

Question ID

2025_7363

Legal act

Regulation (EU) No 575/2013 (CRR)

Topic

Credit risk

Article

121

Paragraph

1

COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations

Not applicable

Article/Paragraph

N/A

Type of submitter

Credit institution

Subject matter

Exposures to institutions waived from individual capital requirements according to article 7 CRR, under Credi Risk Standardised Approach

Question

How should exposures to institutions be treated under Credi Risk Standardised Approach, if such institutions have been waived of individual capital requirements? Shall these exposures be assigned to grade C, or can the level of compliance with capital requirements be assessed by taking consolidated requirements as reference?

Background on the question

Article 121 CRR3 introduces a new treatment for unrated exposures to institutions ("SCRA"). According to it, institutions shall be classified in grade A, B or C depending on the counterparty meeting certain conditions, being one of them, that *"the institution meets or exceeds the*

requirement laid down in Article 92(1) of this Regulation, taking into account Article 458(2), points (d) (i) and (vi), and Article 459, point (a), of this Regulation where applicable, the specific own funds requirements referred to in Article 104 of Directive 2013/36/EU, the combined buffer requirement defined in Article 128, point (6), of Directive 2013/36/EU, or any equivalent and additional local supervisory or regulatory requirements in third countries insofar as those requirements are published and are to be met by Common Equity Tier 1 capital, Tier 1 capital or own funds, as applicable"

There are exposures to unrated institutions that have been waived from individual capital requirements. Therefore, it is not possible to assess to which grade under SCRA should these exposures be assigned, since there is no public information on the level of compliance with such requirements. The following alternatives are considered:

1. Assign such exposures to grade C, considering the lack of individualized information. This option, however, does not seem coherent with the CRR spirit, which requires supervisory authorization (and compliance with very strict conditions) to grant the waiver foreseen in article 7 CRR.
2. Assign such exposures to Grades A or B if the counterparty provides such information in bilateral conversations (considering wording *"otherwise made available to the lending institution"* of article 121 CRR3). Nonetheless, in addition to being a burdensome option for both, the institution calculating capital requirements and the client (as it would require periodic updates during the maturity of the transaction), there could be cases where the client does not directly have such information because of the mentioned waiver.
3. Take the parent company's consolidated capital levels to assess compliance with the mentioned conditions in article 121 CRR3. This would comply with the spirit of article 7 of CRR, the subsidiary is included in the supervision on a consolidated basis of the parent undertaking and own funds are distributed adequately between the parent undertaking and the subsidiary.

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24/10/2025

Final answer

For assessing the requirements in points (a)(ii) or (b)(ii) of Article 121(1) of REGULATION (EU) No 575/2013 (the CRR) in case where a waiver in accordance with Article 7(1), (2) or (3) of the CRR for requirements on the individual basis has been granted to the unrated counterparty institution, compliance with a waived requirement can be assessed based on compliance with the same requirement for the consolidated situation of the parent undertaking in the Member State, either where this parent undertaking is the counterparty institution itself or is a different entity. The waiver conditions in Article 7(1)(a) or 7(3)(a) of the CRR, as applicable, require *"no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities"*. These conditions serve for ensuring transfer of own funds or repayment of liabilities as far as needed by the unrated counterparty institution, thus in particular for the credit obligations of this unrated counterparty institution. This support by other group members effectively achieves the same as if the unrated counterparty institution itself would meet the waived requirements.

Consequently, whether relevant requirements are met or exceeded depends on the extent to which such support by other entities is available, which depends on whether these requirements are met or exceeded for the consolidated situation of the parent institution in the Member State.

Status

Final Q&A

Answer prepared by

Answer prepared by the EBA.
