ECAI is available shall be assigned a risk-weight in accordance with Table 4 which corresponds to the credit assessment of the ECAI in accordance with Article 136:

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TABLE 4

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	20 %	20 %	50 %	50 %	150 %

3 The interaction between the treatment of short term credit assessment under Article 131 and the general preferential treatment for short term exposures set out in paragraph 2 shall be as follows:

- a If there is no short-term exposure assessment, the general preferential treatment for short-term exposures as specified in paragraph 2 shall apply to all exposures to institutions of up to three months residual maturity;
- b If there is a short-term assessment and such an assessment determines the application of a more favourable or identical risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraph 2, then the short-term assessment shall be used for that specific exposure only. Other short-term exposures shall follow the general preferential treatment for short-term exposures, as specified in paragraph 2;
- c If there is a short-term assessment and such an assessment determines a less favourable risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraph 2, then the general preferential treatment for short-term exposures shall not be used and all unrated short-term claims shall be assigned the same risk weight as that applied by the specific short-term assessment.

*Article 121*

**Exposures to unrated institutions**

1 Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight in accordance with the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with Table 5.

TABLE 5

Credit quality step to which central government is assigned	1	2	3	4	5	6
Risk weight of exposure	20 %	50 %	100 %	100 %	100 %	150 %

2 For exposures to unrated institutions incorporated in countries where the central government is unrated, the risk weight shall be 100 %.

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3 For exposures to unrated institutions with an original effective maturity of three months or less, the risk weight shall be 20 %.

4 Notwithstanding paragraphs 2 and 3, for trade finance exposures referred to in point (b) of the second subparagraph of Article 162(3) to unrated institutions, the risk weight shall be 50 % and where the residual maturity of these trade finance exposures to unrated institutions is three months or less, the risk weight shall be 20 %.

#### Article 122

### Exposures to corporates

1 Exposures for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 6 which corresponds to the credit assessment of the ECAI in accordance with Article 136.

TABLE 6

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	150 %	150 %

2 Exposures for which such a credit assessment is not available shall be assigned a 100 % risk weight or the risk weight of exposures to the central government of the jurisdiction in which the corporate is incorporated, whichever is the higher.

#### Article 123

### Retail exposures

Exposures that comply with the following criteria shall be assigned a risk weight of 75 %:

- (a) the exposure shall be either to a natural person or persons, or to a small or medium-sized enterprise (SME);
- (b) the exposure shall be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced;
- (c) the total amount owed to the institution and parent undertakings and its subsidiaries, including any exposure in default, by the obligor client or group of connected clients, but excluding exposures fully and completely secured on residential property collateral that have been assigned to the exposure class laid down in point (i) of Article 112, shall not, to the knowledge of the institution, exceed EUR 1 million. The institution shall take reasonable steps to acquire this knowledge.

Securities shall not be eligible for the retail exposure class.

Exposures that do not comply with the criteria referred to in points (a) to (c) of the first subparagraph shall not be eligible for the retail exposures class.

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The present value of retail minimum lease payments is eligible for the retail exposure class.

#### Article 124

### Exposures secured by mortgages on immovable property

1 An exposure or any part of an exposure fully secured by mortgage on immovable property shall be assigned a risk weight of 100 %, where the conditions under Article 125 or 126 are not met, except for any part of the exposure which is assigned to another exposure class. The part of the exposure that exceeds the mortgage value of the immovable property shall be assigned the risk weight applicable to the unsecured exposures of the counterparty involved.

The part of an exposure treated as fully secured by immovable property shall not be higher than the pledged amount of the market value or in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions, the mortgage lending value of the property in question.

2 Based on the data collected under Article 101, and any other relevant indicators, the competent authorities shall periodically, and at least annually, assess whether the risk-weight of 35 % for exposures secured by mortgages on residential property referred to in Article 125 and the risk weight of 50 % for exposures secured on commercial immovable property referred to in Article 126 located in their territory are appropriately based on:

- a the loss experience of exposures secured by immovable property;
- b forward-looking immovable property markets developments;

Competent authorities may set a higher risk weight or stricter criteria than those set out in Article 125(2) and Article 126(2), where appropriate, on the basis of financial stability considerations.

For exposures secured by mortgages on residential property, the competent authority shall set the risk weight at a percentage from 35 % through 150 %,

For exposures secured on commercial immovable property, the competent authority shall set the risk weight at a percentage from 50 % through 150 %,

Within these ranges, the higher risk weight shall be set based on loss experience and taking into account forward-looking markets developments and financial stability considerations. Where the assessment demonstrates that the risk weights set out in Article 125(2) and Article 126(2) do not reflect the actual risks related to one or more property segments of such exposures, fully secured by mortgages on residential property or on commercial immovable property located in one or more parts of its territory, the competent authorities shall set, for those property segments of exposures, a higher risk weight corresponding to the actual risks.

The competent authorities shall consult EBA on the adjustments to the risk weights and criteria applied, which will be calculated in accordance with the criteria set out in this paragraph as specified by the regulatory technical standards referred to in paragraph 4 of this Article. EBA shall publish the risk weights and criteria that the competent authorities set for exposures referred to in Articles 125, 126 and 199(1)(a).

3 When competent authorities set a higher risk weight or stricter criteria, institutions shall have a 6-month transitional period to apply the new risk weight.

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[<sup>F24</sup> EBA, in close cooperation with the ESRB, shall develop draft regulatory technical standards to specify the rigorous criteria for the assessment of the mortgage lending value referred to in paragraph 1 and the types of factors to be considered for the assessment of the appropriateness of the risk weights referred in the first subparagraph of paragraph 2.

EBA shall submit those draft regulatory technical standards to the Commission by 31 December 2019.

Power is delegated to the Commission to supplement this Regulation by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

5 The ESRB may, by means of recommendations in accordance with Article 16 of Regulation (EU) No 1092/2010, and in close cooperation with EBA, give guidance to authorities designated in accordance with paragraph 1a of this Article on the following:

- a factors which could ‘adversely affect current or future financial stability’ referred to in the second subparagraph of paragraph 2; and
- b indicative benchmarks that the authority designated in accordance with paragraph 1a is to take into account when determining higher risk weights.]

#### Textual Amendments

- F2** Substituted by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (Text with EEA relevance).

### Article 125

#### Exposures fully and completely secured by mortgages on residential property

1 Unless otherwise decided by the competent authorities in accordance with Article 124(2), exposures fully and completely secured by mortgages on residential property shall be treated as follows:

- a exposures or any part of an exposure fully and completely secured by mortgages on residential property which is or shall be occupied or let by the owner, or the beneficial owner in the case of personal investment companies, shall be assigned a risk weight of 35 %;
- b exposures to a tenant under a property leasing transaction concerning residential property under which the institution is the lessor and the tenant has an option to purchase, shall be assigned a risk weight of 35 % provided that the exposure of the institution is fully and completely secured by its ownership of the property.

2 Institutions shall consider an exposure or any part of an exposure as fully and completely secured for the purposes of paragraph 1 only if the following conditions are met:

- a the value of the property shall not materially depend upon the credit quality of the borrower. Institutions may exclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower from their determination of the materiality of such dependence;
- b the risk of the borrower shall not materially depend upon the performance of the underlying property or project, but on the underlying capacity of the borrower to repay

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- the debt from other sources, and as a consequence, the repayment of the facility shall not materially depend on any cash flow generated by the underlying property serving as collateral. For those other sources, institutions shall determine maximum loan-to-income ratios as part of their lending policy and obtain suitable evidence of the relevant income when granting the loan;
- c the requirements set out in Article 208 and the valuation rules set out in Article 229(1) are met;
  - d unless otherwise determined under Article 124(2), the part of the loan to which the 35 % risk weight is assigned does not exceed 80 % of the market value of the property in question or 80 % of the mortgage lending value of the property in question in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions.
- 3 Institutions may derogate from point (b) of paragraph 2 for exposures fully and completely secured by mortgages on residential property which is situated within the territory of a Member State, where the competent authority of that Member State has published evidence showing that a well-developed and long-established residential property market is present in that territory with loss rates which do not exceed the following limits:
- a losses stemming from lending collateralised by residential property up to 80 % of the market value or 80 % of the mortgage lending value, unless otherwise decided under Article 124(2), do not exceed 0,3 % of the outstanding loans collateralised by residential property in any given year;
  - b overall losses stemming from lending collateralised by residential property do not exceed 0,5 % of the outstanding loans collateralised by residential property in any given year.
- 4 Where either of the limits referred to in paragraph 3 is not satisfied in a given year, the eligibility to use paragraph 3 shall cease and the condition contained in point (b) of paragraph 2 shall apply until the conditions in paragraph 3 are satisfied in a subsequent year.

### *Article 126*

#### **Exposures fully and completely secured by mortgages on commercial immovable property**

- 1 Unless otherwise decided by the competent authorities in accordance with Article 124(2), exposures fully and completely secured by mortgages on commercial immovable property shall be treated as follows:
- a exposures or any part of an exposure fully and completely secured by mortgages on offices or other commercial premises may be assigned a risk weight of 50 %;
  - b exposures related to property leasing transactions concerning offices or other commercial premises under which the institution is the lessor and the tenant has an option to purchase may be assigned a risk weight of 50 % provided that the exposure of the institution is fully and completely secured by its ownership of the property.
- 2 Institutions shall consider an exposure or any part of an exposure as fully and completely secured for the purposes of paragraph 1 only if the following conditions are met:
- a the value of the property shall not materially depend upon the credit quality of the borrower. Institutions may exclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower from their determination of the materiality of such dependence;

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- b the risk of the borrower shall not materially depend upon the performance of the underlying property or project, but on the underlying capacity of the borrower to repay the debt from other sources, and as a consequence, the repayment of the facility shall not materially depend on any cash flow generated by the underlying property serving as collateral;
- c the requirements set out in Article 208 and the valuation rules set out in Article 229(1) are met;
- d the 50 % risk weight unless otherwise provided under Article 124(2) shall be assigned to the part of the loan that does not exceed 50 % of the market value of the property or 60 % of the mortgage lending value unless otherwise provided under Article 124(2) of the property in question in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions.

3 Institutions may derogate from point (b) of paragraph 2 for exposures fully and completely secured by mortgages on commercial immovable property which is situated within the territory of a Member State, where the competent authority of that Member State has published evidence showing that a well-developed and long-established commercial immovable property market is present in that territory with loss rates which do not exceed the following limits:

- a losses stemming from lending collateralised by commercial immovable property up to 50 % of the market value or 60 % of the mortgage lending value, unless otherwise determined under Article 124(2), do not exceed 0,3 % of the outstanding loans collateralised by commercial immovable property;
- b overall losses stemming from lending collateralised by commercial immovable property do not exceed 0,5 % of the outstanding loans collateralised by commercial immovable property.

4 Where either of the limits referred to in paragraph 3 is not satisfied in a given year, the eligibility to use paragraph 3 shall cease and the condition contained in point (b) of paragraph 2 shall apply until the conditions in paragraph 3 are satisfied in a subsequent year.

#### *Article 127*

### **Exposures in default**

[<sup>F1</sup> The unsecured part of any item where the obligor has defaulted in accordance with Article 178, or in the case of retail exposures, the unsecured part of any credit facility which has defaulted in accordance with Article 178 shall be assigned a risk weight of:

- a 150 %, where the sum of specific credit risk adjustments and of the amounts deducted in accordance with point (m) Article 36(1) is less than 20 % of the unsecured part of the exposure value if those specific credit risk adjustments and deductions were not applied;
- b 100 %, where the sum of the specific credit risk adjustments and of the amounts deducted in accordance with point (m) Article 36(1) is no less than 20 % of the unsecured part of the exposure value if those specific credit risk adjustments and deductions were not applied.]

2 For the purpose of determining the secured part of the past due item, eligible collateral and guarantees shall be those eligible for credit risk mitigation purposes under Chapter 4.

3 The exposure value remaining after specific credit risk adjustments of exposures fully and completely secured by mortgages on residential property in accordance with Article 125 shall be assigned a risk weight of 100 % if a default has occurred in accordance with Article 178.

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4 The exposure value remaining after specific credit risk adjustments of exposures fully and completely secured by mortgages on commercial immovable property in accordance with Article 126 shall be assigned a risk weight of 100 % if a default has occurred in accordance with Article 178.

#### **Textual Amendments**

- F1** Substituted by [Regulation \(EU\) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation \(EU\) No 575/2013 as regards minimum loss coverage for non-performing exposures \(Text with EEA relevance\).](#)

### *Article 128*

#### **Items associated with particular high risk**

1 Institutions shall assign a 150 % risk weight to exposures, including exposures in the form of shares or units in a CIU that are associated with particularly high risks, where appropriate.

- 2 Exposures with particularly high risks shall include any of the following exposures:
- a investments in venture capital firms;
  - b investments in AIFs as defined in Article 4(1)(a) of Directive 2011/61/EU except where the mandate of the fund does not allow a leverage higher than that required under Article 51(3) of Directive 2009/65/EC;
  - c investments in private equity;
  - d speculative immovable property financing.

3 When assessing whether an exposure other than exposures referred to in paragraph 2 is associated with particularly high risks, institutions shall take into account the following risk characteristics:

- a there is a high risk of loss as a result of a default of the obligor;
- b it is impossible to assess adequately whether the exposure falls under point (a).

EBA shall issue guidelines specifying which types of exposures are associated with particularly high risk and under which circumstances.

Those guidelines shall be adopted in accordance with Article 16 of Regulation (EU) No 1093/2010.

### *Article 129*

#### **Exposures in the form of covered bonds**

1 To be eligible for the preferential treatment set out in paragraphs 4 and 5, bonds as referred to in Article 52(4) of Directive 2009/65/EC (covered bonds) shall meet the requirements set out in paragraph 7 and shall be collateralised by any of the following eligible assets:

- a exposures to or guaranteed by central governments, the ESCB central banks, public sector entities, regional governments or local authorities in the Union;
- b exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1 as set out in this Chapter, and exposures to or guaranteed by third-



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- country public sector entities, third-country regional governments or third-country local authorities that are risk weighted as exposures to institutions or central governments and central banks in accordance with Article 115(1) or (2), or Article 116(1), (2) or (4) respectively and that qualify for the credit quality step 1 as set out in this Chapter, and exposures within the meaning of this point that qualify as a minimum for the credit quality step 2 as set out in this Chapter, provided that they do not exceed 20 % of the nominal amount of outstanding covered bonds of the issuing institutions;
- c exposures to institutions that qualify for the credit quality step 1 as set out in this Chapter. The total exposure of this kind shall not exceed 15 % of the nominal amount of outstanding covered bonds of the issuing institution. Exposures to institutions in the Union with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions shall as a minimum qualify for credit quality step 2 as set out in this Chapter;
- d loans secured by:
- (i) residential property up to the lesser of the principal amount of the liens that are combined with any prior liens and 80 % of the value of the pledged properties; or
  - (ii) senior units issued by French Fonds Communs de Titrisation or equivalent securitisation entities governed by the laws of a Member State securitising residential property exposures. In the event of such senior units being used as collateral, the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC shall ensure that the assets underlying such units shall, at any time while they are included in the cover pool be at least 90 % composed of residential mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80 % of the value of the pledged properties, that the units qualify for the credit quality step 1 as set out in this Chapter and that such units do not exceed 10 % of the nominal amount of the outstanding issue.
- e residential loans fully guaranteed by an eligible protection provider referred to in Article 201 qualifying for the credit quality step 2 or above as set out in this Chapter, where the portion of each of the loans that is used to meet the requirement set out in this paragraph for collateralisation of the covered bond does not represent more than 80 % of the value of the corresponding residential property located in France, and where a loan-to-income ratio respects at most 33 % when the loan has been granted. There shall be no mortgage liens on the residential property when the loan is granted, and for the loans granted from 1 January 2014 the borrower shall be contractually committed not to grant such liens without the consent of the credit institution that granted the loan. The loan-to-income ratio represents the share of the gross income of the borrower that covers the reimbursement of the loan, including the interests. The protection provider shall be either a financial institution authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to institutions in terms of robustness or an institution or an insurance undertaking. It shall establish a mutual guarantee fund or equivalent protection for insurance undertakings to absorb credit risk losses, whose calibration shall be periodically reviewed by the competent authorities. Both the credit institution and the protection provider shall carry out a creditworthiness assessment of the borrower;
- f loans secured by:

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- (i) commercial immovable property up to the lesser of the principal amount of the liens that are combined with any prior liens and 60 % of the value of the pledged properties; or
- (ii) senior units issued by French Fonds Communs de Titrisation or equivalent securitisation entities governed by the laws of a Member State securitising commercial immovable property exposures. In the event of such senior units being used as collateral, the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC shall ensure that the assets underlying such units shall, at any time while they are included in the cover pool be at least 90 % composed of commercial mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60 % of the value of the pledged properties, that the units qualify for the credit quality step 1 as set out in this Chapter and that such units do not exceed 10 % of the nominal amount of the outstanding issue.

Loans secured by commercial immovable property are eligible where the loan to value ratio of 60 % is exceeded up to a maximum level of 70 % if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 %, and the bondholders' claim meets the legal certainty requirements set out in Chapter 4. The bondholders' claim shall take priority over all other claims on the collateral;

- g loans secured by maritime liens on ships up to the difference between 60 % of the value of the pledged ship and the value of any prior maritime liens.

For the purposes of points (c), (d)(ii) and (f)(ii) of the first subparagraph, exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the limits referred to in those points.

The competent authorities may, after consulting EBA, partly waive the application of point (c) of the first subparagraph and allow credit quality step 2 for up to 10 % of the total exposure of the nominal amount of outstanding covered bonds of the issuing institution, provided that significant potential concentration problems in the Member States concerned can be documented due to the application of the credit quality step 1 requirement referred to in that point.

2 The situations referred to in points (a) to (f) of paragraph 1 shall also include collateral that is exclusively restricted by legislation to the protection of the bond-holders against losses.

3 Institutions shall for immovable property collateralising covered bonds meet the requirements set out in Article 208 and the valuation rules set out in Article 229(1).

4 Covered bonds for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 6a which corresponds to the credit assessment of the ECAI in accordance with Article 136.

TABLE 6A

Credit quality step	1	2	3	4	5	6

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<b>Risk weight</b>	10 %	20 %	20 %	50 %	50 %	100 %
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5 Covered bonds for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight on the basis of the risk weight assigned to senior unsecured exposures to the institution which issues them. The following correspondence between risk weights shall apply:

- a if the exposures to the institution are assigned a risk weight of 20 %, the covered bond shall be assigned a risk weight of 10 %;
- b if the exposures to the institution are assigned a risk weight of 50 %, the covered bond shall be assigned a risk weight of 20 %;
- c if the exposures to the institution are assigned a risk weight of 100 %, the covered bond shall be assigned a risk weight of 50 %;
- d if the exposures to the institution are assigned a risk weight of 150 %, the covered bond shall be assigned a risk weight of 100 %.

6 Covered bonds issued before 31 December 2007 are not subject to the requirements of paragraphs 1 and 3. They are eligible for the preferential treatment under paragraphs 4 and 5 until their maturity.

7 Exposures in the form of covered bonds are eligible for preferential treatment, provided that the institution investing in the covered bonds can demonstrate to the competent authorities that:

- a it receives portfolio information at least on:
  - (i) the value of the cover pool and outstanding covered bonds;
  - (ii) the geographical distribution and type of cover assets, loan size, interest rate and currency risks;
  - (iii) the maturity structure of cover assets and covered bonds; and
  - (iv) the percentage of loans more than 90 days past due;
- b the issuer makes the information referred to in point (a) available to the institution at least semi-annually.

#### *Article 130*

### **Items representing securitisation positions**

Risk-weighted exposure amounts for securitisation positions shall be determined in accordance with Chapter 5.

#### *Article 131*

### **Exposures to institutions and corporates with a short-term credit assessment**

Exposures to institutions and exposures to corporates for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 7 which corresponds to the credit assessment of the ECAI in accordance with Article 136.

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TABLE 7

<b>Credit Quality Step</b>	1	2	3	4	5	6
<b>Risk weight</b>	20 %	50 %	100 %	150 %	150 %	150 %

*Article 132*

**Exposures in the form of units or shares in CIUs**

1 Exposures in the form of units or shares in CIUs shall be assigned a risk weight of 100 %, unless the institution applies the credit risk assessment method under paragraph 2, or the look-through approach in paragraph 4 or the average risk weight approach under paragraph 5 when the conditions in paragraph 3 are met.

2 Exposures in the form of units or shares in CIUs for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 8 which corresponds to the credit assessment of the ECAI in accordance with Article 136.

TABLE 8

<b>Credit quality step</b>	1	2	3	4	5	6
<b>Risk weight</b>	20 %	50 %	100 %	100 %	150 %	150 %

3 Institutions may determine the risk weight for a CIU in accordance with paragraphs 4 and 5, if the following eligibility criteria are met:

- a the CIU is managed by a company that is subject to supervision in a Member State or, in the case of third country CIU, where the following conditions are met:
  - (i) the CIU is managed by a company which is subject to supervision that is considered equivalent to that laid down in Union law;
  - (ii) cooperation between competent authorities is sufficiently ensured;
- b the CIU's prospectus or equivalent document includes the following:
  - (i) the categories of assets in which the CIU is authorised to invest;
  - (ii) if investment limits apply, the relative limits and the methodologies to calculate them;
- c the business of the CIU is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period.

For the purposes of point (a), the Commission may adopt, by way of implementing acts, and subject to the examination procedure referred to in Article 464(2), a decision as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union. In the absence of such a decision, until 1 January 2015, institutions may continue to apply the treatment set out in this paragraph

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to exposures in the form of units or shares of CIUs from third countries where the relevant competent authorities had approved the third country as eligible for that treatment before 1 January 2014.

4 Where the institution is aware of the underlying exposures of a CIU, it may look through to those underlying exposures in order to calculate an average risk weight for its exposures in the form of units or shares in the CIUs in accordance with the methods set out in this Chapter. Where an underlying exposure of the CIU is itself an exposure in the form of shares in another CIU which fulfils the criteria of paragraph 3, the institution may look through to the underlying exposures of that other CIU.

5 Where the institution is not aware of the underlying exposures of a CIU, it may calculate an average risk weight for its exposures in the form of a unit or share in the CIU in accordance with the methods set out in this Chapter subject to the assumption that the CIU first invests, to the maximum extent allowed under its mandate, in the exposure classes attracting the highest capital requirement, and then continues making investments in descending order until the maximum total investment limit is reached.

Institutions may rely on the following third parties to calculate and report, in accordance with the methods set out in paragraphs 4 and 5, a risk weight for the CIU:

- a the depository institution or the depository financial institution of the CIU provided that the CIU exclusively invests in securities and deposits all securities at that depository institution or the financial institution;
- b for CIUs not covered by point (a), the CIU management company, provided that the CIU management company meets the criteria set out in paragraph 3(a).

The correctness of the calculation referred to in the first subparagraph shall be confirmed by an external auditor.

*[<sup>F3</sup>Article 132a*

### **Approaches for calculating risk-weighted exposure amounts of CIUs**

4 EBA shall develop draft regulatory technical standards to specify how institutions shall calculate the risk-weighted exposure amount referred to in paragraph 2 where one or more of the inputs required for that calculation are not available.

EBA shall submit those draft regulatory technical standards to the Commission by 28 March 2020.

Power is delegated to the Commission to supplement this Regulation by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.]

#### **Textual Amendments**

- F3** Inserted by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (Text with EEA relevance).

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### *Article 133*

#### **Equity exposures**

- 1 The following exposures shall be considered equity exposures:
  - a non-debt exposures conveying a subordinated, residual claim on the assets or income of the issuer;
  - b debt exposures and other securities, partnerships, derivatives, or other vehicles, the economic substance of which is similar to the exposures specified in point (a).
- 2 Equity exposures shall be assigned a risk weight of 100 %, unless they are required to be deducted in accordance with Part Two, assigned a 250 % risk weight in accordance with Article 48(4), assigned a 1 250 % risk weight in accordance with Article 89(3) or treated as high risk items in accordance with Article 128.
- 3 Investments in equity or regulatory capital instruments issued by institutions shall be classified as equity claims, unless deducted from own funds or attracting a 250 % risk weight under Article 48(4) or treated as high risk items in accordance with Article 128.

### *Article 134*

#### **Other items**

- 1 Tangible assets within the meaning of item 10 under the heading 'Assets' in Article 4 of Directive 86/635/EEC shall be assigned a risk weight of 100 %.
  - 2 Prepayments and accrued income for which an institution is unable to determine the counterparty in accordance with Directive 86/635/EEC, shall be assigned a risk weight of 100 %.
  - 3 Cash items in the process of collection shall be assigned a 20 % risk weight. Cash in hand and equivalent cash items shall be assigned a 0 % risk weight.
  - 4 Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0 % risk weight.
  - 5 In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight shall be that assigned to the assets in question and not to the counterparties to the transactions.
- [<sup>F46</sup> Where an institution provides credit protection for a number of exposures subject to the condition that the nth default among the exposures shall trigger payment and that this credit event shall terminate the contract, the risk weights of the exposures included in the basket will be aggregated, excluding n-1 exposures, up to a maximum of 1 250 % and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk-weighted exposure amount. The n-1 exposures to be excluded from the aggregation shall be determined on the basis that they shall include those exposures each of which produces a lower risk-weighted exposure amount than the risk-weighted exposure amount of any of the exposures included in the aggregation.]
- 7 The exposure value for leases shall be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option the exercise of which is reasonably certain. A party other than the lessee may be required to make a payment related to the residual value of a leased

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property and that payment obligation fulfils the set of conditions in Article 201 regarding the eligibility of protection providers as well as the requirements for recognising other types of guarantees provided in Articles 213 to 215, that payment obligation may be taken into account as unfunded credit protection under Chapter 4. These exposures shall be assigned to the relevant exposure class in accordance with Article 112. When the exposure is a residual value of leased assets, the risk-weighted exposure amounts shall be calculated as follows:  $1/t * 100 \% * \text{residual value}$ , where  $t$  is the greater of 1 and the nearest number of whole years of the lease remaining.

#### **Textual Amendments**

- F4** Substituted by [Regulation \(EU\) 2017/2401 of the European Parliament and of the Council of 12 December 2017 amending Regulation \(EU\) No 575/2013 on prudential requirements for credit institutions and investment firms](#).

### Section 3

## **Recognition and mapping of credit risk assessment**

### Sub-Section 1

#### **Recognition of ECAIs**

##### *Article 135*

#### **Use of credit assessments by ECAIs**

1 An external credit assessment may be used to determine the risk weight of an exposure under this Chapter only if it has been issued by an ECAI or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009.

2 EBA shall publish the list of ECAIs in accordance with Article 2(4) and Article 18(3) of Regulation (EC) No 1060/2009 on its website.

### Sub-Section 2

#### **Mapping of ECAI's credit assessments**

##### *Article 136*

#### **Mapping of ECAI's credit assessments**

1 EBA, EIOPA and ESMA shall, through the Joint Committee, develop draft implementing technical standards to specify for all ECAIs, with which of the credit quality steps set out in Section 2 the relevant credit assessments of the ECAI correspond ('mapping'). Those determinations shall be objective and consistent.

EBA, EIOPA and ESMA shall submit those draft implementing technical standards to the Commission by 1 July 2014 and shall submit revised draft implementing technical standards where necessary.

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Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010 respectively.

2 When determining the mapping of credit assessments, EBA, EIOPA and ESMA shall comply with the following requirements:

- a in order to differentiate between the relative degrees of risk expressed by each credit assessment, EBA, EIOPA and ESMA shall consider quantitative factors such as the long-term default rate associated with all items assigned the same credit assessment. For recently established ECAIs and for those that have compiled only a short record of default data, EBA, EIOPA and ESMA shall ask the ECAI what it believes to be the long-term default rate associated with all items assigned the same credit assessment;
- b in order to differentiate between the relative degrees of risk expressed by each credit assessment, EBA, EIOPA and ESMA shall consider qualitative factors such as the pool of issuers that the ECAI covers, the range of credit assessments that the ECAI assigns, each credit assessment meaning and the ECAI's definition of default;
- c EBA, EIOPA and ESMA shall compare default rates experienced for each credit assessment of a particular ECAI and compare them with a benchmark built on the basis of default rates experienced by other ECAIs on a population of issuers that present an equivalent level of credit risk;
- d where the default rates experienced for the credit assessment of a particular ECAI are materially and systematically higher than the benchmark, EBA, EIOPA and ESMA shall assign a higher credit quality step in the credit quality assessment scale to the ECAI credit assessment;
- e where EBA, EIOPA and ESMA have increased the associated risk weight for a specific credit assessment of a particular ECAI, and where default rates experienced for that ECAI's credit assessment are no longer materially and systematically higher than the benchmark, EBA, EIOPA and ESMA may restore the original credit quality step in the credit quality assessment scale for the ECAI credit assessment.

3 EBA, EIOPA and ESMA shall develop draft implementing technical standards to specify the quantitative factors referred to in point (a), the qualitative factors referred to in point (b) and the benchmark referred to in point (c) of paragraph 2.

EBA, EIOPA and ESMA shall submit those draft implementing technical standards to the Commission by 1 July 2014.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010 respectively.



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### Sub-Section 3

#### Use of credit assessments by Export Credit Agencies

##### Article 137

#### Use of credit assessments by export credit agencies

- 1 For the purpose of Article 114, institutions may use credit assessments of an Export Credit Agency that the institution has nominated, if either of the following conditions is met:
- it is a consensus risk score from export credit agencies participating in the OECD ‘Arrangement on Guidelines for Officially Supported Export Credits’;
  - the Export Credit Agency publishes its credit assessments, and the Export Credit Agency subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums that the OECD agreed methodology establishes. An institution may revoke its nomination of an Export Credit Agency. An institution shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce the capital adequacy requirements.
- 2 Exposures for which a credit assessment by an Export Credit Agency is recognised for risk weighting purposes shall be assigned a risk weight in accordance with Table 9.

TABLE 9

MEIP	0	1	2	3	4	5	6	7
Risk weight	0 %	0 %	20 %	50 %	100 %	100 %	100 %	150 %

### Section 4

#### Use of the ECAI credit assessments for the determination of risk weights

##### Article 138

#### General requirements

An institution may nominate one or more ECAIs to be used for the determination of risk weights to be assigned to assets and off-balance sheet items. An institution may revoke its nomination of an ECAI. An institution shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce the capital adequacy requirements. Credit assessments shall not be used selectively. An institution shall use solicited credit assessments. However it may use unsolicited credit assessments if EBA has confirmed that unsolicited credit assessments of an ECAI do not differ in quality from solicited credit assessments of this ECAI. EBA shall refuse or revoke this confirmation in particular if the ECAI has used an unsolicited credit assessment to put pressure on the rated entity to place an order for a credit assessment or other services. In using credit assessment, institutions shall comply with the following requirements:

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- (a) an institution which decides to use the credit assessments produced by an ECAI for a certain class of items shall use those credit assessments consistently for all exposures belonging to that class;
- (b) an institution which decides to use the credit assessments produced by an ECAI shall use them in a continuous and consistent way over time;
- (c) an institution shall only use ECAIs credit assessments that take into account all amounts both in principal and in interest owed to it;
- (d) where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item;
- (e) where two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;
- (f) where more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

### *Article 139*

#### **Issuer and issue credit assessment**

1 Where a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure belongs, this credit assessment shall be used to determine the risk weight to be assigned to that item.

2 Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment shall be used in either of the following cases:

- a it produces a higher risk weight than would otherwise be the case and the exposure in question ranks *pari passu* or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant;
- b it produces a lower risk weight and the exposure in question ranks *pari passu* or senior in all respects to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.

In all other cases, the exposure shall be treated as unrated.

3 Paragraphs 1 and 2 are not to prevent the application of Article 129.

4 Credit assessments for issuers within a corporate group cannot be used as credit assessment of another issuer within the same corporate group.

### *Article 140*

#### **Long-term and short-term credit assessments**

1 Short-term credit assessments may only be used for short-term asset and off-balance sheet items constituting exposures to institutions and corporates.

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2 Any short-term credit assessment shall only apply to the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item, except in the following cases:

- a if a short-term rated facility is assigned a 150 % risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term shall also be assigned a 150 % risk weight;
- b if a short-term rated facility is assigned a 50 % risk-weight, no unrated short-term exposure shall be assigned a risk weight lower than 100 %.

#### *Article 141*

### **Domestic and foreign currency items**

A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.

When an exposure arises through an institution's participation in a loan that has been extended by a multilateral development bank whose preferred creditor status is recognised in the market, the credit assessment on the obligors' domestic currency item may be used for risk weighting purposes.]

#### **Editorial Information**

- X1** Substituted by [Corrigendum 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 \(OJ L 176, 27.6.2013, p. 1\)](#).

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(1) [<sup>XI</sup>OJ L 250, 2.10.2003, p. 10.]

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