

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 U.K.]

CAPITAL REQUIREMENTS

TITLE II U.K.]

CAPITAL REQUIREMENTS FOR CREDIT RISK

CHAPTER 4 U.K.]

Credit risk mitigation

Section 2 U.K.]

Eligible forms of credit risk mitigation

Sub-Section 1 U.K.]

Funded credit protection

[^{XI} Article 197 U.K.]

Eligibility of collateral under all approaches and methods

1 Institutions may use the following items as eligible collateral under all approaches and methods:

- a cash on deposit with, or cash assimilated instruments held by, the lending institution;
- b debt securities issued by central governments or central banks, which securities have a credit assessment by an ECAI or export credit agency recognised as eligible for the purposes of Chapter 2 which has been determined by [^{F1}the competent authority] to be associated with credit quality step 4 or above under the rules for the risk weighting of exposures to central governments and central banks under Chapter 2;
- c debt securities issued by institutions [^{F2}or investment firms], which securities have a credit assessment by an ECAI which has been determined by [^{F1}the competent authority] to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to institutions under Chapter 2;
- d debt securities issued by other entities which securities have a credit assessment by an ECAI which has been determined by [^{F1}the competent authority] to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under Chapter 2;

Changes to legislation: Regulation (EU) No 575/2013 of the European Parliament and of the Council, Article 197 is up to date with all changes known to be in force on or before 05 August 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) View outstanding changes

- e debt securities with a short-term credit assessment by an ECAI which has been determined by [^{F1}the competent authority] to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures under Chapter 2;
 - f equities or convertible bonds that are included in a main index;
 - g gold;
 - [^{F3}h securitisation positions that are not resecuritisation positions and which are subject to a 100 % risk weight or lower in accordance with Article 261 to Article 264.]
- 2 For the purposes of point (b) of paragraph 1, ‘ debt securities issued by central governments or central banks ’ shall include all the following:
- a debt securities issued by regional governments or local authorities, exposures to which are treated as exposures to the central government in whose jurisdiction they are established under Article 115(2);
 - b debt securities issued by public sector entities which are treated as exposures to central governments in accordance with Article 116(4);
 - c debt securities issued by multilateral development banks to which a 0 % risk weight is assigned under Article 117(2);
 - d debt securities issued by international organisations which are assigned a 0 % risk weight under Article 118.
- 3 For the purposes of point (c) of paragraph 1, ‘ debt securities issued by institutions ’ shall include all the following:
- a debt securities issued by regional governments or local authorities other than those debt securities referred to in point (a) of paragraph 2;
 - b debt securities issued by public sector entities, exposures to which are treated in accordance with Article 116(1) and (2);
 - c debt securities issued by multilateral development banks other than those to which a 0 % risk weight is assigned under Article 117(2).
- 4 An institution may use debt securities that are issued by other institutions [^{F4}or investment firms] and that do not have a credit assessment by an ECAI as eligible collateral where those debt securities fulfil all the following criteria:
- a they are listed on a recognised exchange;
 - b they qualify as senior debt;
 - c all other rated issues by the issuing institution of the same seniority have a credit assessment by an ECAI which has been determined by [^{F5}the competent authority] to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to institutions or short term exposures under Chapter 2;
 - d the lending institution has no information to suggest that the issue would justify a credit assessment below that indicated in point (c);
 - e the market liquidity of the instrument is sufficient for these purposes.
- 5 Institutions may use units or shares in CIUs as eligible collateral where all the following conditions are satisfied:
- a the units or shares have a daily public price quote;
 - b the CIUs are limited to investing in instruments that are eligible for recognition under paragraphs 1 and 4;
 - c the CIUs meet the conditions laid down in Article 132(3).

Where a CIU invests in shares or units of another CIU, conditions laid down in points (a) to (c) of the first subparagraph shall apply equally to any such underlying CIU.

Changes to legislation: Regulation (EU) No 575/2013 of the European Parliament and of the Council, Article 197 is up to date with all changes known to be in force on or before 05 August 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) View outstanding changes

The use by a CIU of derivative instruments to hedge permitted investments shall not prevent units or shares in that undertaking from being eligible as collateral.

6 For the purposes of paragraph 5, where a CIU (‘ the original CIU ’) or any of its underlying CIUs are not limited to investing in instruments that are eligible under paragraphs 1 and 4, institutions may use units or shares in that CIU as collateral to an amount equal to the value of the eligible assets held by that CIU under the assumption that that CIU or any of its underlying CIUs have invested in non-eligible assets to the maximum extent allowed under their respective mandates.

Where any underlying CIU has underlying CIUs of its own, institutions may use units or shares in the original CIU as eligible collateral provided that they apply the methodology laid down in the first subparagraph.

Where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, institutions shall do both of the following:

- a calculate the total value of the non-eligible assets;
- b where the amount obtained under point (a) is negative, subtract the absolute value of that amount from the total value of the eligible assets.

7 With regard to points (b) to (e) of paragraph 1, where a security has two credit assessments by ECAs, institutions shall apply the less favourable assessment. Where a security has more than two credit assessments by ECAs, institutions shall apply the two most favourable assessments. Where the two most favourable credit assessments are different, institutions shall apply the less favourable of the two.

- 8 ^{F6}The ^{F7}PRA may] make technical standards] to specify the following:
- a the main indices referred to in point (f) of paragraph 1 of this Article, in point (a) of Article 198(1), in Article 224(1) and (4), and in point (e) of Article 299(2);
 - b the recognised exchanges referred to in point (a) of paragraph 4 of this Article, in point (a) of Article 198(1), in Article 224(1) and (4), in point (e) of Article 299(2), ^{F8}... in point (c) of Article 428(1), and in point 12 of Annex III in accordance with the conditions laid down in point (72) of Article 4(1).

^{F9} ...]

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** Words in Art. 197(1) substituted (31.12.2020) by [The Capital Requirements \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1401\)](#), regs. 1(3), **136** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)
- F2** Words in Art. 197(1)(c) inserted (1.1.2022) by [Financial Services Act 2021 \(c. 22\)](#), s. 49(5), **Sch. 1 para. 26(2)**; S.I. 2021/671, reg. 5(1)(b) (with reg. 5(2)) (as amended by S.I. 2021/1163, regs. 1(2), 2)
- F3** 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](#).
- F4** Words in Art. 197(4) inserted (1.1.2022) by [Financial Services Act 2021 \(c. 22\)](#), s. 49(5), **Sch. 1 para. 26(3)**; S.I. 2021/671, reg. 5(1)(b) (with reg. 5(2)) (as amended by S.I. 2021/1163, regs. 1(2), 2)

Changes to legislation: Regulation (EU) No 575/2013 of the European Parliament and of the Council, Article 197 is up to date with all changes known to be in force on or before 05 August 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) [View outstanding changes](#)

- F5** Words in Art. 197(4) substituted (31.12.2020) by [The Capital Requirements \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1401\)](#), regs. 1(3), **136** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)
- F6** Words in Art. 197(8) substituted (31.12.2020) by [The Capital Requirements \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1401\)](#), regs. 1(3), **224(6)(a)** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)
- F7** Words in Art. 197(8) substituted (1.1.2022) by [Financial Services Act 2021 \(c. 22\)](#), s. 49(5), **Sch. 1 para. 47**; S.I. 2021/671, reg. 5(1)(b) (with reg. 5(2)) (as amended by S.I. 2021/1163, regs. 1(2), 2)
- F8** Words in Art. 197(8)(b) omitted (1.1.2022) by virtue of [The Financial Services Act 2021 \(Prudential Regulation of Credit Institutions and Investment Firms\) \(Consequential Amendments and Miscellaneous Provisions\) Regulations 2021 \(S.I. 2021/1376\)](#), regs. 1(3), **25(23)**
- F9** Words in Art. 197(8) omitted (31.12.2020) by virtue of [The Capital Requirements \(Amendment\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1401\)](#), regs. 1(3), **224(6)(b)** (with savings in S.I. 2019/680, reg. 11); 2020 c. 1, Sch. 5 para. 1(1)

Changes to legislation:

Regulation (EU) No 575/2013 of the European Parliament and of the Council, Article 197 is up to date with all changes known to be in force on or before 05 August 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.

[View outstanding changes](#)

Changes and effects yet to be applied to the whole legislation item and associated provisions

- Pt. 3 Title 1 Ch. 1 SECTION 2 A 95 repeal by [EUR 2019/2033](#) Regulation (This amendment by the EU not applied to legislation.gov.uk because it is brought into force after IP completion day.)
- Pt. 3 Title 1 Ch. 1 SECTION 2 repeal by [EUR 2019/2033](#) Regulation (This amendment by the EU not applied to legislation.gov.uk because it is brought into force after IP completion day.)
- Pt. 3 Title 1 Ch. 1 SECTION 2 A 98 repeal by [EUR 2019/2033](#) Regulation (This amendment by the EU not applied to legislation.gov.uk because it is brought into force after IP completion day.)
- Pt. 3 Title 1 Ch. 1 SECTION 2 A 96 repeal by [EUR 2019/2033](#) Regulation (This amendment by the EU not applied to legislation.gov.uk because it is brought into force after IP completion day.)
- Pt. 3 Title 1 Ch. 1 SECTION 2 A 97 repeal by [EUR 2019/2033](#) Regulation (This amendment by the EU not applied to legislation.gov.uk because it is brought into force after IP completion day.)
- Art. 4.1(7) words omitted by [S.I. 2018/1401 reg. 64\(7\)\(b\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(7) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(i))
- Art. 4.1(7) words substituted by [S.I. 2018/1401 reg. 64\(7\)\(a\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(7) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(i))
- Art. 4.1(7) words substituted by [S.I. 2018/1401 reg. 64\(7\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(7) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(i))
- Art. 4.1(13) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(a\)](#)
- Art. 4.1(14) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(b\)](#)
- Art. 4.1(14a) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(c\)](#)
- Art. 4.1(26) words inserted by [S.I. 2018/1401 reg. 64\(20\)\(a\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(20) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(ii))
- Art. 4.1(26) words substituted by [S.I. 2018/1401 reg. 64\(20\)\(d\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(20) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(ii))
- Art. 4.1(28) words substituted by [S.I. 2018/1401 reg. 64\(23\)\(a\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(23) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(iii))
- Art. 4.1(28) words substituted by [S.I. 2018/1401 reg. 64\(23\)\(b\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(23) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(iii))
- Art. 4.1(28) words substituted by [S.I. 2018/1401 reg. 64\(23\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(23) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(iii))
- Art. 4.1(61) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(d\)](#)
- Art. 4.1(62) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(e\)](#)
- Art. 4.1(63) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(f\)](#)
- Art. 4.1(66) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(g\)](#)
- Art. 4.1(67) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(h\)](#)

- Art. 4.1(128) word substituted by [S.I. 2018/1401 reg. 64\(51\)](#) (This amendment not applied to legislation.gov.uk. Reg. 64(51) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(c)(iv))
- Art. 4.1(129) words substituted by [S.I. 2024/705 Sch. 2 para. 19\(i\)](#)
- Art. 11(6)(a) words substituted by [S.I. 2021/1078 reg. 4\(5\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Amending provision substituted by S.I. 2021/1376)
- Art. 18(8)(a) words substituted by [S.I. 2020/1385 reg. 74\(3\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Art. 18(8) substituted (31.12.2020) by S.I. 2019/264, regs. 1, 5(3).)
- Art. 31(1)(b) words substituted by [S.I. 2018/1401 reg. 86\(a\)](#) (This amendment not applied to legislation.gov.uk. Reg. 86(a) omitted immediately before IP completion day by virtue of S.I. 2020/1470, reg. 1(4), Sch. 2 para. 17)
- Art. 31(1)(b) words substituted in earlier amending provision S.I. 2018/1401, reg. 86(a) by [S.I. 2020/1301 reg. 3Sch. para. 11\(g\)](#) (This amendment not applied to legislation.gov.uk. Reg. 86(a) omitted immediately before IP completion day by virtue of S.I. 2020/1470, reg. 1(4), Sch. 2 para. 17)
- Art. 31(1)(c) words inserted by [S.I. 2018/1401 reg. 86\(b\)](#) (This amendment not applied to legislation.gov.uk. Reg. 86(b) omitted immediately before IP completion day by virtue of S.I. 2020/1470, reg. 1(4), Sch. 2 para. 17)
- Art. 78(1)(b) words substituted by [S.I. 2018/1401 reg. 94\(2\)\(a\)](#) (This amendment not applied to legislation.gov.uk. Reg. 94(2) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(h))
- Art. 78(1)(b) words substituted by [S.I. 2018/1401 reg. 94\(2\)\(b\)](#) (This amendment not applied to legislation.gov.uk. Reg. 94(2) omitted (6.9.2019) by virtue of S.I. 2019/1232, regs. 1(2), 3(3)(h))
- Art. 124(4)(b) word substituted by [S.I. 2018/1401 reg. 225\(1\)\(2\)reg. 225\(3\)\(b\)](#) (This amendment not applied to legislation.gov.uk. The words to be substituted in Art. 124(4) are not present following the substitution of Art 124 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).)
- Art. 242(10)(c) and word inserted by [S.I. 2024/705 Sch. 2 para. 22\(b\)\(ii\)](#)
- Art. 244(4)(c) words substituted by [S.I. 2024/705 Sch. 2 para. 23](#)
- art. 270a(1A) inserted by [S.I. 2024/705 Sch. 2 para. 25\(b\)](#)
- Art. 325(3)(a) word omitted by [S.I. 2018/1401 reg. 157](#) (This amendment not applied to legislation.gov.uk. The words to be omitted are not present in Art. 325(3)(a))
- Art. 450(1)(d) words substituted by [2021 c. 22 Sch. 1 para. 41](#) (This amendment not applied to legislation.gov.uk. Pt. 8 omitted (1.1.2022) by virtue of S.I. 2021/1078, regs. 1(1), 10 (as substituted by S.I. 2021/1376, regs. 1(2), 32(4)))
- Art. 456(1)(h)(i) omitted by [S.I. 2021/1078 reg. 11\(2\)\(a\)\(iv\)](#) (This amendment not applied to legislation.gov.uk. Amending provision substituted by S.I. 2021/1376)
- Art. 459(b) omitted by [S.I. 2021/1078 reg. 11\(5\)\(a\)](#) (This amendment not applied to legislation.gov.uk. Amending provision substituted by S.I. 2021/1376)
- Art. 459(c) words substituted by [S.I. 2021/1078 reg. 11\(5\)\(b\)](#) (This amendment not applied to legislation.gov.uk. Amending provision substituted by S.I. 2021/1376)