

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)

[^{XI}PART THREE

CAPITAL REQUIREMENTS

TITLE II

CAPITAL REQUIREMENTS FOR CREDIT RISK

CHAPTER 3

Internal Ratings Based Approach

Section 4

PD, LGD and maturity

Sub-Section 2

Retail exposures

[^{XI}] [^{FI}] *Article 164*

Loss Given Default (LGD)

1 Institutions shall provide own estimates of LGDs subject to the requirements specified in Section 6 of this Chapter and permission of the competent authorities granted in accordance with Article 143. For dilution risk of purchased receivables, an LGD value of 75 % shall be used. If an institution can decompose its EL estimates for dilution risk of purchased receivables into PDs and LGDs in a reliable manner, the institution may use its own LGD estimate.

2 Unfunded credit protection may be recognised as eligible by adjusting PD or LGD estimates subject to requirements as specified in Article 183(1), (2) and (3) and the permission of the competent authorities either in support of an individual exposure or a pool of exposures. An institution shall not assign guaranteed exposures an adjusted PD or LGD such that the adjusted risk weight would be lower than that of a comparable, direct exposure to the guarantor.

3 For the purposes of Article 154(2), the LGD of a comparable direct exposure to the protection provider referred to in Article 153(3) shall either be the LGD associated with an unhedged facility to the guarantor or the unhedged facility of the obligor, depending upon whether, in the event both the guarantor and obligor default during the life of the hedged transaction, available evidence and the structure of the guarantee indicate that the amount recovered would depend on the financial condition of the guarantor or obligor, respectively.

Status: Point in time view as at 31/12/2020. This version of this provision has been superseded.

Changes to legislation: Regulation (EU) No 575/2013 of the European Parliament and of the Council, Article 164 is up to date with all changes known to be in force on or before 04 July 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

4 The exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments shall not be lower than 10 %.

The exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments shall not be lower than 15 %.

5 ^{F2} ...

[^{F3}The PRA shall ensure that the Financial Policy Committee is duly informed of the PRA’s intention to make use of this Article, and is appropriately involved in the assessment of financial stability concerns in the United Kingdom in accordance with paragraph 6.]

^{F4} ...

6 Based on the data collected under Article 430a and on any other relevant indicators, and taking into account forward-looking immovable property market developments the [^{F5}PRA] shall periodically, and at least annually, assess whether the minimum LGD values referred to in paragraph 4 of this Article, are appropriate for exposures secured by mortgages on residential property or commercial immovable property located in [^{F6}the United Kingdom].

Where, on the basis of the assessment referred to in the first subparagraph of this paragraph, the [^{F7}PRA] concludes that the minimum LGD values referred to in paragraph 4 are not adequate, and if it considers that the inadequacy of LGD values could adversely affect current or future financial stability in [^{F8}the United Kingdom], it may set higher minimum LGD values for those exposures located in [^{F9}the United Kingdom]. Those higher minimum values may also be applied at the level of one or more property segments of such exposures.

^{F10} ...

7 Where the [^{F11}PRA] sets higher minimum LGD values pursuant to paragraph 6, institutions shall have a six-month transitional period to apply them.

8 [^{F12}The FCA and PRA may each make] technical standards to specify the conditions that the [^{F13}PRA] shall take into account when assessing the appropriateness of LGD values as part of the assessment referred to in paragraph 6.

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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 \(OJ L 176, 27.6.2013, p. 1\).](#)

Textual Amendments

F1 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,](#)

Status: Point in time view as at 31/12/2020. This version of this provision has been superseded.

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- 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).
- F2** Words in Art. 164(5) omitted (31.12.2020) by virtue of The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(a)(i)**
- F3** Words in Art. 164(5) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(a)(ii)**
- F4** Words in Art. 164(5) omitted (31.12.2020) by virtue of The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(a)(iii)**
- F5** Word in Art. 164(6) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(b)(i)(aa)**
- F6** Words in Art. 164(6) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(b)(i)(bb)**
- F7** Word in Art. 164(6) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(b)(i)(aa)**
- F8** Words in Art. 164(6) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(b)(ii)(bb)**
- F9** Words in Art. 164(6) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(b)(ii)(cc)**
- F10** Words in Art. 164(6) omitted (31.12.2020) by virtue of The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(b)(iii)**
- F11** Word in Art. 164(7) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(c)**
- F12** Words in Art. 164(8) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(d)(i)(aa)**
- F13** Word in Art. 164(8) substituted (31.12.2020) by The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(d)(i)(bb)**
- F14** Words in Art. 164(8) omitted (31.12.2020) by virtue of The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(d)(ii)**
- F15** Art. 164(9) omitted (31.12.2020) by virtue of The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(e)**
- F16** Art. 164(10) omitted (31.12.2020) by virtue of The Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020 (S.I. 2020/1385), regs. 1(3), **74(5)(e)**

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