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Consultation Paper

Draft Regulatory Technical Standards

amending Delegated Regulation (EU) 2021/598 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assigning risk weights to specialised lending exposures

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 07.08.2026. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the [Legal notice section](#) of the EBA website.

2. Executive Summary

Regulation (EU) No 575/2013 as amended by Regulation (EU) 2024/1623 mandates the EBA in Article 153(9) to develop draft regulatory technical standards to specify how institutions shall take into account the five factors specified in that paragraph when assigning risk weights to specialised lending exposures.

Specialised lending exposures, as defined in Article 147(8) of the CRR, refer to exposures to entities created primarily to finance or operate physical assets, where repayment depends mainly on income generated by those assets, with lenders having significant control over the assets and related income. To recall, under the Internal Ratings Based Approach, as a fallback approach, institutions may assign supervisory risk weights and expected loss values based on maturity and classification into five credit risk categories which is also known as Supervisory Slotting Criteria Approach.

For classification under the Supervisory Slotting Criteria Approach, institutions must assess five factors specified in Article 153(5) CRR: financial strength, political and legal environment, transaction/asset characteristics, sponsor and developer strength, and security package. Delegated Regulation (EU) 2021/598 sets out general assessment rules for the assignment and provides detailed criteria in four annexes for each specialised lending category—project finance, real estate, object finance, and commodity finance—breaking factors down into sub-factors and sub-factor components.

The amendments proposed in this Consultation Paper stem primarily from three reasons. A review of Delegated Regulation (EU) 2021/598 was carried out to first align this Delegated Regulation with the amendments to Regulation (EU) No 575/2013 from Regulation (EU) 2024/1623, primarily with regard to newly introduced definitions and terminology.

Second, as the assessment criteria of the Delegated Regulation (EU) 2021/598 do not yet contain references to ESG factors, the RTS contain several proposals for references that could clarify the supervisory expectation how ESG factors should be taken into consideration when applying the supervisory slotting criteria.

Third, amendments are made to enhance a simplified and harmonised application of the assessment criteria by leveraging on the supervisory experience gathered since publication of the original RTS. This encompasses several clarifications that are proposed to the current wording. In particular in the annexes, several criteria are amended, streamlined, or complemented by specifying new sub-factors or sub-factor components.

These amendments should be seen in the light of an evolution of market practices and supervisory expectations as well as the overall regulatory framework since the criteria were initially introduced to the Basel framework.

3. Background and rationale

3.1. Background and mandate

1. Specialised lending exposures, as defined in Article 147(8) of Regulation (EU) No 575/2013 (CRR), constitute a specific exposure type related to an entity created specifically to finance or operate physical assets, or to an economically comparable exposure. According to the definition, for such exposures, the income generated by the financed assets is the primary source of repayment, rather than the independent capacity of a broader commercial enterprise, as is the case for other corporate exposures. In addition, the contractual arrangements grant the lender a substantial degree of control over the assets and the income they generate.
2. Within the Internal Ratings Based Approach (IRB Approach), the CRR allows for a special treatment of specialised lending exposures, in the event that the institution is not able to estimate the probabilities of default (PDs) or the institution's PD estimates do not meet the requirements in terms of PD estimation set out in the CRR. For such specialised lending exposures, the CRR puts forward a set of supervisory risk weights, which have to be assigned on the basis of a classification in five risk weight categories, depending on the underlying credit risk, as well as the remaining maturity. This approach is also known as the supervisory slotting criteria approach for specialised lending exposures in the Basel framework.
3. In the CRR, the supervisory slotting criteria approach (SSCA) is inter alia implemented in Articles 153(5) and 158(6) that outline risk weights and expected loss values to be assigned based on a categorisation of the specialised lending exposure considering the five factors 'financial strength, political and legal environment, transaction and/or asset characteristics, strength of the sponsor and developer, including any public private partnership income stream, and security package'. Article 153(9) of the CRR mandated the EBA to develop draft regulatory technical standards (RTS) to specify how institutions shall take into account those five factors, when assigning risk weights to specialised lending exposures. The EBA has published the draft RTS in June 2016 and the related Commission Delegated Regulation (EU) 2021/598 (in the following referred to as CDR 2021/598) was adopted in April 2021.
4. These RTS outline how institutions shall proceed when assigning their exposures to a category based on the abovementioned set of factors that are broken down into sub-factors and, for some sub-factors, further into sub-factor components. The RTS provide in the annexes for each of the specialised lending categories project finance, real estate, object finance and commodity finance assignment criteria for each factor based on the breakdown into sub-factor or sub-factor components.
5. With the Regulation (EU) 2024/1623 amending Regulation (EU) No 575/2013, the mandate was renewed. The new mandate allows

- the implementation of amendments to the RTS driven by changes introduced by Regulation (EU) 2024/1623 (CRR3) amending Regulation (EU) No 575/2013,
 - the incorporation of environmental, social and governance ('ESG') factors into the specification of the assignment criteria for the factors referred to in Article 153(5) of the CRR¹, and
 - enhance the RTS by leveraging the experience of supervisors and institutions gained from implementation since CDR 2021/598 came into force.
6. The SSCA was primarily introduced to allow institutions to collect default and loss data in order to move to more sophisticated approaches under the IRB Approach over time and to provide institutions with the possibility to achieve sufficient coverage to apply for the IRB Approach in light of the fact that the requirements on permanent partial use were applicable at the level of an institution's entire credit risk portfolio, before Regulation (EU) 2024/1623 amended the requirements on permanent partial use. As institutions may also apply more sophisticated approaches under the CRR to calculate own funds requirements for their specialised lending exposures under the IRB Approach, only in some Member States, the SSCA is generally applied for specialised lending exposures. In most Member States, the SSCA coverage is low overall. However, since Regulation (EU) 2024/1623 introduced the possibility that institutions receive approval for the IRB Approach at the level of individual exposure classes the scope of the application of the SSCA by institutions might change in future.

Consultation box 1

Question 1. Materiality and current implementation of the SSCA:

- a. How is the materiality of the SSCA and its usage for PF, IPRE, OF and CF exposures expected to evolve in the future (grow, reduce, stable)?
- b. What are the reasons behind this expected evolution and which role does the expected evolution of the IRB framework play, considering the amendments introduced under the CRR3 and the related Level 2 and Level 3 mandates as well as potential adjustments to the IRB framework that might result from the work on simplification?
- c. What were the main reasons underlying past decisions on the usage of the SSCA?
- d. From an industry perspective, are there any challenges or limitations you experience with the current Supervisory Slotting Criteria Approach—particularly in assessing and quantifying the risk of the exposure? Do the current assignment criteria provided in the Annexes capture all key risk dimensions effectively, or could it be enhanced by adjusting the current

¹ The five factors that institutions shall take into account under the SSCA are clearly specified by Article 153(5) CRR and any risk driver is to be taken into account by means of the further specification of these factors, i.e. by the breakdown into sub-factors and sub-factor components. Hence, even though Article 4(1), point (52d) CRR refers to ESG factors, from the perspective of the SSCA, the ESG factors do not complement the list of five factors to be considered but constitute potential risk drivers for specialised lending exposures and are instead incorporated into the assessment criteria by further specifying already existing criteria or by addressing these risk drivers under the SSCA as sub-factors or sub-factor components.

factors, sub factors, or sub-factor components? Please provide details, and examples where they apply, and explain the rationale for your feedback.

3.2. Alignment with CRR3

3.2.1. Alignment with definitions and terminology

7. While the CRR applicable before the coming into force of Regulation (EU) 2024/1623 was silent on the different specialised lending exposure categories, Article 147(8) as amended by the CRR3 now requires institutions applying the IRB Approach to categorise their specialised lending exposures as project finance (PF), object finance (OF), commodity finance (CF), or income-producing real estate (IPRE). While in this regard, point (75b) of Article 4(1) CRR defines 'income-producing real estate exposure' and 'IPRE exposure', Article 147(8) CRR uses the terms 'income-producing real estate' and 'IPRE' without 'exposure'. This distinction enables the EBA to fulfil its mandate under Article 147(11) CRR to develop RTS specifying the determination of the IPRE category, including which ADC exposures and exposures secured by immovable property may or shall be categorised as IPRE. The notions of project finance, object finance, and commodity finance exposures are introduced by Article 122a of the CRR that, however, applies to specialised lending exposures under the Standardised Approach, only. Moreover, the RTS as laid out in the Delegated Regulation (EU) 598/2021 refer to 'real estate' instead of 'income-producing real estate' exposures. However, the most important difference between specialised lending real estate exposures as understood by those RTS to specialised lending IPRE exposures is the consideration of exposures to finance land acquisition, construction and development ('ADC exposures'). While there is no reference made to ADC exposures in the 'IPRE exposure' definition according to point (75b) of Article 4(1) CRR, the category of 'real estate' exposures clearly covers these exposures, and the respective criteria generally reflect the specific risk characteristics of these exposures irrespective of whether these exposures would qualify as 'IPRE exposure' under point (75b) or as 'ADC exposures' under point (78a) of Article 4(1) CRR.
8. As set out in the previous paragraph, the categorisation of specialised lending exposures under the IRB Approach is to be specified in RTS under the mandate of Article 147(11) CRR that makes particular reference to ADC exposures and exposures secured by immovable property for the determination of IPRE specialised lending exposures. In order to ensure a consistent application of the requirements, the attribution of the assignment criteria to be applied to an exposure should be based on the categorisation set out by the RTS developed under that mandate. Thus, under the scope of the mandate of Article 153(9) of the CRR, the interaction between ADC and IPRE specialised lending exposures cannot be clarified. However, for the time being, it is worth noting that the real estate assessment criteria set out in the currently applicable version of the CDR 2021/598 are generally reflective of the specific risk characteristics of ADC exposures. To account for the new RTS mandate under Article 147(11) CRR, with the amending RTS the clarifications for the SL categories currently included in CDR 2021/598 are removed and the reference to 'real estate exposures' is substituted by a reference to 'IPRE' such that the assessment criteria now refer directly to the specialised

lending categories as specified in the second subparagraph of Article 147(8) that has been added with the CRR3. However, institutions are expected to be aware of the respective assignment criteria as specified in the annexes of the RTS when designing the processes for the categorisation of IRB specialised lending exposures. In case the applicable assignment criteria do not allow for an appropriate reflection of risk for a specific exposure, institutions should consider any specific treatment deviating from the generally applicable assignment procedure an override and should thoroughly document this override.

Consultation box 2

Question 2. Do you have any comments on the proposed amendments to Article 1 or on the replacement of the references to 'real estate' by references to 'income-producing real estate'?

3.2.2. Treatment of UFCP

9. Article 236(1d) that was newly introduced by Regulation (EU) 2024/1623 explicitly refers to the possibility to recognise UFCP by applying the substitution approach where the risk weights for the guaranteed exposure are determined by means of the SSCA according to Article 153(5) of the CRR. This constitutes a change compared to the previous stance that is reflected in Q&A 2017_3295, whereby UFCP should not be recognised using the credit risk mitigation techniques laid down in Chapter 4 of Part Three Title II of the CRR but should only be considered under the SSCA when assigning risk weights to the (secured) specialised lending exposures according to Article 153(5) of the CRR.
10. In order to ensure a harmonised recognition of UFCP after the amendment of Article 236 through the CRR3, the RTS provide further guidance how UFCP should be recognised where the risk weights are assigned according to Article 153(5) CRR. Acknowledging that the SSCA ranges in the hierarchy of approaches between the Standardised Approach and the foundation IRB Approach that both only allow for a recognition of UFCP under Chapter 4 of Title II of Part Three of the CRR, the RTS introduce a new paragraph 5 to Article 3 of CDR 2021/598 to clarify that UFCP should be taken into consideration only to the extent that this form of credit protection is already mentioned in the assessment criteria in the annexes. This means that a further recognition of UFCP via an additional risk driver according to Article 3(3) of CDR 2021/598 is not permitted. However, in any case institutions may choose to either recognise eligible UFCP under Chapter 4 of Part Three Title II of the CRR or to recognise it in their assignment of risk weights according to Article 153(5) CRR.

Consultation box 3

Question 3. Do you have any comment on paragraph 3 that was newly introduced to Article 3 regarding the consideration of UFCP?

3.3. Consideration of ESG factors

11. The RTS as laid down in CDR 2021/598 do not yet contain any specific reference to ESG-related risk drivers. The regulatory guidance for the consideration of such risk drivers is today much more advanced than at the point in time when the Delegated Regulation was developed. Specifically, for the SSCA, the Basel FAQ 8 to CRE 33.13² provides guidance how banks should reflect climate-related financial risks in their assignment of risk weights to specialised lending exposures. According to this FAQ, banks shall analyse how climate-related financial risks could negatively impact the assignment into a category. The FAQ provides concrete examples and that risk mitigation should be taken into consideration. The EBA had already recommended 2023 in its 'Report on the Role of Environmental and Social Risks in the Prudential Framework'³ that the FAQ should be implemented via the RTS. However, the proposed implementation in the RTS goes beyond the FAQ as it addresses not only environmental but also social and government risks while the FAQ exclusively refers to climate-related risks.
12. Furthermore, the EBA is of the view that ESG-related risk drivers should not be treated differently from other risk drivers of credit risk and that the recognition of ESG-related risk drivers should not be limited to the case where they have a negative impact. Where such risk drivers constitute a material driver of credit risk, respective information should be considered relevant and needs to be taken into account in accordance with Article 171(2) of the CRR. The risk drivers to be considered in the assignment of risk weights according to Article 153(5) of the CRR are reflected in the factors and are specified by the sub-factors and sub-factor components, and the corresponding assessment criteria. The EBA has published in its 'Report on the Management and Supervision of ESG Risks for Credit Institutions and Investment Firms'⁴ environmental, governance and social factors along with their indicators and metrics. Based on these factors, the sub-factors, sub-factor components and the respective assessment criteria were complemented as described in more detail below.
13. As a second element, a new paragraph 6 is added to Article 3 of CDR 2021/598 to clarify that, where an institution identifies for a type of exposures a material ESG-related risk driver that is not already covered in the annexes, it should take this risk driver into account as additional risk driver in accordance with paragraph 3 of that Article.

² Basel FAQ 8 to CRE 33.13. (2019 version): "How can banks reflect climate-related financial risks in the Supervisory slotting criteria for specialised lending? When performing the assessment of the category of the subfactor components, banks should analyse how climate-related financial risks could negatively impact the assignment into a category. This includes any potential impact on the financial strength (eg estimations of the future demand, economic assumption and stressed economic conditions used for stress analysis), the political and legal environment (eg transition risk into "stability of legal and regulatory environment (risk of change in law)", physical risk into "Force majeure risk (war, civil unrest etc)" and the asset characteristic in the case of object finance. When performing this assessment, banks should take into consideration whether climate-related financial risks have been adequately mitigated (eg improving adaptation or taking insurance coverage against physical climate risks)."

³ [EBA/REP/2023/34](#)

⁴ [EBA/REP/2021/18](#)

14. The annexes were amended based on the following assessment. References to incorporate **environmental factors** were added to the following areas:

- First, in line with the Basel FAQ, the EBA is of the view that most importantly the environmental risks should be captured by the sub-factor '*stress analysis*' (PF, IPRE and OF) to address for example the impact of physical effects of environmental factors on the cash-flows generated by the assets (e.g. by considering as stress scenario that the assets being financed could be damaged due to environmental hazards) but also the impact of other environmental factors such as higher costs for energy resources or CO2 emissions on the financial strength of the transaction. Due to the wide range of projects, objects and properties being financed, the RTS do not further specify, which environmental factors should be covered in the stress analysis, but institutions are expected to consider all relevant risk drivers in their assessment.
- Second, institutions should consider in their assessment of '*cash-flow predictability*' for IPRE exposures on the one hand the future coverage with rent or lease contracts, and on the other future costs, which might comprise energy refurbishment costs or insurance costs for physical effects of environmental factors.
- Third, institutions should take into account whether it is market standard to already anticipate environmental aspects in the design and configuration of the project, property or object. To clarify this, a respective reference was added to the factor '*asset characteristics*' or '*asset / transaction characteristics*'. Similarly, environmental factors covering e.g. increased flooding or storm risk, or other environmental hazards should be considered in the assessment of the location of the property for IPRE exposures.
- Fourth, the sub-factors that relate to the legal and regulatory environment address not only the current environment but have also a forward-looking component. Following the Basel FAQ, it is clarified that the assessment of the legal and regulatory framework should consider in particular effects from the transition to an environmentally sustainable economy by introducing a reference to the respective sub-factors. However, these effects might influence not only the political and legal system but might also affect other factors: For IPRE, institutions should take such effects into consideration when assessing the conservatism of the construction budget for properties under construction. For OF one sub-factor of the asset characteristics is the '*sensitivity of the asset value and the liquidity to the economic cycle*'. As in particular the liquidity of a market could change under a change of the legal framework, institutions should specifically consider effects from the transition of the market to an environmentally sustainable market in their assessment.
- Fifth, when assessing as part of the security package for IPRE exposures the '*quality of the insurance coverage*' for IPRE, institutions should, amongst other, consider insurances to protect against physical effects of environmental factors.

- Sixth, as environmental factors, might affect the transportation of the commodity, e.g. where streets cannot be passed due to floods or rivers cannot be used for shipping due to low water levels, a new sub-factor '*transportation risk*' has been specified under the factor '*asset and transaction characteristics*'.

15. PF exposures, e.g. the financing of infrastructure or power plants, are particularly vulnerable to instabilities in the political system. **Social factors** might lead e.g. to civil unrest such as strikes or work stoppages, sit-ins or blockades, or riots that might hinder the project to continue as initially planned which is referred to in the sub-factor '*force majeure risk*' and a respective reference is added to that sub-factor.

16. **Governance factors** can generally arise for each party that is involved in a specialised lending transaction as well as for the transaction as such. Therefore, several references related to governance factors were introduced:

- From the perspective of the transaction, governance-related issues might most importantly arise from the position of the institutions amongst the group of lenders. For a non-tranched exposure the EBA understands that the position on the claims the institution holds is reflective of the power the institution has more generally in decision processes compared to the other lenders. A new sub-factor '*governance of the transaction*' was specified, under which institutions should assess if the institution is the (sole) holder of a senior/junior claim.
- The EBA is of the view that from a somewhat broader perspective, the risks arising from corruption in a country should be considered in the assessment of the political and legal system. A new sub-factor '*corruption risk*' was specified under the factor '*political and legal environment*' with criteria related to the corruption perception index. In particular for PF exposures, there is regular government support in the transaction and in such case, the assessment of the political risk is of major importance.
- In relation to the operator or the sponsor, governance-related factors might be that the management or funding abilities of the operator or sponsor would be reduced due to a flawed governance of this party. In the worst case, where material governance factors materialise, it might be that the operator or sponsor needs to be substituted. Where such risks exist, they should be reflected in the sub-factor categories, and the annexes were clarified in this regard.

Consultation box 4

Question 4. Consideration of ESG risk:

- a. Do you have any comment on paragraph 6 on the consideration of ESG risks that is newly introduced to Article 3 of the RTS?
- b. Do you have any comment on the treatment of ESG-related factors or on the ESG-related clarifications to the assessment criteria provided in the annexes of the RTS? Do you have any concerns in terms of feasibility of the assessment considering ESG related factors and

do you expect the consideration of ESG-related factors to lead to a better risk differentiation of the SSCA?

c. Specifically for the newly specified sub-factor component on the CPI: Do you think the cut-off values for the CPI allow for a reasonable risk differentiation? If not, please provide cut-off values that would be meaningful for your specialised lending portfolios.

d. With specific regard to CF, given the current low uptake of the CF criteria: Do you support the specification of the additional sub-factors for CF, or do you believe that the low uptake of SSCA for CF portfolios indicates the need for simpler criteria? What aspect(s) would be crucial to include in such simpler criteria?

3.4. Clarifications for the documentation requirements

17. The SSCA constitutes a fallback solution under the IRB Approach balancing simplicity and harmonisation on the one hand with the strict modelling and process-related requirements of the IRB Approach on the other. Supervisors reported that in practice it is frequently not per se clear how the IRB requirements apply to ensure a robust and reliable assignment of risk weights according to Article 153(5) CRR. Most importantly, this observation relates to the areas of overrides and of validation.

18. The EBA understands that the override process constitutes one element of major importance of the assignment process and should thus be thoroughly documented to ensure that risk weights can be assigned in a consistent manner taking into account all relevant information. For this reason and in line with Article 172(3) of the CRR, Article 6 of the RTS is now complemented by explicit documentation requirements for overrides.

19. Moreover, to ensure a sound assignment of risk weights, the assignment methodology is subject to a requirement in terms of regular validation according to point (d) of Article 174 of the CRR. The EBA expects institutions to conduct their validation activities for the assignment methodology as outlined in the Supervisory Handbook on the Validation of Rating Systems under the IRB Approach⁵ (including the performance of specific challenger analysis for the SSCA addressing human judgement, aggregation logic, monotonicity as well as concentrations as outlined in Focus box 6 of the handbook). The result of the validation is an important piece of background information for the assignment of risk weights, as e.g. where the validation revealed severe issues of the assignment methodology, it might be necessary to take this into account in the assignment process. To emphasise that for each type of specialised lending exposure a validation of the assignment methodology is required, with particular focus on the validation of the cash-flow projections, a respective documentation requirement is added to Article 6 of the RTS.

⁵ [EBA/REP/2023/29](#)

Consultation box 5
Question 5. Documentation

Do you have any comments on the clarifications for the documentation of overrides and validation results that were introduced to Article 6 of the RTS, also in view of the supervisory best practices outlined in the Supervisory Handbook on IRB Validation (EBA/REP/2023/29)?

3.5. Removal of the factor-weight floors

20. The RTS as laid down in the CDR 2021/598 prescribe a bottom-up assignment process starting with the assessment at the level of the sub-factor components or at sub factor level, where no sub-factor components are specified for a certain sub-factor. Where categories are attributed at sub-factor component level, institutions are required to attribute a category at sub-factor level according to “the relative importance of each sub-factor component for the type of specialised lending exposure”⁶. That is, for each exposure, the categories at sub-factor component level are aggregated to the sub-factor level, which are then aggregated to the factor level categories following the same approach. According to Article 2 of the currently applicable CDR 2021/598, the final category is derived as weighted average of the factor-level categories (paragraphs 3 and 4 of Article 2) with weights that are required to respect a cap of 60% and a floor of 5% (paragraph 2 of Article 2).
21. Supervisors observed that, in practice, institutions face for some portfolios severe challenges to develop assignment methodologies with sufficient risk sensitivity under the SSCA with respect to individual factors. This issue might hamper both the appropriate assignment of a specialised lending exposure to a category, and therefore the assignment of an appropriate risk weight, as well as the fulfilment on the requirements in terms of the use test for such an exposure. The EBA understands that one reason for these challenges is that the RTS restrict institutions too much in their modelling choices. While, according to Article 3(4) of CDR 2021/598, exceptionally, a sub-factor or sub-factor component may not be applied, this option is not open for factors. This means that, for example the factor political and legal environment needs to be considered with a factor weight of at least 5%, even in case the business strategy would only allow for exposures in the same country, in which case that factor would clearly not contribute to the risk differentiation and a consideration with a weight of 5% might even deteriorate the discriminatory power of the assignment methodology.
22. To support a better risk differentiation, Article 2(2) of the RTS was amended to provide now for the option to remove the factor-weight floors under the condition that the institution can prove that the factor does not contribute to the risk differentiation.
23. The EBA considered the amendment of other elements of the framework to promote a further enhancement of the risk sensitivity in the institution’s implementations. One option that was considered was to fully remove the factor weights and to allow a more flexible aggregation

⁶ Article 3(2)(b) of Commission Delegated Regulation (EU) 2021/598

logic. However, as an additional removal of the factor-weights cap would not allow for any comparability of approaches anymore and would moreover allow institutions to assign an exposure based on the (practically) sole consideration of one factor. For this reason, the EBA is of the view that the already high cap value for the factor weights should be kept for the time being and considered as an alternative the option to change the structure of the factor, sub-factor and sub-factor components.

24. One alternative considered by the EBA was to split⁷, as a first step, for PF, IPRE, and CF, the asset and transaction characteristics into two distinct factors ‘*asset characteristics*’ and ‘*transaction characteristics*’. In a second step, sub-factors related to refinancing risk would be assigned to ‘*transaction characteristics*’. This alternative was motivated by two observations: First, it was observed that institutions face in practice challenges to capture refinancing risk appropriately. The EBA understands that this is since, even though refinancing risk constitutes typically a material risk driver for specialised lending exposures, it is considered as just one element of a sub-factor or a sub-factor component⁷ in the assessment criteria. The second observation goes in a different direction: Even though the SSCA does not require a split into a PD and a LGD component, in practice, typically default rates are available. In case the factor financial strength would cover exclusively PD-related drivers, this would allow for a validation based on empirical observations at factor level. This would be achieved by re-assigning the sub-factor components that address refinancing risk to the factor ‘*transaction characteristics*’.

Consultation box 6

Question 6. Did you face challenges to achieve sufficient risk sensitivity under the RTS as laid down in CDR 2021/598? If yes,

a. would these challenges remain under the proposal to remove the floor for the factor weights and the proposed amendments to the Annexes?

b. please specify in detail, which amendments (removal of caps, removal of the linear aggregation, structural changes or other) would, in your assessment, most effectively enhance risk sensitivity under the SSCA?

3.6. Other amendments to foster a harmonised assignment of risk weights

25. Business practices for specialised lending exposures cover a wide range of assets being financed and transaction structures. In order to improve a harmonised application of the assignment criteria, the RTS provide additional clarifications for those areas where in practice heterogenous implementations were observed.

⁷ E. g. for PF, refinancing risk is mentioned in the sub-factor component ‘market/cycle and refinancing risk’ to be assessed in the sub-factor ‘financial structure’ under the factor ‘financial strength’; the IPRE assessment criteria foresee the sub-factor ‘financial structure’ with the same sub-factor components under the factor ‘asset and transaction characteristics’.

26. First, the RTS enhances clarity how institutions should proceed to attribute a category for a sub-factor or subfactor component: In this regard, several issues arise in the application of the assessment criteria laid down in the annexes: First, in some cases, the criteria do not always differentiate between two categories. This situation is addressed in Article 4, which clarifies how institutions should derive the final category in such cases. However, for some sub-factors or sub-factor components the criteria consist of several sub-criteria. To ensure that the criteria for the sub-factors and sub-factor components are reflective of an increasing risk, in this case the attribution of a category to a sub-factor or sub-factor component should be performed considering a sub-criterion fulfilled where it was already fulfilled for a better category⁸. This principle is now clarified in Article 3(1) of the RTS.
27. Moreover, in some cases for a sub-factor or a sub-factor component no category can be attributed, most importantly due to a lack of data. In accordance with Article 171(2) CRR, such exposures should be assigned conservatively to category 4 for the respective sub-factor or sub-factor component. To implement this stance in the RTS, all⁹ criteria for category 4 were substituted by the criterion ‘No other category applies.’ such that the annexes reflect now clearly that category 4 constitutes a residual category. However, this conservative treatment applies to the assignment of exposures to categories, only. For model development, institutions are expected to remove the conservatism (e.g. by setting an appropriate default value) in case of partial or fully missing information to ensure that no bias is introduced in the model development.
28. Furthermore, descriptions are added to each factor, to help institutions to define the target variable when developing the assignment methodology.

Consultation box 7

Question 7. Do you have any comments

- a.** on the newly introduced sentence to Article 3(1) of the RTS to clarify the attribution of categories to sub-factors or sub-factor components,
- b.** on the introduction of descriptions for each factor, or
- c.** on the implementation of category 4 as residual category as well as the quantitative threshold introduced for the assessment of the DSCR as criterion for category 4, in particular on the need of providing further clarifications on the treatment of missing information and its documentation?

⁸ E. g. for the OF sub-factor ‘market liquidity’, a worldwide structured market should not prevent institutions from an assignment to category 2 in case the assets are only relatively liquid.

⁹ This is with the exemption of the sub-factor ‘financial ratio’, for which a quantitative DSCR threshold was implemented to clearly set apart the qualitative criteria of categories 1 to 3 on the one hand and category 4 on the other.

3.7. Specification of new risk drivers and amendments of existing sub-factors or sub-factor components

29. Under the RTS as laid down in the CDR 2021/598, institutions may take into account additional risk drivers by considering them together with the closest sub-factor. To ensure clarity and harmonised assessments, the RTS specify, which additional risk drivers to include and provide clearer wording for certain sub-factors and sub-factor components.

Newly specified sub-factors

30. **Tranched exposures.** Since the coming into force of Regulation (EU) 2017/2402 (Securitisation Regulation), the definition of securitisation¹⁰ excludes transactions or schemes creating exposures that meet all specialised lending criteria set out in Article 147(8) CRR. Consequently, transactions with tranched credit risk that also qualify as specialised lending exposures pursuant to Article 147(8) CRR may need to be treated under the regular Standardised Approach or IRB Approach and not under Part Three Title II Chapter 5 of the CRR, depending on the institution's permission. Institutions generally have an incentive to classify exposures as specialised lending exposures under the IRB Approach, as these are not subject to the extensive due diligence, risk retention, transparency, and credit granting requirements of the Securitisation Regulation, nor to the higher own funds requirements for securitisation positions, which additionally account for agency and model risk.

31. While risk weights are assigned to individual exposures, the RTS criteria in CDR 2021/598 mostly address the transaction level and do not sufficiently reflect an exposure's position in the loss waterfall. To improve risk differentiation for specialised lending exposures that would qualify as securitisation positions in the absence of point (c) of the securitisation definition, a new sub-factor — *'Position of the exposure in the transaction's loss waterfall for exposures with securitisation characteristics'* — is specified under *'asset and transaction characteristics'* to address the specific case of such exposures, with criteria considering seniority, tranche thickness, and the presence of other lenders in the same tranche.

32. **IPRE – assessment of financial strength for properties under construction.** For incomplete properties, financial ratios like debt service coverage ratio, interest coverage ratio or loan to value for incomplete properties can frequently not be determined in a meaningful way as incoming cash flows are not yet fully known. In this situation, institutions should base their assessment of financial strength on the development and construction budget and the debt-to-equity ratio instead of considering financial ratios. Hence, the RTS newly specify the sub-factor component *'borrower's ability and willingness to repay their obligation for incomplete properties'* that is exclusively applicable for properties under construction. For properties

¹⁰ See Article 2 point (1)(c) of Regulation (EU) 2017/2402: "(1) 'securitisation' means a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranced, having all of the following characteristics:

[...]

(c) the transaction or scheme does not create exposures which possess all of the characteristics listed in Article 147(8) of Regulation (EU) No 575/2013."

under construction, an assessment of the sub-factors '*financial ratios*' and '*advance ratio*' thus no longer needs to be performed.

33. **IPRE – consideration of the asset value under 'asset characteristics'**. The IPRE assessment criteria foresee for the assessment of the asset characteristics only the location, design and condition and if the property is still under construction. Even though these sub-factors interact with the asset value, the asset value allows for a more differentiated assessment of the risk of a specific exposure and should be considered when assessing the factor. In alignment with the '*asset characteristics*' sub-factors for OF the RTS newly specify also for IPRE exposures a sub-factor '*resale value to debt value*' to be considered in the assessment.
34. **CF – market price volatility**. Where in CF transaction the commodity prices are not fixed, market price volatility is a major driver of risk and should therefore be considered in the risk assessment. Consequently, the RTS newly specify a corresponding sub-factor to be assessed under '*asset and transaction characteristics*'.

Other amendments to sub-factors: factor '*financial strength*'

35. **Sub-factor '*market conditions*'**. Similar to more complex rating systems, also for rating systems under the SSCA the factor '*financial strength*' constitutes the starting point and the core of the risk assessment for an exposure. For this reason, the sub-factors and sub-factor components are of particular importance, and their assessment should be performed in a transparent manner and should be thoroughly documented. For the sub-factor market conditions under the RTS laid out in CDR 2021/598, the criteria consist of two sub-criteria that are now disentangled by two sub-factor components '*market competition*' and '*demand*' such that the criteria need to be assessed and documented separately.
36. **Sub-factor '*financial ratios*'**. The RTS as laid down in the CDR 2021/598 provide definitions for the ratios to be considered under the factor '*financial ratios*' according to which the debt service coverage ratio (DSCR) should be determined as "the ratio of the cashflow available for debt service which can be generated from the asset to the required repayment of the principal and the interest payments during the life of the loan". In case, balloon payments exist, they will typically be subject to refinancing such that the consideration of these payments biases the DSCR. Hence, balloon payments are now excluded from the DSCR calculation. Moreover, it was observed that, predominantly, institutions use the DSCR even where other financial ratios are mentioned in the sub-factor. The only exemption from that approach is the frequent use of the ICR for bullet loans. However, as balloon payments are not considered any longer in the DSCR, the ICR and DSCR are identical for bullet loans and hence, the EBA believes that institutions should, as a general rule, refer to the DSCR when assessing the sub-factor '*financial ratios*'. However, the EBA understands that e.g. for operating leases, the DSCR as defined in the RTS might be biased. In this case, institutions are expected to adjust the DSCR such that it is reflective of the obligor's ability to repay.

37. **Sub-factor ‘*advance ratio*’**. In line with Section 7 of the Guidelines on Loan Origination and Monitoring¹¹, institutions should ensure that the collateral values taken into account for the determination of the LTV are recent values of an independent party that are subject to a regulator monitoring process and a corresponding clarification has therefore been added.
38. **Sub-factor ‘*stress analysis*’**. The analysis considered for PF, IPRE and OF under the sub-factor ‘*stress analysis*’ should be an integrated stress analysis taking into account asset and transaction specific risk drivers but also FX or IR risk and environmental risk drivers. Notwithstanding this, the EBA expects that institutions have in place a robust and sound stress testing framework, that encompasses a variety of stress analyses and in particular univariate stress tests or sensitivity analyses. Respective clarifications have therefore been added for this sub-factor.
39. **Sub-factor ‘*FX risk*’**. The PF assessment criteria foresee a separate sub-factor for FX risk, which is in practice typically assessed via a standalone scenario analysis. As FX risk is now integrated into the sub-factor ‘*stress analysis*’, the sub-factor ‘*FX risk*’ is no longer needed and has thus been removed.
40. **Sub-factor ‘*financial structure*’¹²**. The sub-factor ‘*financial structure*’ should focus on the degree the transaction is exposed to refinancing risk. To achieve a clearer and more direct assessment of refinancing risk, the draft RTS rename the factor to ‘*refinancing risk*’ and the sub-factor components ‘*amortisation schedule*’ and ‘*market cycle and refinancing risk*’ are replaced by the sub-factor components ‘*debt to equity at maturity*’ and ‘*debt yield an investor financing the loan at maturity can expect*’.
41. **Sub-factor ‘*cash-flow predictability*’**. To assess the cash-flow predictability for IPRE exposures, in respect of which the construction of the property has not yet been completed, now the criteria distinguish pre-lease or pre-sales contracts with tenants or buyers being either government entity or a public private partnership from other entities with high credit quality.
42. **Sub-factor ‘*over-collateralisation*’**. For CF, the sole sub-factor of ‘*financial strength*’ is ‘*degree of over-collateralisation*’. The EBA is of the view that for the collateralisation ratio the collateral value should generally be determined in a conservative manner. However, in case there is posted cash collateral available for the transaction, this may be taken into account.

Other amendments to sub-factors: factor ‘*political and legal environment*’

43. **Sub-factor ‘*political risk*’ (PF, IPRE and OF) and ‘*country risk*’ (CF)**. The EBA understands that political risk is the risk that political decisions might adversely impact the transaction. From a broader perspective, this includes transfer risk. However, the risk of a disadvantageous political decision is for PF already addressed by the factor ‘*political support for the project*’. For IPRE and OF, the EBA is of the view that potentially unfavourable political decisions (e.g. that a certain type of objects will be less incentivised from a taxation perspective or be less

¹¹ [EBA/GL/2020/06](#)

¹² The sub-factor ‘*financial structure*’ is for PF assigned to the factor financial strength. For IPRE, it is assigned to the factor ‘*asset and transaction characteristics*’ while for OF, the factor ‘*transaction risk*’ encompasses the sub-factor components ‘*amortisation schedule*’ and ‘*market cycle and refinancing risk*’.

supported by the government in future) will typically not be made with respect to individual objects but will rather be implemented through the general legal and regulatory framework. In all those cases, the assessment of the sub-factor '*political risk*' may refer on the transfer risk, only. Similarly, for CF, the EBA considers a focus of the assessment of the factor '*political and legal environment*' on the transfer risk on the one hand, and the risk of export restrictions, on the other, as appropriate due to the short-term character of CF.

Other amendments to sub-factors: factor '*asset and transaction characteristics*'

44. **Sub-factor 'construction risk'**. For PF, within the factor 'transaction risk', the sub-factor 'construction risk' is currently split into the sub-factor components 'type of construction contract' and 'likelihood to finish the project at agreed time and cost in a timely manner'. This split is with limited added value, and the text was simplified (also considering the inter-dependency of the two sub-factor components) by merging the two sub-factor components.

45. **Sub-factor '*liquidity and susceptibility to damage*'**: For CF, the susceptibility to damage is one major factor to assess the value of the pledged commodity if sold in case of a default. However, if there is insurance against damage, the residual risk should be considered. For this reason, the EBA understands that a consideration of the susceptibility to damage under the sub-factor 'insurance against damage' is appropriate. Therefore, the RTS removes the reference to susceptibility from the sub-factor '*liquidity and susceptibility to damage*' and instead a reference to the susceptibility' to damage was added to the sub-factor '*insurance against damages*' under the factor 'security package'.

Other amendments to sub-factors: factors '*strength of sponsor*' and '*security package*'

46. Apart from the amendments that were already described, only minor additional clarifications are provided for the sub-factors '*strength of sponsor*' and '*security package*'.

Consultation box 8

Question 8. Specification of new sub-factors and amendments to the sub-factors and sub-factor components:

a. Do you have any comments on the specification of the new sub-factors and the amendments introduced to the sub-factors and sub-factor components? Do you expect an improvement in risk differentiation by the specification of new sub-factors and sub-factor components, and do you expect material model changes introduced by newly specified sub-factors or sub-factor components (related to ESG aspects or other)? Specifically for CF, given the current low usage of the CF criteria: Do you support the specification of additional sub-factors for CF, or would it be more commensurate to maintain the current criteria?

b. Specifically for the clarifications to the DSCR for the sub-factor '*financial ratios*', do you have any concerns about reducing the financial ratios to consider just to the DSCR? Are there other products than operational leases, where the DSCR does not allow unbiased risk assessment?

c. Specifically for the sub-factors that refer to the loan-to-value, could you please provide insights in how far the determination of the loan-to-value used is aligned with the exposures-to-value according to Article 124(6) CRR?

d. For the newly specified sub-factor market price volatility, how could the different levels of volatility (low/ moderate/ high) be further specified? For IPRE and OF, is the short-term volatility of market prices a risk driver that is frequently considered in practice as additional information when assessing the assignment criteria? Do you support the specification of a new sub-factor or sub-factor component to capture short-term volatility of market prices for IPRE or OF and if so, why?

3.8. Overview of the changes to the annexes

The following illustrations provide an overview of the changes performed to the annexes. Violet boxes denote structural changes in the specification of the factors (e.g. where a sub-factor component was split into several sub-factor components). Blue boxes indicate clarifications, green boxes new elements that were specified and orange boxes where specifications were dropped. Italic letters indicate amendments resulting from the integration of ESG-related aspects

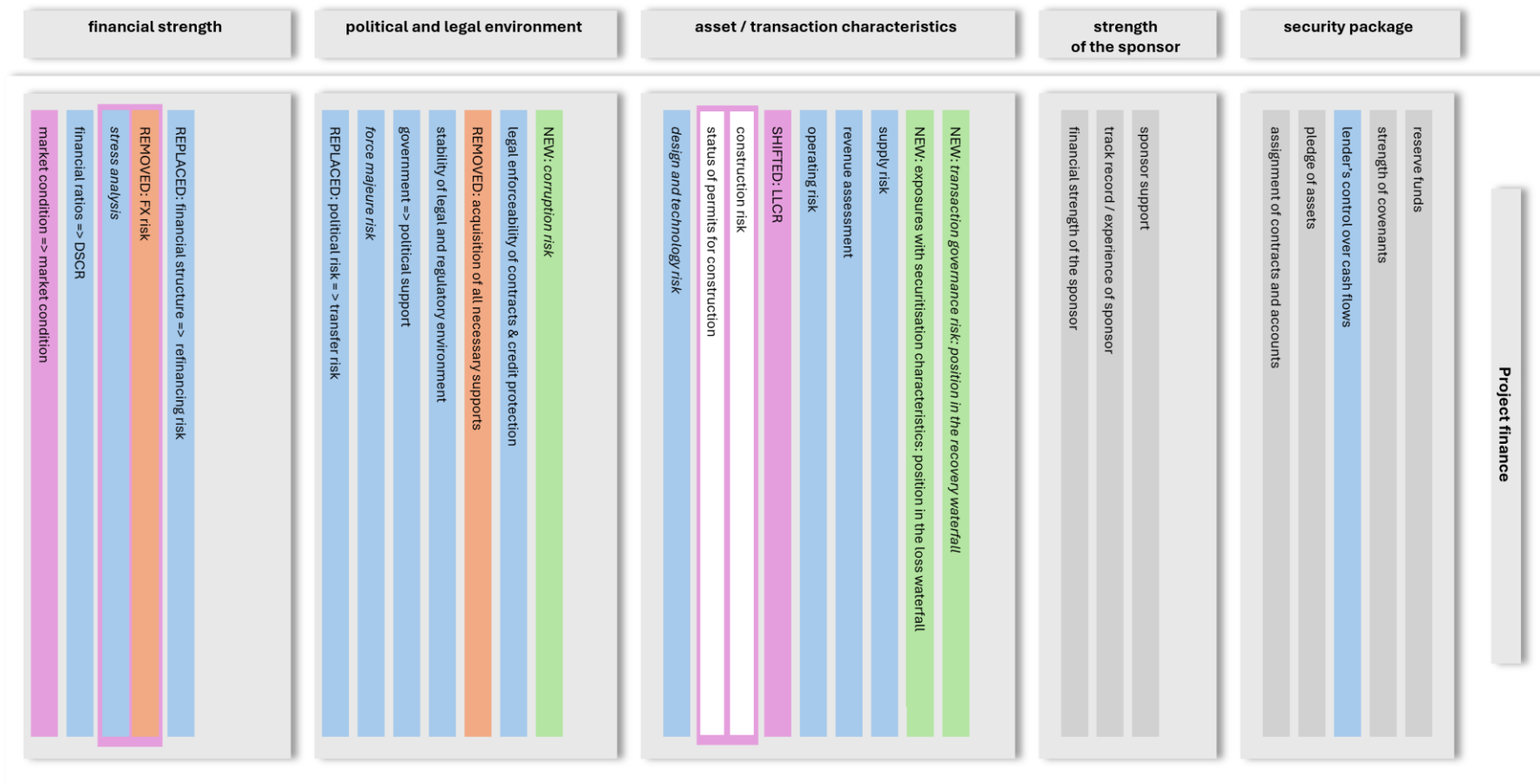


Figure 1: Overview changes to Annex I

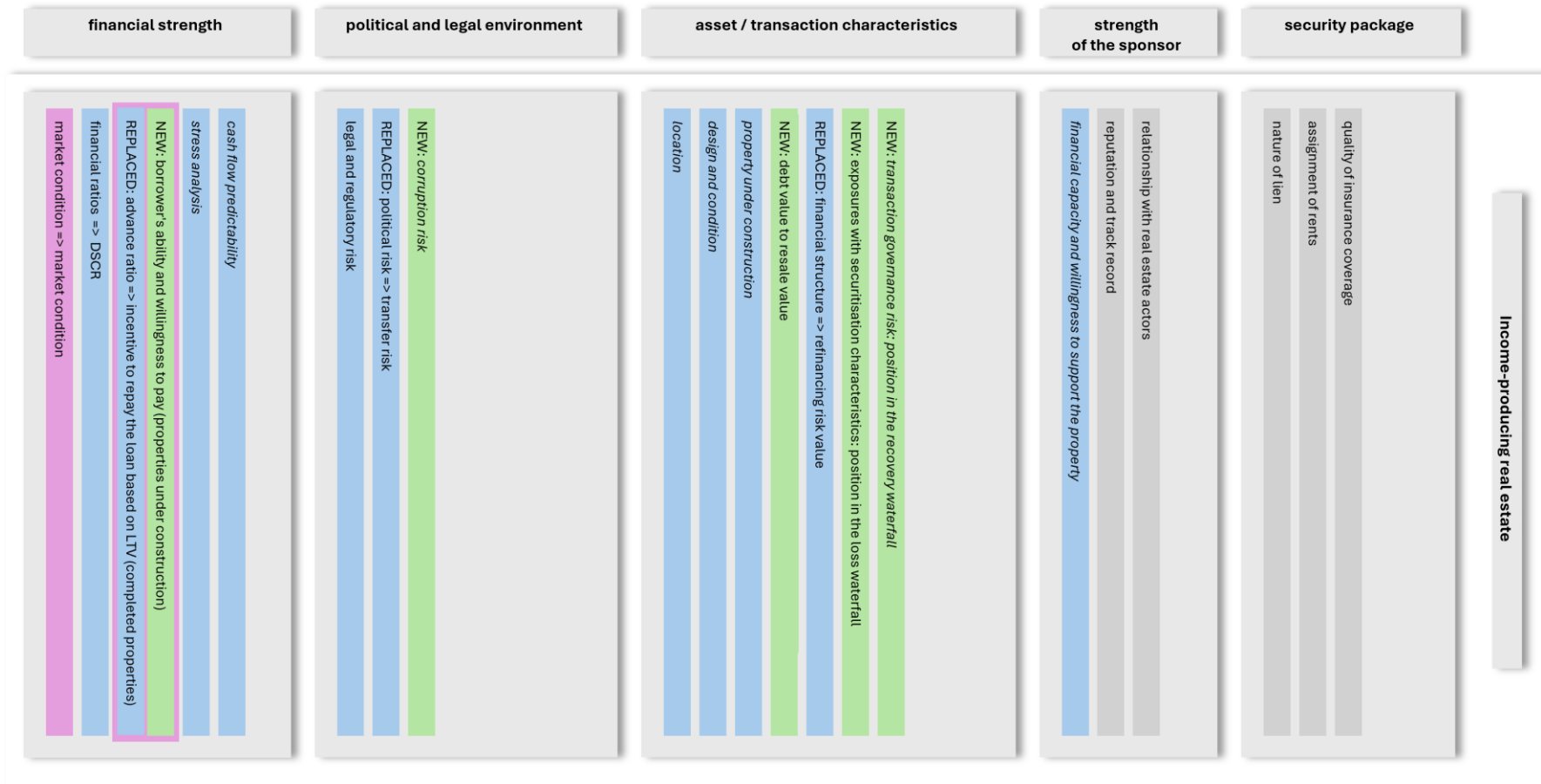


Figure 2: Overview of changes to Annex II

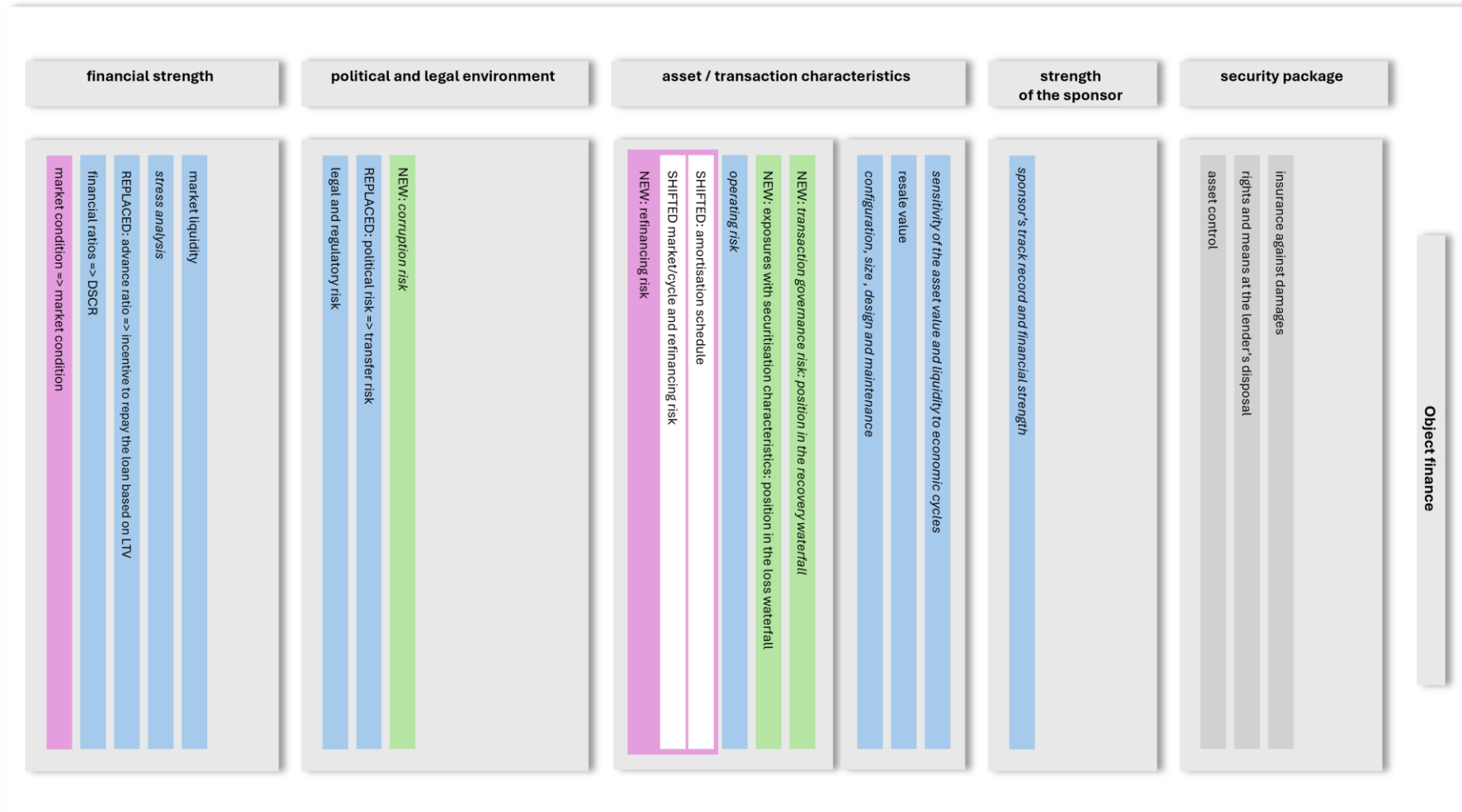


Figure 3: Overview changes to Annex III

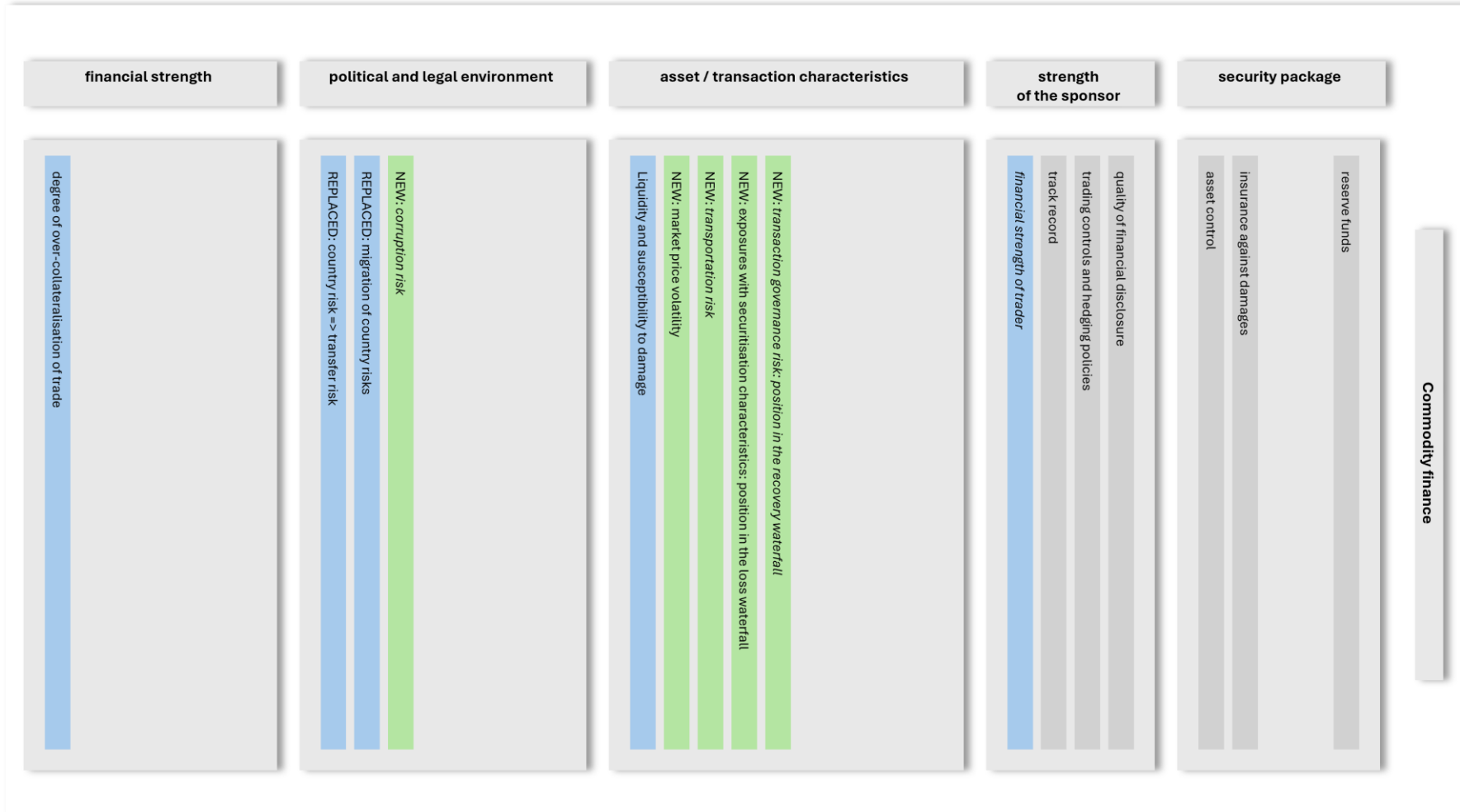


Figure 4: Overview changes to Annex IV

4. Draft regulatory technical standards

COMMISSION DELEGATED REGULATION (EU) .../...

of **XXX**

**amending Commission Delegated Regulation (EU) 2021/598
supplementing Regulation (EU) No 575/2013 of the European Parliament
and of the Council with regard to regulatory technical standards for
assigning risk weights to specialised lending exposures**

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard 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 648/2012¹², and in particular the third subparagraph of Article 153(9) thereof,

Whereas:

- (1) Under the Internal Ratings Based Approach ('IRB Approach'), for specialised lending exposures in respect of which an institution is not able to estimate PDs or the institutions' PD estimates do not meet applicable requirements, institutions shall assign risk weights to specialised lending exposures in accordance with Table 1 of Article 153(5) of Regulation (EU) No 575/2013 by attributing them to one of the categories set out therein. For each specialised lending exposure, such assignment of risk weights shall be based on an institution's assessment of the factors referred to in the second subparagraph of Article 153(5) of that Regulation. The regulatory technical standards set out in Delegated Regulation (EU) 2021/598 further specifying that assignment of risk weights should be amended to reflect changes in the legal framework since the entry into force of that Regulation, with particular reference to the incorporation of environmental, social and governance factors to the assignment criteria. Those amendments should also leverage on the supervisory experience gathered since the publication of the Delegated Regulation (EU) 2021/598 and

¹ OJ L 176, 27.6.2013, [p. 1].

² OJ L 127, 14.4.2021, [p. 1].

include corresponding enhancements of and further clarifications on existing requirements facilitating their application.

- (2) According to Regulation (EU) 2024/1623 amending Regulation (EU) No 575/2013 institutions are now required to assign their specialised lending exposures to the specialised lending categories project finance (PF), object finance (OF), commodity finance (CF) and income-producing real estate (IPRE) and institutions should apply the supervisory slotting criteria of the respective specialised lending category based on that assignment. For this reason the clarifications for the individual specialised lending categories in Article 1 of Delegated Regulation (EU) 2021/598 should be substituted by references to the specialised lending categories that institutions are required to apply within their assignment according to Article 147(8) of Regulation (EU) No 575/2013. As the assignment criteria for ‘real estate exposure’ generally cover risk drivers for ‘income-producing real estate’ exposure, the references to ‘real estate exposures’ in Delegated Regulation (EU) 2021/598 should be replaced by a reference to the category ‘income-producing real estate’.
- (3) In practical implementations, the requirements of Delegated Regulation (EU) 2021/598 in terms of setting a floor of 5% to the weighting of each of the factors referred to in the second subparagraph of Article 153(5) of Regulation (EU) No 575/2013 created challenges in rare cases, where an individual factor did not contribute to risk differentiation. In particular, where institutions are only exposed to specialised lending exposures to entities located in one country, the factor ‘political and legal environment’ does not add to the risk differentiation. The Delegated Regulation (EU) 2021/598 should therefore be amended by removing the floor applicable to the weight of individual factors, where an institution is able to empirically demonstrate that the contribution of a factor is lower than 5%.
- (4) Underlying transactions of specialised lending exposures cover a wide range of transaction structures and of assets being financed. In order to ensure a harmonised application of the assignment criteria, this Regulation should further clarify how an assignment criterion for a sub-factor or a sub-factor component should be assessed in case that several sub-criteria exist for an individual sub-factor or sub-factor component. Moreover, where no information is available to apply the criteria referred to under a sub-factor or a sub-factor component and to assign that sub-factor or sub-factor component to a category, in accordance with Article 171(2) of Regulation (EU) No 575/2013 such sub-factor or sub-factor component should be conservatively assigned to category 4 and the annexes to this Regulation have been amended accordingly. Where multiple assets are financed, the main drivers of risk of the financing applicable to all or to the majority of financed assets should be considered within the application of the assessment criteria.
- (5) The supervisory slotting criteria as laid down in the annexes to this Regulation refer to some extent to the existence of unfunded credit protection. To ensure harmonised practices in the recognition of unfunded credit protection, institutions recognising unfunded credit protection under the supervisory slotting criteria should only take into account unfunded credit protection to the extent specified in the annexes.
- (6) The assignment of an individual specialised lending exposure to a category set out in Table 1 of Article 153(5) of Regulation (EU) No 575/2013 should be performed considering the existence of environmental, social and governance aspects where

those aspects constitute risk drivers relevant for the exposure. Given that institutions are required by Article 171(2) of that Regulation to take into account all relevant information for the assignment of obligors and facilities to grades or pools, the environmental, social and governance aspects should be addressed as part of the assignment criteria and dedicated sub-factors or sub-factor components are specified in the Annexes of this Regulation. Where relevant, references should therefore be added to these environmental, social and governance aspects under the already existing sub-factors or sub-factor components, or the underlying criteria thereof. As for any other risk driver the assessment criteria provided in the Annexes should be complemented by considering an additional risk driver for a type of specialised lending exposures, where needed. Where environmental, social and governance factors are only relevant for an individual specialised lending exposure, institutions should consider this information by applying an override in accordance with Article 172(3) of Regulation (EU) No 575/2013 and therefore, no further requirements should be specified in this regard through this regulation. Institutions should document the reasons for taking into account those environmental, social and governance factors in the assignment.

- (7) In the light of the insufficient level of detail in Delegated Regulation (EU) 2021/598 with regard to the documentation of overrides and of the validation of the assignment methodology used, the documentation should be further specified.
- (8) According to Article 2, point (1)(c), of Regulation (EU) 2017/2402, transactions or schemes meeting the conditions referred to under points (a) and (b) of that definition but creating exposures that fulfill the criteria for specialised lending exposures as laid out in points (a) to (c) of the first subparagraph of Article 147(8) of Regulation (EU) No 575/2013 shall not be treated any longer as securitisations. Despite of being subject to tranching, specialised lending exposures created by those transactions or schemes are therefore subject to the requirements under the Chapter 2 or Chapter 3 of Part 3 Title II of Regulation (EU) No 575/2013 and are no longer treated as securitisation positions. In light of these considerations dedicated sub-factors should be specified, addressing the specific risk characteristics of these specialised lending exposures in the assessment criteria laid down in Annex I to Annex IV to this Regulation.
- (9) The factors, sub-factors or sub-factor components as well as several underlying criteria in the Annexes of Delegated Regulation (EU) 2021/598 should be amended in order to improve the clarity and consistency of the criteria in these Annexes. In particular, the sub-factors covering refinancing risk, which constitutes one of the major drivers of credit risk for a specialised lending exposure, should be amended to stronger focus on refinancing risk. To increase the consistency of the assignment criteria across specialised lending categories, sub-factors and sub-factor components applicable to more than one of these categories should be aligned. In particular, considering the importance of the asset value as a risk driver for income-producing real estate exposures, a dedicated sub-factor should be specified for the factor asset characteristics.
- (10) Commission Delegated Regulation (EU) No 2021/598 should therefore be amended accordingly.

- (11) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (12) The European Banking Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council³,

HAS ADOPTED THIS REGULATION:

Article 1

Commission Delegated Regulation (EU) 2021/598 is amended as follows:

- (1) Paragraphs 1 to 4 of Article 1 are replaced by the following:
 - ‘1. When assigning risk weights in accordance with the second subparagraph of Article 153(5) of Regulation (EU) No 575/2013 for specialised lending exposures that are categorised as project finance (PF) according to the second subparagraph of Article 147(8) of that Regulation, institutions shall apply the assessment criteria set out in Annex I to this class of exposures.
 2. When assigning risk weights in accordance with the second subparagraph of Article 153(5) of Regulation (EU) No 575/2013 for specialised lending exposures that are categorised as income-producing real estate (IPRE) according to the second subparagraph of Article 147(8) of that Regulation, institutions shall apply the assessment criteria set out in Annex II to this class of exposures.
 3. When assigning risk weights in accordance with the second subparagraph of Article 153(5) of Regulation (EU) No 575/2013 for specialised lending exposures that are categorised as object finance (OF) according to the second subparagraph of Article 147(8) of that Regulation, institutions shall apply the assessment criteria set out in Annex III to this class of exposures.
 4. When assigning risk weights in accordance with the second subparagraph of Article 153(5) of Regulation (EU) No 575/2013 for specialised lending exposures that are categorised as commodity finance (CF) according to the second subparagraph of Article 147(8) of that Regulation, institutions shall apply the assessment criteria set out in Annex IV to this class of exposures.’;
- (2) In Article 2, paragraph 2 the following sentence is added:

‘Where institutions can provide empirical evidence demonstrating that a factor does not contribute to the risk differentiation for the type of specialised lending exposures or does contribute less than 5%, they may apply a weight that is lower than 5% for that factor.’;

³ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.10.2010, [p. 12].).

- (3) Article 3 is amended as follows:
- (a) in paragraph 1 the following sentence is added:
‘Where the assignment criteria for a sub-factor or sub-factor component encompass several sub-criteria, institutions shall assign the category based on the worst fulfilled sub-criterion.’;
 - (b) the following paragraph 5 is added:
‘5. In their assignment of specialised lending exposures, institutions shall take into account unfunded credit protection only to the extent specified by Annexes I, II, III or IV. Where a specialised lending exposure is secured by unfunded credit protection that fulfils the requirements of Section 2 and Section 3 as well as Section 5 of Chapter 4 of Title II of Part Three of Regulation (EU) No 575/2013, and this unfunded credit protection is recognised in accordance with Section 4 of that Chapter, this unfunded credit protection shall not be considered within the attribution to a category at the level of sub-factor components, sub-factors or factors.’;
 - (c) the following paragraph 6 is added:
‘6. Where environmental, social or governance aspects materially impact the attribution of a category to a sub-factor or sub-factor component, institutions shall consider those aspects in their attribution. For this purpose, institutions shall take into account whether environmental, social or governance risks have been adequately mitigated. Institutions shall take into account additional relevant information for a type of specialised lending exposures with regard to environmental, social or governance aspects not considered by any sub-factor or sub-factor component listed in Annex I, II, III or IV as an additional risk driver in accordance with paragraph 3.’;
- (4) Article 6 is amended as follows:
- (a) in paragraph 1, the following subparagraphs are added:
 - ‘(d) the policies and criteria for the use of overrides in the assignment process;
 - (e) the results of the validation of the criteria for the assignment of risk weights to exposures, in particular with respect to the cash-flow projections based on which the assignment is performed.’;
 - (b) in paragraph 2, point (d) is replaced by the following:
‘(d) the assessment of the specialised lending exposure at each step of the process laid down in Articles 2 to 5 that led to the assignment of the risk weight to the exposure, including any override that was performed according to Article 172 (3) of Regulation (EU) No 575/2013.’;
- (5) Annex I is replaced in accordance with Annex I to this Regulation;
- (6) Annex II is replaced in accordance with Annex II this Regulation;
- (7) Annex III is replaced in accordance with Annex III to this Regulation;
- (8) Annex IV is replaced in accordance with Annex IV to this Regulation.

Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the Commission
The President*

*[For the Commission
On behalf of the President*

ANNEX I

Annex I to Delegated Regulation (EU) 2021/598 is replaced by the following:

‘ANNEX I

Assessment criteria for specialised lending exposures categorised as project finance (PF)

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength - the ability of the obligor to repay its credit obligation from the cash flows generated by the assets, considering obligations of other lenders of equal or higher seniority.				
(a) Sub-factor: market conditions				
<ul style="list-style-type: none"> Market competition (sub-factor component) 	Very few competing suppliers or substantial and sustainable advantage of the project in terms of location, cost, or technology compared to other suppliers in the relevant market(s)	Few competing suppliers (oligopoly) or substantial, potentially non-sustainable advantage of the project in terms of location, cost, or technology compared to other suppliers	Project has neither advantage nor disadvantage in location, cost, or technology.	No other category applies.
<ul style="list-style-type: none"> Demand (sub-factor component) 	Strong and currently growing	Strong and currently stable	Adequate and currently stable	No other category applies.
(b) Sub-factor: financial ratios – Debt Service Coverage Ratio ¹	Very strong DSCR, considering the type of specialised lending exposures	Strong DSCR, considering the type of specialised lending exposures	Adequate DSCR, considering the type of specialised lending exposures	DSCR is below 1.15 or cannot be reliably determined.
(c) Sub-factor: stress analysis on the basis of the cash flows expected to be generated through the lifetime of the project, reflecting its	According to the integrated stress analysis, the project can meet all its financial obligations to the institution and all other lenders of equal or higher	According to the integrated stress analysis, the project can meet all its financial obligations to the institution and all other lenders of equal or higher	According to a downside scenario cash-flow projection, the project can meet all its financial obligations to the institution and all other lenders of equal or higher	No other category applies.

¹ The Debt Service Coverage Ratio (‘DSCR’) refers to the ratio of the cash flow available for debt service, which can be generated from the asset for the required repayment of the principal, excluding any material balloon payment, where ‘balloon payments’ refers to the remaining amount of principal that becomes due and payable on the final instalment payment for a loan that is not fully amortised, and for the interest payments during the life of the loan where the cash flow available for debt service is calculated by subtracting operating expenditure, capital expenditure, expenditure for other debt and equity funding, taxes and working capital adjustments from the revenues generated by the project. In case a waterfall of cash flows has been contractually agreed, this waterfall shall also be taken into account in the calculation of the cash flow available for debt service. In case the DSCR as calculated according to this definition is biased and does therefore not reflect the obligor’s ability to repay its obligations (e.g. in case of operational leases) institutions shall take appropriate measures to calculate an unbiased DSCR. If there is no amortising component in the loan, the DSCR equals the Interest Coverage Ratio (‘ICR’) defined as the ratio of the cash flow available for debt service, which is expected to be generated from the asset for the required repayment of the interest payments during the life of the loan, where the cash flow available for interest payments is calculated by subtracting operating expenditure, capital expenditure, expenditure for other debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

<p>vulnerability over the time horizon of the analysis. The integrated stress analysis shall assess the financial strength in the presence of stressed economic and sectoral conditions, considering all factors that potentially affect the viability of the project, including a material change of FX and interest rates, payment obligations to third parties under stressed economic conditions, as well as environmental factors. Additionally, where relevant, off-take², supply and construction risk shall be factored in within the integrated stress analysis.</p>	<p>seniority solely from the cash flows generated by the assets without additional support from the sponsor under sustained, severely stressed economic and sectoral conditions.</p>	<p>seniority solely from the cash flows generated by the assets without additional support from the sponsor under non-severe but stressed economic and sectoral conditions. The project is only likely to default under sustained, severely stressed economic and sectoral conditions.</p>	<p>seniority solely from the cash flows generated by the assets without additional support from the sponsor under sectoral downturn conditions that can be expected during the lifetime of the project.</p> <p>The project is likely to default already under non-severe stressed economic and sectoral conditions.</p>	
<p>(d) Sub-factor: Refinancing risk</p>				
<ul style="list-style-type: none"> leverage (debt to value) at contractual maturity date (sub-factor component) 	<p>No refinancing risk or negligible leverage at contractual maturity date</p>	<p>Low leverage at contractual maturity date</p>	<p>Material leverage at contractual maturity date</p>	<p>No other category applies.</p>
<ul style="list-style-type: none"> debt yield³ that can be expected by an investor refinancing the loan at maturity (sub-factor component) 	<p>No refinancing risk or very high debt yield expected after contractual maturity date</p>	<p>High debt yield expected after contractual maturity date</p>	<p>Moderate debt yield expected after contractual maturity date</p>	<p>No other category applies.</p>
<p>Factor: political and legal environment - stability of the political system (including transfer risk) and the possibility to enforce legal claims in the countries where the assets being financed are located</p>				
<p>(a) Sub-factor: transfer risk, considering mitigants</p>	<p>Very low transfer risk, or very strong mitigation instruments in place, covering the full amount of principal, interest and fees.</p>	<p>Low transfer risk, or strong mitigation instruments in place, covering the major part of the amount of principal, interest and fees.</p>	<p>Moderate transfer risk, or mitigation instruments in place, covering still a material part of principal, interest and fees.</p>	<p>No other category applies.</p>
<p>(b) Sub-factor: force majeure risk (war, civil unrest, or other social factors)</p>	<p>Very low force majeure risk</p>	<p>Low force majeure risk, or strong mitigation instruments in place, covering the major part of the amount of principal, interest and fees.</p>	<p>Moderate force majeure risk, or mitigation instruments in place covering still a material part of principal, interest and fees.</p>	<p>No other category applies.</p>

² Off-take risk refers to the risk that the demand for the output or service does not exist at the price at which it is provided, or the off-taker is unable or refuses to honour his commitment to purchase the output or service.

³ The 'debt yield' shall be calculated as the net operating income over the contractually agreed debt remaining at the contractual maturity date.

(e) Sub-factor: political support for the project (e.g. in terms of existence of price guarantees or tax relief or existing investment of the country in similar projects or municipalities)	Strong and broad political support; project of strategic importance for the country.	Project considered important for the country. Good level of support from government	Project may not be strategic but brings unquestionable benefits for the country. Support from government may not be explicit	No other category applies.
(d) Sub-factor: stability of legal and regulatory environment relevant for the project (current status and risk of change in the law, taking into account the track record of the relevant jurisdictions; in particular considering effects from the transition to an environmentally sustainable economy)	Regulatory environment is expected to stay favourable and stable over the long term	Favourable and stable regulatory environment that is expected to stay so over the medium term	The regulatory environment is currently favourable and stable and regulatory changes can be predicted with a fair level of certainty.	No other category applies.
(e) Sub-factor: legal enforceability of contracts and credit protection	Jurisdiction is very favourable to repossession such that under litigation contracts are usually legally enforceable within an appropriate time frame	Jurisdiction is generally favourable to repossession such that under litigation contracts are usually legally enforceable within a moderate time frame	Repossession might be long and/or difficult and under litigation contracts are usually legally enforceable within a still acceptable time frame	No other category applies
(f) Sub-factor: corruption risk	The Corruption Perceptions Index of the country, where the assets financed by the exposure are located, is above 65.	The Corruption Perceptions of the country, where the assets financed by the exposure are located, is above 50.	The Corruption Perceptions Index of the country, where the assets financed by the exposure are located, is above 35.	No other category applies.
Factor: asset / transaction characteristics - ability of the assets to cover potential losses of the institution in case the obligor is unable or unwilling to pay its credit obligation in full as well as structural elements of the transaction				
(a) Sub-factor: design and technology risk	Fully proven technology and design that has been used for a very long period of time in a multitude of other projects	Largely proven technology and design with no innovative elements	Technology and design with innovative elements with potential issues from the innovative elements being mitigated by a strong compensation package	No other category applies.
(b) Sub-factor status of permits for construction:	Construction already finished, but final permit not yet obtained	Construction started but not yet finished, all necessary permits obtained except for the final permit after completion of the construction	Some but not all necessary permits for the start of the construction phase have been obtained.	No other category applies.
(c) Sub-factor: construction risk (applicable in case the construction has started but has yet to finish):				

<ul style="list-style-type: none"> Likelihood to finish the project at the agreed time and cost (sub-factor component) 	Fixed-price date-certain turnkey construction EPC ⁴ (engineering and procurement contract) and no indications of a cost overrun or delay so far	It is very likely that the project will be finished within the agreed time horizon and at the agreed cost.	It is uncertain whether the project will be finished within the agreed time horizon and/or at the agreed cost.	No other category applies.
<ul style="list-style-type: none"> Completion guarantees⁵ or liquidated damages⁶ (sub-factor component) 	Substantial liquidated damages supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing	Significant liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Adequate liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	No other category applies.
<ul style="list-style-type: none"> Track record of contractor in constructing similar projects (sub-factor component) 	Strong	Good	Satisfactory	No other category applies.
<ul style="list-style-type: none"> Financial capacity of the contractor, i.e. equity and liquidity (sub-factor component) 	Strong	Good	Satisfactory	No other category applies.
(d) Sub-factor: loan life coverage ratio (LLCR ⁷) (applicable in case there is no sufficiently liquid market to sell the assets or in case the institution is not in the most senior lending position)	Very strong	Strong	Adequate	No other category applies.
(e) Sub-factor: operating risk (applicable in case there is no sufficiently liquid market to sell the assets or in case the institution is not in the most senior lending position)				

⁴ An Engineering and Procurement Contract ('EPC') or 'turnkey contract' refers to an agreement between the engineering and procurement contractor ('EPC contractor') and the developer, whereby the EPC contractor agrees to develop the detailed engineering design of the project, procure all the equipment and materials necessary, construct and deliver a functioning facility or asset to the developer, usually within an agreed time and budget.

⁵ A completion guarantee refers to a guarantee provided by the contractor to the project's lenders to undertake to deliver the project within the specified timeframe, and to pay for the cost overruns, if any.

⁶ A liquidated damage refers to a monetary compensation for a loss, detriment or injury to a person's rights or property, awarded by a contract stipulation regarding breach of contract.

⁷ The Loan Life Coverage Ratio ('LLCR') refers to the ratio of the net present value of the cash flow available for debt service to the outstanding debt balance, and refers to the number of times the cash flow available for debt service, which can be generated from the asset(s), can repay the outstanding debt balance over the scheduled life of the loan, where the cash flow available for debt service is calculated by subtracting operating expenditure, capital expenditure, expenditure for other debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

<ul style="list-style-type: none"> • Scope, nature and complexity of operations and maintenance (O & M) contracts (sub-factor component) 	<p>Strong long-term O&M contract⁸, preferably with contractual performance incentives⁹, and/or O&M reserve accounts¹⁰, unless an O&M contract is not strictly necessary to perform the required maintenance because the O&M activities are straightforward and transparent</p>	<p>The O&M activities are relatively straightforward and transparent, and there is a long-term O&M contract, and/or O&M reserve account.</p>	<p>The O&M activities are complex and an O&M contract is necessary. There is a limited long-term O&M contract and/or reserve account.</p>	<p>No other category applies.</p>
<ul style="list-style-type: none"> • Operator’s expertise, track record, and financial strength; considering also potential effects of governance and reputational risk (eg AML issues) on the operator’s ability to manage the project (sub-factor component) 	<p>Very strong, or committed technical assistance of the sponsor(s)</p>	<p>Strong</p>	<p>Acceptable</p>	<p>No other category applies.</p>
<p>(f) Sub-factor: revenue assessment, including off-take risk¹¹ (applicable in case there is no sufficiently liquid market to sell the assets or in case the institution is not in the most senior lending position)</p>				
<ul style="list-style-type: none"> • Robustness of the revenue contracts (e.g. off-take contracts¹², concession agreements, public private partnership income stream, and other revenue contracts) and quality of the termination 	<p>Excellent robustness of the revenue contracts including the quality of the termination clauses</p>	<p>Good robustness of the revenue contracts including the quality of the termination clauses</p>	<p>Acceptable robustness of the revenue contracts including the quality of the termination clauses</p>	<p>No other category applies.</p>

⁸ An Operation and Maintenance (“O&M”) contract refers to a contract between the developer and the operator. The developer delegates the operation, maintenance and often performance management of the project to an operator with expertise in the industry under the terms of the O&M contract (i.e. scope, term, operator responsibility, fees, and liquidated damages).

⁹ Performance incentives or performance-based contracting refer to strategic performance metrics, which directly relate to contracting payment to these performance metrics. Performance metrics may measure availability, reliability, maintainability, or supportability.

¹⁰ An O&M reserve account refers to a fund into which money is deposited to be used for the purpose of meeting the costs of operation and maintenance of the project.

¹¹ Off-take risk refers to the risk that the demand for the output or service does not exist at the price at which it is provided or the off-taker is unable or refuses to honour his commitment to purchase the output or service.

¹² An off-take contract refers to a contract between a producer of a resource/product/service and a buyer (‘off-taker’) of a resource/product/service to purchase/sell portions of the producer’s future production. An off-take contract is normally negotiated prior to the construction of a facility in order to secure a market for the future output of the facility. The purpose is to provide the producer with stable and sufficient revenue to pay its debt obligation, cover the operating costs and provide a certain required return.

clauses ¹³ (sub-factor component)				
<ul style="list-style-type: none"> Existence of a take-or-pay¹⁴ or fixed-price off-take contract (applicable in case a corresponding contract exists) (sub-factor component) 	Excellent creditworthiness of off-taker; strong termination clauses; tenor of contract comfortably exceeds the maturity of the debt	Good creditworthiness of off-taker; strong termination clauses; tenor of contract exceeds the maturity of the debt	Acceptable financial standing of off-taker and/or normal termination clauses and/or tenor of contract generally matches the maturity of the debt	No other category applies.
<ul style="list-style-type: none"> Non-existence of a take-or-pay or fixed-price off-take contract (applicable in case no corresponding contract exists) (sub-factor component) 	Project produces essential services or a commodity sold widely on a world market; output can readily be absorbed at projected prices even at lower than historic market growth rates	Project produces essential services or a commodity sold widely on a regional market (including those markets that may include several national markets) that will absorb it at projected prices at historical growth rates	Commodity is sold on a limited market that may absorb it only at lower than projected prices	No other category applies.
(g) Sub-factor: supply risk (applicable in case there is no sufficiently liquid market to sell the assets or in case the institution is not in the most senior lending position)				
<ul style="list-style-type: none"> Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength (sub-factor component) 	Long-term supply contract with supplier of excellent financial standing	Long-term supply contract with supplier of good financial standing	Long-term supply contract with supplier of good financial standing — a degree of price, volume and/or transportation risk may remain	No other category applies.
<ul style="list-style-type: none"> Reserve risks¹⁵ (e.g. natural resource development) (sub-factor component) 	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Independently audited, proven and developed reserves in excess of requirements over lifetime of the project	Proven reserves can supply the project adequately through the maturity of the debt.	No other category applies.
(h) Sub-factor: Position of the exposure in the transaction's loss waterfall for exposures with securitisation position characteristics (applicable in case the respective transaction generating the exposure fulfils the points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402) (sub-factor component)	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013, the subordinated tranche(s) at least cover the expected loss of the transaction, and the institution is the sole holder of the senior tranche.	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013 and the subordinated tranche(s) at least cover the expected loss of the transaction, but the institution is not the sole holder of the senior tranche.	The institution's exposure would qualify as an exposure to a non-senior tranche other than a 'first loss tranche' as defined in point (18) of Article 2 of Regulation (EU) 2017/2402 and the subordinated tranche(s) at least cover the expected loss of the transaction.	No other category applies.

¹³ A termination clause refers to a provision in a contract, which allows for its termination under specified circumstances.

¹⁴ A take-or-pay contract refers to a contract in which it is agreed that a client buys the output or service from the supplier or the client pays the supplier a penalty. Both the price and the penalty are fixed in the contract.

¹⁵ Reserve risk refers to the risk that the accessible reserves are smaller than estimated.

(i) Sub-factor: Transaction governance risk (applicable where the exposure is NOT created by a transaction or scheme fulfilling points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402) (sub-factor component)	The institution is the sole holder of a senior claim.	The institution holds a senior claim but is not the sole holder of the senior claims.	The institution is the sole holder of all subordinated claims.	No other category applies.
Factor: strength of sponsor¹⁶ (including any public private partnership) - willingness and ability of the sponsor to provide payments for debt service beyond what has been contractually agreed				
(a) Sub-factor: financial strength of the sponsor; considering also potential effects of governance and reputational risk (eg AML issues)	Strong sponsor with high financial standing	Good sponsor with good financial standing	Sponsor with adequate financial standing	No other category applies.
(b) Sub-factor: track record of the sponsor and its country/sector experience	Sponsor with excellent track record and country/sector experience	Sponsor with at least satisfactory track record and at least satisfactory country/sector experience	Sponsor with at least adequate track record and at least adequate country/sector experience	No other category applies.
(c) Sub-factor: sponsor support, as evidenced by equity, ownership clause ¹⁷ and incentive to inject additional cash if necessary	Strong. Project is highly strategic for the sponsor (core business — long-term strategy)	Good. Project is strategic for the sponsor (core business — long-term strategy)	Acceptable. Project is considered important for the sponsor (core business)	No other category applies.
Factor: security package - strength of the security and documentation package				
(a) Sub-factor: assignment of contracts and accounts	Fully comprehensive	Comprehensive	Acceptable	No other category applies.
(b) Sub-factor: pledge of assets, taking into account quality, value and liquidity of assets	First perfected security interest ¹⁸ in all project assets, contracts, permits and accounts necessary to run the project	Perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Security interest in all project assets, contracts, permits and accounts necessary to run the project	No other category applies.

¹⁶ Where a third party (e.g. the group parent of the sponsor) economically supports the property and acts insofar as the sponsor, this should be taken into account in the assessment of the strength of the sponsor.

¹⁷ An ownership clause refers to a provision that states that a project cannot be owned by a different entity than the actual owner (sponsor).

¹⁸ First perfected security interest refers to a security interest in an asset (mortgaged as a collateral) protected from claims by other parties. A lien is perfected by registering it with appropriate statutory authority so that it is made legally enforceable and any subsequent claim on that asset is given a junior status.

(c) Sub-factor: lender ¹⁹ 's control over cash flow (e.g. cash sweeps ²⁰ , independent escrow accounts ²¹)	The lender has full control over all incoming cash flows and cash-flow reserves	The lender has satisfactory control over all incoming cash flows and cash-flow reserves and is in a position to ensure that incoming cash flows and cash-flow reserves stay available to the project.	The lender has a substantial degree of control over all incoming cash flows.	No other category applies.
(d) Sub-factor: strength of the covenant package (mandatory prepayments ²² , payment deferrals ²³ , payment cascade ²⁴ , dividend restrictions ²⁵ , etc.)	Covenant package is strong for this type of project, and the project is prohibited to issue additional debt	Covenant package is at least satisfactory for this type of project, and the project is only permitted to issue extremely limited or no additional debt	Covenant package is at least fair for this type of project, and the project may issue limited additional debt	No other category applies.
(e) Sub-factor: reserve funds (debt service, O&M, renewal and replacement, unforeseen events, etc.)	Longer than average coverage period, all reserve funds fully funded in cash or letters of credit from highly rated credit institution	Average coverage period, all reserve funds fully funded	Average coverage period, only part of reserve funds fully funded	No other category applies.

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¹⁹ The 'lender' refers to either the institution or the syndicate or any agent that acts on behalf of the institution. In the latter case, it needs to be ensured that the institution holds all relevant rights.

²⁰ A cash sweep refers to the mandatory use of excess free cash flows to pay down outstanding debt rather than distribute it to shareholders.

²¹ An independent escrow account refers to an account held in the sponsor's name by an institution under the support of an escrow account agreement between the lender and borrower providing for irrevocable instructions from the borrower to the effect that all operational revenue or proceeds from sale of assets of the project will be paid into this account, and where the institution is authorised to make payments from available funds only as agreed in the project financing documents.

²² A mandatory prepayment refers to a provision that requires the borrower to prepay a portion of the debt with certain proceeds if and when received before the maturity date.

²³ A payment deferral refers to a provision that indicates that the borrower is allowed to start making payments at some specified time in the future.

²⁴ A payment cascade refers to a provision whereby the project's cash flows are summarised using a cash flow waterfall, which shows the priority of each cash inflow and outflow.

²⁵ A dividend restriction refers to a provision that defines the circumstances in which the lender is able to prevent equity distributions.

Annex II to Delegated Regulation (EU) 2021/598 is replaced by the following:

‘ANNEX II

Assessment criteria for specialised lending exposures categorised as income-producing real estate (IPRE)

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength - - the ability of the obligor to repay its credit obligation from the cash flows generated by the assets, considering obligations of other lenders of equal or higher seniority.				
(a) Sub-factor: market conditions relevant for the property type and location				
<ul style="list-style-type: none"> Market competition (sub-factor component) 	The number of competitive properties coming to market is equal to or lower than forecasted demand	The number of competitive properties coming to market is roughly equal to forecasted demand	Competitive properties are coming on the market, and others are in the planning stages. The design and capabilities of existing comparable properties are not state of the art as compared to new projects	No other category applies.
<ul style="list-style-type: none"> Supply and demand (sub-factor component) 	The supply and demand for the property’s type and location are currently in equilibrium.	The supply and demand for the property’s type and location are currently in equilibrium.	Market conditions are roughly in equilibrium.	No other category applies.
(b) Sub-factor: financial ratios - Debt Service Coverage ratio (‘DSCR ²⁶ ’) (applicable for completed properties)	Very strong DSCR, considering the property type	Strong DSCR, considering the property type	Adequate DSCR, considering the property type	DSCR is below 1.15 or cannot be reliably determined.

²⁶ The Debt Service Coverage Ratio (‘DSCR’) refers to the ratio of the cash flow available for debt service, which can be generated from the asset for the required repayment of the principal, excluding any material balloon payment, where ‘balloon payment’ refers to the remaining amount of principal that becomes due and payable on the final instalment payment for a loan that is not fully amortised, and for the interest payments during the life of the loan, where the cash flow available for debt service is calculated by subtracting operating expenditure, capital expenditure, expenditure for other debt and equity funding, taxes and working capital adjustments from the revenues generated by the project. In case a waterfall of cash flows has been contractually agreed, this waterfall shall also be taken into account in the calculation of the cash flow available for debt service. In case the DSCR as calculated according to this definition is biased and does not provide for this reason as indication of the obligor’s ability to repay its obligations (e.g. in case of operational leases) institutions shall take appropriate measures to calculate an unbiased DSCR. If there is no amortising component in the loan, the DSCR equals the Interest Coverage Ratio (‘ICR’) defined as the ratio of the cash flow available for debt service, which is expected to be generated from the

(c) Sub-factor: incentive to repay the loan based on the loan to value (LTV ²⁷) ratio calculated following market standards for this type of property (applicable for completed properties)	Strong incentive Where a secondary market exists, the transaction is underwritten to market standards.	Good incentive Where a secondary market exists, the transaction is underwritten to market standards.	Standard incentive	No other category applies.
(d) Sub-factor: indicators of a borrower's ability and willingness to repay their obligation (applicable for properties under construction)	High equity portion compared to debt funding held by the developer/sponsor with an ensured construction and development budget (low loan to cost ratio and high level of pre-sales/pre leases).	Good equity portion compared to debt funding held by the developer/sponsor with an ensured construction and development budget (low loan to cost ratio and high level of pre-sales/pre leases).	Average equity portion compared to debt funding held by the developer/sponsor with an ensured construction and development budget (low loan to cost ratio and high level of pre-sales/pre leases).	No other category applies.
(e) Sub-factor: stress analysis on the basis of the cash flows expected to be generated through the lifetime of the property, reflecting its vulnerability over the time horizon of the analysis. The integrated stress analysis shall assess the financial strength in the presence of stressed economic and sectoral conditions, considering all factors that potentially affect the viability of the property, including a material change of FX and interest rates, payment obligations to third parties under stressed economic conditions, as well as environmental factors. Additionally, where relevant, construction risk shall be factored in within the integrated stress analysis.	According to the integrated stress analysis, the transaction's resources, contingencies and liability structure allow the obligor to meet its financial obligations during a period of severe financial stress (e.g. interest rates, economic growth)	According to the integrated stress analysis the obligor is expected to meet its financial obligations under a sustained period of financial stress (e.g. interest rates, economic growth). The obligor is likely to default only under severe economic conditions	According to a downside scenario cash-flow projection, during an economic downturn, the property would suffer a decline in revenue that significantly increases the risk of the obligor's default	No other category applies.
(f) Sub-factor: cash-flow predictability				
• For a complete and stabilised property based	Very high cash flow predictability, where the property's leases are long-	High cash flow predictability where the majority of the property has	Moderate cash flow predictability where most of the property's leases	No other category applies

asset for the required repayment of the interest payments during the life of the loan, where the cash flow available for interest payments is calculated by subtracting operating expenditure, capital expenditure, expenditure for other debt and equity funding, taxes and working capital adjustments from the revenues generated by the property.

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The Loan-to-Value ratio ('LTV') refers to the ratio of the loan amount to the value of the pledged assets and indicates the willingness of the obligor to repay its obligation as a high leverage might incentivise the obligor to not repay the loan in case of financial difficulties. For the value of the pledged assets, the institution shall use a recent valuation that was performed by an independent party and that is monitored following market standards for the respective type of asset.

<p>on lease contract coverage over the lifetime of the property, considering rollover rates, creditworthiness of the tenants, tenant retention and vacancy rates, and expenses (maintenance, insurance, security, property taxes, energy renovation work costs and insurance costs linked with physical effects of environmental factors), as well as covenants and guarantees as mitigating elements (sub-factor component)</p>	<p>term²⁸ with creditworthy tenants and their maturity dates are scattered, or a public private partnership guarantees a considerable part of the tenancy contracts The property has a track record of tenant retention upon lease expiration. Its vacancy rate is low. Expenses (maintenance, insurance, security, and property taxes) are predictable</p>	<p>several tenant lease contracts that are long-term, and with tenants that have on average a high creditworthiness, and with scattered maturity dates. A public private partnership may guarantee part of the tenancy contracts. Where the property has only one lease contract or one tenant has a very significant share in the income generated by the property, this tenant is of excellent creditworthiness and the contract includes covenants that ensure lease payments until the end of the maturity of the exposure or beyond. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable</p>	<p>are medium²⁹ rather than long-term with tenants that range in creditworthiness. A public private partnership may guarantee only a minor part of the tenancy contracts. Where the property has only one lease contract or one tenant has a very significant share in the income generated by the property, for this one tenant, the contract includes covenants that ensure lease payments until the end of the maturity of the exposure or beyond but the tenant has moderate creditworthiness. The property experiences a moderate level of tenant turnover upon lease expiration. Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue</p>	
<ul style="list-style-type: none"> For complete but not stabilised property (e.g. unsold or unleased properties or properties that are leased under conditions worse than targeted) based on the already observed lease cash flows as well as the expectations on the future stability of the cash flows generated by the property, considering rollover rates, creditworthiness of the tenants, tenant retention and vacancy rates, and expenses (maintenance, insurance, security, property taxes, energy renovation work costs and insurance costs linked with physical effects of environmental factors), as 	<p>Very high cash flow predictability, where the cash flows obtained from the leasing activity, for instance obtained from a public private partnership, meet or exceed the expected cash flows used in the valuation of the property. The project should achieve stabilisation in the near future</p>	<p>High cash flow predictability where the cash flows obtained from the leasing activity, for instance obtained from a public private partnership, meet or exceed the expected cash flows used in the valuation of the property. The project should achieve stabilisation in the near future</p>	<p>Medium cash flow predictability, where most of the cash flows obtained from the leasing activity meet the expected cash flows used in the valuation of the property however, stabilisation will likely not occur for some time</p>	<p>No other category applies.</p>

²⁸ 'long-term' refers to leases of more than 5 years.

²⁹ 'medium term' refers to leases of 3 to 5 years.

well as covenants and guarantees as mitigating elements (sub-factor component)				
<ul style="list-style-type: none"> For properties under construction (sub-factor component) 	Very high cash flow predictability: The property is entirely preleased through the tenor of the loan ³⁰ or pre-sold to a tenant or buyer of high creditworthiness being either a government entity or a public private partnership, or the bank has a binding commitment for take-out financing from a tenant or buyer of high creditworthiness, being either a government entity or a public private partnership	High cash flow predictability: The property is entirely preleased through the tenor of the loan or pre-sold to a tenant or buyer of high creditworthiness, or the bank has a binding commitment for take-out financing from a tenant or buyer of high creditworthiness.	Moderate cash-flow predictability: Leasing or sale activities are within projections with a positive outlook in the local area but the building may not be entirely pre-leased or pre-sold. The bank may be the permanent lender.	No other category applies.
Factor: political and legal environment - stability of the political system (including transfer risk) and the possibility to enforce legal claims in the countries where the properties being financed are located;				
(a) Sub-factor: legal and regulatory risks, in particular considering effects from the transition to an environmentally sustainable economy	Jurisdiction is very favourable to repossession such that under litigation contracts are usually legally enforceable within an appropriate time frame	Jurisdiction is generally favourable to repossession such that under litigation contracts are usually legally enforceable within a moderate time frame	Repossession might be long and/or difficult and under litigation contracts are usually legally enforceable within a still acceptable time frame	No other category applies
(b) Sub-factor: transfer risk, considering property type and mitigants	Very low transfer risk, or very strong mitigation instruments in place, covering the full amount of principal, interest and fees.	Low transfer risk, or strong mitigation instruments in place, covering the major part of the amount of principal, interest and fees.	Moderate transfer risk, or mitigation instruments in place, covering still a material part of principal, interest and fees.	No other category applies
(c) Sub-factor: corruption risk	The Corruption Perceptions Index of the country, where the assets financed by the exposure are located, is above 65.	The Corruption Perceptions of the country, where the assets financed by the exposure are located, is above 50.	The Corruption Perceptions Index of the country, where the assets financed by the exposure are located, is above 35.	No other category applies.
Factor: asset and transaction characteristics - ability of the assets to cover potential losses of the institution in case the obligor is				

³⁰ The tenor of a loan refers to the amount of time left for the repayment of a loan

unable or unwilling to pay its credit obligation in full as well as structural elements of the transaction				
(a) Sub-factor: location: attractiveness of the location, considering environmental factors linked to the location	Property is located in highly desirable location that is convenient to services that tenants desire	Property is located in desirable location that is convenient to services that tenants desire	The property location lacks a competitive advantage	No other category applies.
(d) Sub-factor: design and condition	Property is favoured due to its design, configuration, and maintenance, and is highly competitive with new properties	Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties	Property is adequate in terms of its configuration, design and maintenance and the property's design is less favourable to address environmental risk than competitive designs	No other category applies.
(e) Sub-factor: property is under construction	Construction budget is conservative and technical hazards are limited, even considering effects from the transition to an environmentally sustainable economy. Contractors are highly qualified and have high credit standing	Construction budget is conservative and technical hazards are limited, even considering effects from the transition to an environmentally sustainable economy. Contractors are highly qualified and have good credit standing	Construction budget is adequate and contractors are ordinarily qualified and have average credit standing	No other category applies.
(f) Sub-factor: debt value to resale value ³¹	Resale value is well above debt value ³²	Resale value is moderately above debt value	Resale value is slightly above debt value	No other category applies.
(g) Sub-factor: refinancing risk:				
• leverage (debt to value) at contractual maturity date (sub-factor component)	No refinancing risk or negligible leverage at contractual maturity date	Low leverage at contractual maturity date	Material leverage at contractual maturity date	No other category applies.
• debt yield ³³ that can be expected by an investor refinancing the loan at maturity (sub-factor component)	No refinancing risk or very high debt yield expected after contractual maturity date	High debt yield expected after contractual maturity date	Moderate debt yield expected after contractual maturity date	No other category applies.
(h) Sub-factor: Position of the exposure in the transaction's loss waterfall for exposures with securitisation position characteristics (applicable in case the respective transaction	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013, the subordinated tranche(s) at least cover the expected loss of the	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013 and the subordinated tranche(s) at least cover the expected	The institution's exposure would qualify as an exposure to a non-senior tranche other than a 'first loss tranche' as defined in point (18) of Article 2 of Regulation (EU) 2017/2402 and the subordinated	No other category applies.

³¹ The 'resale value' reflects the value the institution expects to be able to sell the asset to a purchaser, where both parties execute the transaction acting in their own interest as free and independent parties (arm's length) under the current market conditions. The institution shall use a recent valuation that was performed by an independent party and that is monitored following market standards for the respective type of asset.

³² The 'debt value' reflects the sum of all currently outstanding debt in the transaction and all penalties for early repayment that would apply if the obligor would cancel the transaction at the point in time, where the institution calculates the 'debt value'.

³³ The 'debt yield' shall be calculated as the net operating income over the contractually agreed debt remaining at the contractual maturity date.

generating the exposure fulfils the points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402 (sub-factor component)	transaction, and the institution is the sole holder of the senior tranche.	loss of the transaction, but the institution is not the sole holder of the senior tranche.	tranche(s) at least cover the expected loss of the transaction.	
(i) Sub-factor: Transaction governance risk (applicable where the exposure is NOT created by a transaction or scheme fulfilling both points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402 (sub-factor component)	The institution is the sole holder of a senior claim.	The institution holds a senior claim but is not the sole holder of the senior claims.	The institution is the sole holder of all subordinated claims.	No other category applies.
Factor: strength of sponsor³⁴/developer (including any public private partnership)				
(a) Sub-factor: financial capacity and willingness of the sponsor/developer to support the property, considering also potential effects of governance and reputational risk (eg AML issues) on its ability to fund the project	There is contractually agreed recourse to the sponsor. The sponsor/developer has substantial resources and limited direct and contingent liabilities. The sponsor's/developer's properties are diversified geographically and by property type	There is contractually agreed recourse to the sponsor. The sponsor's/developer's financial condition allows it to support the transaction in the event of a cash flow shortfall. The sponsor's/developer's properties are located in several geographic regions	There is no contractually agreed recourse to the sponsor but there are still strong incentives for the sponsor to support the financing. The sponsor/developer is assessed as average to below average in terms of its financial resources. The sponsor's/developer's properties are limited in number and concentrated in few geographic regions.	No other category applies.
(b) Sub-factor: reputation and track record with similar properties.	Experienced management and high sponsor's quality. Strong reputation and lengthy and successful record with similar properties	Appropriate management and sponsor's quality. The sponsor or management has a successful record with similar properties	Moderate management and sponsor's quality. Management and sponsor track record does not raise serious concerns	No other category applies.
(c) Sub-factor: relationships with relevant real estate actors	Strong relationships with leading actors such as leasing agents	Proven relationships with leading actors such as leasing agents	Adequate relationships with leasing agents and other parties providing important real estate services	No other category applies.
Factor: security package				
(a) Sub-factor: nature of lien	Perfected first lien ³⁵	Perfected first lien	Perfected first lien	No other category applies.
(b) Sub-factor: assignment of rents	The lender has obtained an assignment for the majority of the rents. The lender maintains current tenant information that would	The lender has obtained an assignment for a significant part of the rents. The lender maintains current tenant information that would	The lender has obtained an assignment for a relatively small part of the rents. The lender has not maintained current tenant information	No other category applies.

³⁴ Where a third party (e.g. the group parent of the sponsor) economically supports the property and acts insofar as the sponsor, this should be taken into account in the assessment of the strength of the sponsor.

³⁵ Lenders in some markets exclusively use loan structures that include junior liens. Junior liens may be indicative of this level of risk if the total LTV inclusive of all senior positions does not exceed a typical first loan LTV.

	facilitate providing notice to remit rents directly to the lender, such as a current rent roll and copies of the property's leases	facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the property's leases	that would facilitate providing notice to the tenants to remit rents directly to the lender, such as a current rent roll and copies of the property's leases	
(c) Sub-factor: quality of the property's insurance coverage (e.g. for fire, water pipe leakage or other physical effects of environmental factors)	Very good quality	Good quality	Appropriate quality	No other category applies.

‘

Annex III to Delegated Regulation (EU) 2021/598 is replaced by the following:

‘ANNEX III

Assessment criteria for specialised lending exposures categorised as object finance (OF)

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength - the ability of the obligor to repay its credit obligation from the cash flows generated by the assets, considering obligations of other lenders of equal or higher seniority				
(a) Sub-factor: market conditions				
<ul style="list-style-type: none"> Market competition (sub-factor component) 	Strong entry barriers, low sensitivity to changes in technology and economic outlook	Medium entry barriers, some sensitivity to changes in technology and economic outlook	Low entry barriers, significant sensitivity to changes in technology and economic outlook	No other category applies.
<ul style="list-style-type: none"> Demand (sub-factor component) 	Strong and currently growing	Strong and currently stable	Adequate and currently stable or growing	No other category applies.
(b) Sub-factor: financial ratios: DSCR ³⁶	Very strong DSCR considering the type of specialised lending exposures	Strong DSCR considering the type of specialised lending exposure	Adequate DSCR considering the type of specialised lending exposure	DSCR is below 1.15 or cannot be reliably determined.

³⁶ The Debt Service Coverage ratio (‘DSCR’) refers to the ratio of the cashflow available for debt service, which can be generated from the asset, to the required repayment of the principal excluding any material balloon payment, where ‘balloon payments’ refers to the remaining amount of principal that becomes due and payable on the final instalment payment for a loan that is not fully amortised, and the interest payments during the life of the loan, where the cashflow available for debt service shall be calculated by subtracting operating expenditure, capital expenditure, expenditure for other debt and equity funding, taxes and working capital adjustments from the revenues generated by the object. In case a waterfall of cash flows has been contractually agreed, this waterfall shall also be taken into account in the calculation of the cash flow available for debt service. In case the DSCR as calculated according to this definition is biased and does not provide for this reason an indication of the obligor’s ability to repay its obligations (e.g. in case of operational leases) institutions shall take appropriate measures to calculate an unbiased DSCR. If there is no amortising component in the loan, the DSCR equals the Interest Coverage Ratio (‘ICR’) defined as the ratio of the cash flow available for debt service, which is expected to be generated from the asset for the required repayment of the interest payments during the life of the loan, where the cash flow available for interest payments is calculated by subtracting operating expenditure, capital expenditure, expenditure for other debt and equity funding, taxes and working capital adjustments from the revenues generated by the object

(e) Sub-factor: incentive to repay the loan based on the loan to value (LTV ³⁷) ratio calculated following market standards for this type of asset	Strong incentive Where a secondary market exists, the is underwritten to market standards	Good incentive Where a secondary market exists, the is underwritten to market standards	Limited incentive	No other category applies.
(d) Sub-factor: stress analysis on the basis of the cash flows expected to be generated through the lifetime of the object reflecting its vulnerability over the time horizon of the analysis. The integrated stress analysis shall assess the financial strength in the presence of stressed economic and sectoral conditions, considering all factors that potentially affect the viability of the object, including a material change of FX and interest rates, payment obligations to third parties under stressed economic conditions, as well as environmental factors. Additionally, where relevant construction risk shall be factored in within the integrated stress analysis.	According to the integrated stress analysis, the obligor is expected to meet all its financial obligations to the institution and all other lenders of equal or higher seniority solely from the cash flows generated by the financed assets without additional support from the sponsor under sustained, severely stressed economic and sectoral conditions.	According to the integrated stress analysis, the obligor is expected to meet all its financial obligations to the institution and all other lenders of equal or higher seniority solely from the cash flows generated by the financed assets without additional support from the sponsor under non-severe but stressed economic and sectoral conditions. The exposure is only likely to default under sustained, severely stressed economic and sectoral conditions.	According to a downside scenario cash-flow projection, the obligor is expected to meet all its financial obligations to the institution and all other lenders of equal or higher seniority solely from the cash flows generated by the assets without additional support from the sponsor under sectoral downturn conditions that are to be expected during the lifetime of the project. The exposure is likely to default already under non-severe stressed economic and sectoral conditions.	No other category applies.
(e) Sub-factor: market liquidity	Market is structured on a worldwide basis; assets are highly liquid	Market is worldwide or regional; assets are relatively liquid	Market is regional with limited prospects in the short term, implying lower liquidity	No other category applies.
Factor: political and legal environment - stability of the political system (including transfer risk) and the possibility to enforce legal claims in the relevant countries where the assets are being operated				
(a) Sub-factor: legal and regulatory risks, in particular	Relevant jurisdictions are very favourable to repossession such that	Relevant jurisdictions are generally favourable to repossession such that	Repossession might be long and/or difficult and under litigation contracts	No other category applies.

³⁷ The Loan-to-Value ratio ('LTV') refers to the ratio of the loan amount to the value of the pledged assets and indicates the willingness of the obligor to repay its obligation as a high leverage might incentivise the obligor to not repay the loan in case of financial difficulties. The institution shall use a recent valuation that was performed by an independent party and that is monitored following market standards for the respective type of asset.

considering effects from the transition to an environmentally sustainable economy;	under litigation contracts are usually legally enforceable within an appropriate time frame	under litigation contracts are usually legally enforceable within a moderate time frame	are usually legally enforceable within a still acceptable time frame	
(b) Sub-factor: transfer risk, considering mitigants	Very low transfer risk, or very strong mitigation instruments in place, covering the full amount of principal, interest and fees	Low transfer risk, or strong mitigation instruments in place, covering the major part of the amount of principal, interest and fees	Moderate transfer risk, or mitigation instruments in place, covering still a material part of principal, interest and fees	No other category applies.
(c) Sub-factor: corruption risk	The Corruption Perceptions Index of the countries, where the objects financed by the exposure are operated, is above 65.	The Corruption Perceptions Index of the country, where the objects financed by the exposure are operated, is above 50.	The Corruption Perceptions Index of the country, where the objects financed by the exposure are operated, is above 35.	No other category applies.
Factor: transaction characteristics – structural elements of the transaction				
(a) Sub-factor: refinancing risk				
• leverage (debt to value) at contractual maturity date (sub-factor component)	No refinancing risk or negligible leverage at contractual maturity date	Low leverage at contractual maturity date	Material leverage at contractual maturity date	No other category applies.
• debt yield ³⁸ that can be expected by an investor refinancing the loan at maturity (sub-factor component)	No refinancing risk or very high debt yield expected after contractual maturity date	High debt yield expected after contractual maturity date	Moderate debt yield expected after contractual maturity date	No other category applies.
(b) Sub-factor: operating risk				
• Permits / licensing (sub-factor component)	All permits have been obtained; asset meets current and foreseeable safety regulations	All permits are obtained or in process of being obtained with at least one permit pending. asset meets current and foreseeable safety regulations	Most permits obtained or in process of being obtained, outstanding ones considered routine, asset meets current safety regulations	No other category applies.
• Scope and nature of O & M contracts (sub-factor component)	Strong long-term O&M contract ³⁹ , preferably with contractual performance incentives, and/or (if needed) with O&M reserve accounts	Long-term O&M contract, and/or O&M reserve accounts ⁴⁰ (if needed)	Limited O&M contract or O&M reserve account (if needed)	No other category applies.
• Operator’s financial strength, track record in managing the asset type and capability to re-market the asset when it comes off-lease, considering also	Strong operator with high financial standing. -Excellent track record and strong re-marketing capability	Good operator with good financial standing.-Satisfactory track record and re-marketing capability	Operator with adequate financial standing. Weak or short track record and uncertain re-marketing capability	No other category applies.

³⁸ The ‘debt yield’ shall be calculated as the net operating income over the contractually agreed debt remaining at the contractual maturity date.

³⁹ An Operation and Maintenance (‘O&M’) contract refers to a contract between the manufacturer of the object and the operator. The manufacturer delegates the operation, maintenance and often performance management of the object to an operator with expertise in the industry under the terms of the O&M contract (i.e. scope, term, operator responsibility, fees, and liquidated damages).

⁴⁰ An O&M reserve account refers to a fund into which money is deposited to be used for the purpose of meeting the costs of operation and maintenance of the project.

potential effects of governance and reputational risk (eg AML issues) on the operator's ability to manage and remarket the object (sub-factor component)				
(c) Sub-factor: Position of the exposure in the transaction's loss waterfall for exposures with securitisation position characteristics (applicable in case the respective transaction generating the exposure fulfils the points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402) (sub-factor component)	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013, the subordinated tranche(s) at least cover(s) the expected loss of the transaction, and the institution is the sole holder of the senior tranche.	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013 and the subordinated tranche(s) at least cover(s) the expected loss of the transaction, but the institution is not the sole holder of the senior tranche.	The institution's exposure would qualify as an exposure to a non-senior tranche other than a 'first loss tranche' as defined in point (18) of Article 2 of Regulation (EU) 2017/2402 and the subordinated tranche(s) at least cover(s) the expected loss of the transaction.	No other category applies.
(d) Sub-factor: Transaction governance risk (applicable where the exposure is NOT created by a transaction or scheme fulfilling both points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402) (sub-factor component)	The institution is the sole holder of a senior claim.	The institution holds a senior claim but is not the sole holder of the senior claims.	The institution is the sole holder of all subordinated claims.	No other category applies.
Factor: asset characteristics - ability of the assets to cover potential losses of the institution in case the obligor is unable or unwilling to pay its credit obligation in full				
(a) Sub-factor: configuration, size, design and maintenance (i.e. age, size for a plane) compared to other assets on the same market	Strong advantage in design and maintenance. Configuration is standard such that the object meets a liquid market	No strong but above average design and maintenance. Standard configuration, maybe with very limited exceptions — such that the object meets a liquid market	Average design and maintenance. Configuration is somewhat specific or has a higher negative environmental impact than competitive designs, and thus might cause a narrower market for the object.	No other category applies.
(b) Sub-factor: debt value to resale value ⁴¹	Resale value is well above debt value ⁴²	Resale value is moderately above debt value	Resale value is slightly above debt value	No other category applies.

⁴¹ The 'resale value' reflects the value the institution expects to be able to sell the asset to a purchaser, where both parties execute the transaction acting in their own interest as free and independent parties (arm's length) under the current market conditions. The institution shall use a recent valuation that was performed through an independent party and that is monitored following market standards for the respective type of asset.

⁴² The 'debt value' reflects the sum of all currently outstanding debt in the transaction and all penalties for early repayment that would apply if the obligor would cancel the transaction at the point in time, where the institution calculates the 'debt value'.

(c) Sub-factor: sensitivity of the asset value and liquidity to economic cycles and to effects from the transition to an environmentally sustainable economy	Asset value and liquidity are relatively insensitive to economic cycles and the relevant market is not subject to elevated transition risk	Asset value and liquidity are sensitive to economic cycles and/or the relevant market is subject to moderately elevated transition risk	Asset value and liquidity are quite sensitive to economic cycles and/or the relevant market is fully exposed to transition risk	No other category applies.
Factor: strength of sponsor⁴³ (including public private partnership) - willingness and ability of the sponsor to provide payments for debt service beyond what has been contractually agreed				
(a) Sub-factor: sponsors' track record and financial strength, considering also potential effects of governance and reputational risk (eg AML issues) on its ability to fund the object,	Sponsors with excellent track record and high financial standing,	Sponsors with good track record and good financial standing.	Sponsors with adequate track record and good financial standing.	No other category applies.
Factor: security package - strength of the security and documentation package				
(a) Sub-factor: asset control	Legal documentation provides the lender full and effective control (e.g. a first perfected security interest ⁴⁴ , or a leasing structure including such security) on the asset, or on the company owning it.	Legal documentation provides the lender satisfactory and effective control (e.g. a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it.	Legal documentation provides the lender a substantial, but only partially effective degree of control (e.g. a security interest that has some limitations in terms of its enforcement (e.g. regarding its enforcement in some but not all jurisdictions the asset may be moved to be operated, or a leasing structure including such security) on the asset, or on the company owning it.	No other category applies.
(b) Sub-factor: rights and means at the lender's disposal to monitor the location and condition of the asset	The lender is able to monitor the location and condition of the asset, at any time and place (regular reports, possibility to lead inspections)	The lender is able to monitor the location and condition of the asset, almost at any time and place	The lender is only able to monitor the location of the asset, almost at any time and place	No other category applies.
(c) Sub-factor: insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance	No other category applies.

⁴³ Where a third party (e.g. the group parent of the sponsor) economically supports the property and acts insofar as the sponsor, this should be taken into account in the assessment of the strength of the sponsor.

⁴⁴ First perfected security interest refers to a security interest in an asset (mortgaged as a collateral) protected from claims by other parties. A lien is perfected by registering it with appropriate statutory authority so that it is made legally enforceable and any subsequent claim on that asset is given a junior status.

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Annex IV to Delegated Regulation (EU) 2021/598 is replaced by the following:

‘ANNEX IV

Assessment criteria for specialised lending exposures categorised as commodity finance (CF)

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength - the ability of the obligor to repay its credit obligation from the cash flows generated by the assets, considering obligations of other lenders of equal or higher seniority				
(a) Sub-factor: degree of over-collateralisation of trade, considering pledged assets financed by the exposure ⁴⁵ and cash collateral if posted for the commodity finance	Strong	Good	Satisfactory	No other category applies.
Factor: political and legal environment - stability of the political system (including transfer risk) and the possibility to enforce legal claims in the countries where the assets being financed are located				
(a) Sub-factor: transfer risk considering mitigants	Very low transfer risk, or very strong mitigation instruments in place, covering the full amount of principal, interest and fees.	Low transfer risk, or strong mitigation instruments in place, covering the major part of the amount of principal, interest and fees.	Moderate transfer risk, or mitigation instruments in place, covering still a material part of principal, interest and fees.	No other category applies.
(b) Sub-factor: risk of export restrictions	No risk of export restrictions, or very strong mitigation instruments, ie. strong offshore mechanisms or strategic commodity 1st class buyer	Limited exposure to risk of export restrictions (in particular, offshore location of reserves in an emerging country), or strong mitigation, ie. offshore mechanisms, strategic commodity, or strong buyer	Major exposure to risk of export restrictions (in particular, offshore location of reserves in an emerging country) or acceptable mitigation (ie. offshore mechanisms,	No other category applies

⁴⁵ In case the prices for the collateral are not yet agreed, the degree of over-collateralisation shall be determined considering a potential drop in market value, (e.g. by considering the value-at-risk) for the remaining tenor of the loan, e.g. due to the volatility of market prices for the respective commodities in the relevant time period.

			less strategic commodity, acceptable buyer)	
(c) Sub-factor: corruption risk	The Corruption Perceptions Index of the country of origin of the commodities is above 65.	The Corruption Perceptions Index of the country of origin of the commodities is above 50.	The Corruption Perceptions Index of the country of origin of the commodities is above 35.	No other category applies.
Factor: asset / transaction characteristics - ability of the assets to cover potential losses of the institution in case the obligor is unable or unwilling to pay its credit obligation in full as well as structural elements of the transaction				
(a) Sub-factor: liquidity	Commodity is quoted and can be hedged through futures or OTC instruments.	Commodity is quoted and can be hedged through OTC instruments.	Commodity is quoted but cannot be hedged.	No other category applies.
(b) Sub-factor: market price volatility	Low volatility of market prices	Moderate volatility of market prices	High volatility of market prices	No other category applies.
(c) Sub-factor: transportations risk, considering in particular environmental factors	No pricing risk from transportation risk	Agreements with fixed transportation costs in placed with penalties in case of non-fulfilment	Several options for transportation with transparent transportation costs	No other category applies.
(d) Sub-factor: Position of the exposure in the transaction's loss waterfall for exposures with securitisation position characteristics (applicable in case the respective transaction generating the exposure fulfils the points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402) (sub-factor component)	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013, the subordinated tranche(s) at least cover the expected loss of the transaction, and the institution is the sole holder of the senior tranche.	The institution's exposure would qualify as a 'senior securitisation position' as defined in point (6) of Article 242 of Regulation (EU) No 575/2013 and the subordinated tranche(s) at least cover the expected loss of the transaction, but the institution is not the sole holder of the senior tranche.	The institution's exposure would qualify as an exposure to a non-senior tranche other than a 'first loss tranche' as defined in point (18) of Article 2 of Regulation (EU) 2017/2402 and the subordinated tranche(s) at least cover(s) the expected loss of the transaction.	No other category applies.
(e) Sub-factor: Transaction governance risk (applicable where the exposure is NOT created by a transaction or scheme fulfilling both points (a) and (b) of Article 2, point (1), of Regulation (EU) 2017/2402) (sub-factor component)	The institution is the sole holder of a senior claim.	The institution holds a senior claim but is not the sole holder of the senior claims.	The institution is the sole holder of all subordinated claims.	No other category applies.
Factor: strength of sponsor⁴⁶ (including public private partnership) - willingness and ability				

⁴⁶ Where a third party (e.g. the group parent of the sponsor) economically supports the property and acts insofar as the sponsor, this should be taken into account in the assessment of the strength of the sponsor.

of the trader ⁴⁷ to provide payments for debt service beyond what has been contractually agreed				
(a) Sub-factor: financial strength of trader considering also potential effects of governance and reputational risk (eg AML issues)	Very strong,	Strong	Adequate	No other category applies.
(b) Sub-factor: track record of the trader including ability to manage the logistic process	Extensive experience with the type of transaction in question. Strong record of operating success and cost efficiency	Sufficient experience with the type of transaction in question. Above average record of operating success and cost efficiency	Limited experience with the type of transaction in question. Average record of operating success and cost efficiency	No other category applies.
(c) Sub-factor: trading controls and hedging policies	Strong standards for counterparty selection, hedging, and monitoring	Adequate standards for counterparty selection, hedging, and monitoring	Past deals have experienced no or minor problems	No other category applies.
(d) Sub-factor: quality of financial disclosure	Excellent	Good	Satisfactory	No other category applies.
Factor: security package - strength of the security and documentation package				
(a) Sub-factor: asset control	First perfected security interest ⁴⁸ provides the lender ⁴⁹ legal control of the assets at any time if needed	First perfected security interest provides the lender legal control of the assets at any time if needed	At some point in the process, there is a rupture in the control of the assets by the lender. The rupture is mitigated by knowledge of the trade process or a third party undertaking as the case may be	No other category applies.
(b) Sub-factor: insurance against damages	No susceptibility to damage or strong insurance coverage with top quality insurance companies	Satisfactory insurance coverage with good quality insurance companies	Fair insurance coverage with acceptable quality insurance companies	No other category applies.

⁴⁷ Where a party other than the trader acts as sponsor, the criteria of the sub-factor 'strength of the sponsor' should be assessed for that party.

⁴⁸ First perfected security interest refers to a security interest in an asset (mortgaged as a collateral) protected from claims by other parties. A lien is perfected by registering it with appropriate statutory authority so that it is made legally enforceable and any subsequent claim on that asset is given a junior status.

⁴⁹ The 'lender' refers to either the institution or the syndicate or any agent that acts on behalf of the institution. In the latter case, it needs to be ensured that the institution holds all relevant rights.

5. Accompanying documents

5.1. Draft cost-benefit analysis / impact

According to Articles 10 of Regulation (EU) No 1093/2010 (EBA Regulation), the EBA shall analyse the potential costs and benefits of draft regulatory technical standards (RTS) developed by the EBA. The RTS and the ITS developed by the EBA shall therefore be accompanied by an Impact Assessment (IA), which analyses 'the potential related costs and benefits.'

This analysis presents the IA of the main policy options included in this Consultation Paper (CP) on amendments to the RTS on the Supervisory Slotting Criteria Approach (SSCA) under Article 153(9) of the Regulation (EU) No 575/2013.

5.1.1. Problem identification

The Supervisory Slotting Criteria Approach (SSCA) was introduced as a fallback approach for those exposures that institutions identify as SL exposures, to allow for the application of the IRB Approach (IRBA) where institutions would meet the IRB requirements for their risk management systems but would not be able to estimate a PD in accordance with IRB requirements.

The RTS on SSCA provides details on the categories of risk to which an SL exposure is to be allocated based on a list of factors.

The update requires the amendments of the RTS taking into account the integration of the ESG components and other changes from the CRR3.

In addition, the RTS was reviewed with the view to enhance the clarity of the (sub-)factor/ sub-factor components and to consideration tranching exposures.

The current RTS has been applied for many years and a certain continuity of approach is expected. Nevertheless, multiple issues in the application of each factor has been identified through supervisory practice, and these aspects need to be to the extent possible clarified or resolved.

5.1.2. Policy objectives

The main objective of the RTS is to provide a clear framework for the allocation of specialised lending exposures (SL exposures or SLE) to risk categories based on factors, sub-factors and sub-factor components, while finding the right balance between clarity and harmonisation on the one hand, and flexibility and risk sensitivity on the other hand, when providing the guidance for allocating the exposures.

5.1.3. Baseline scenario

The baseline scenario is the situation when the current RTS on SSCA remain unchanged. This means that the ESG components as well as other changes are not explicitly included in the framework and therefore may not be adequately accounted for, or accounted for in very different ways across institutions.

5.1.4. Options considered

Policy issue 1: Split of asset and transaction characteristics

Option 1A – implement separate factors ‘*asset characteristics*’ and ‘*transaction characteristics*’ consistently for all SL categories

Option 1B – Separate factors ‘*asset characteristics*’ and ‘*transaction characteristics*’ only for OF Article 153(5) CRR wording leaves open whether ‘*transaction and/or asset characteristics*’ should be separately considered. CDR (EU) No 2021/598 foresees, in line with Basel, only for OF separate factors ‘*asset characteristics*’ and ‘*transaction characteristics*’. The assessment of the financial strength as well as of asset and transaction characteristics constitutes the core of the risk analysis. While transaction characteristics refer to structural elements of the transaction as the cash flow waterfall during the lifetime or even after default of the transaction, the asset characteristics describe the characteristics of the asset being financed and are in particular relevant under litigation. A clear cut of those factors provides a more structured way of risk assignment and potentially a better reflection of risk, and the opportunity to validate intermediate steps of the assignment methodology. On the other hand, the introduction of a split of factors might trigger model changes where the factor weights apply or institutions have implemented non-linear aggregation of sub-factors or sub-factor components to the factor level. Two options were considered:

The first option (1A) is to implement for all SL categories equally two separate factors ‘*asset characteristics*’ and ‘*transaction characteristics*’ to disentangle basically the going concern from the gone concern view not only for OF but across all SL categories.

The second option (1B) is to keep the status quo to ensure continuity with the previous implementation, accepting a potentially lower risk differentiation of the assessment methodology and validation activities are only possible at the level of the final category.

Option 1B was chosen to ensure Basel compliance and ensure that institutions would not be forced to re-develop their assignment methodology.

Policy issue 2: Refinancing risk (for PF)

Option 2A – Refinancing risk part of the financial strength factor

Option 2B - Refinancing risk as a separate factor

For PF, refinancing risk is in the RTS as laid down in CDR (EU) 2021/598 only covered under financial strength by the sub-factor ‘*financial structure*’ (as one of 5 sub-factors), mentioned explicitly as one of two items under ‘*market cycle and refinancing risk*’ (. Even considering that

this CP proposes to substitute the sub-factor ‘financial strength’ by a sub-factor ‘refinancing risk’ with new sub-factor components more clearly dedicated to the assessment of refinancing risk, if an exposure displays overall a material refinancing risk, it is difficult to express this risk in the respective category, given also the fact that the factor is subject to both floors and ceilings. In this regard, two options were considered:

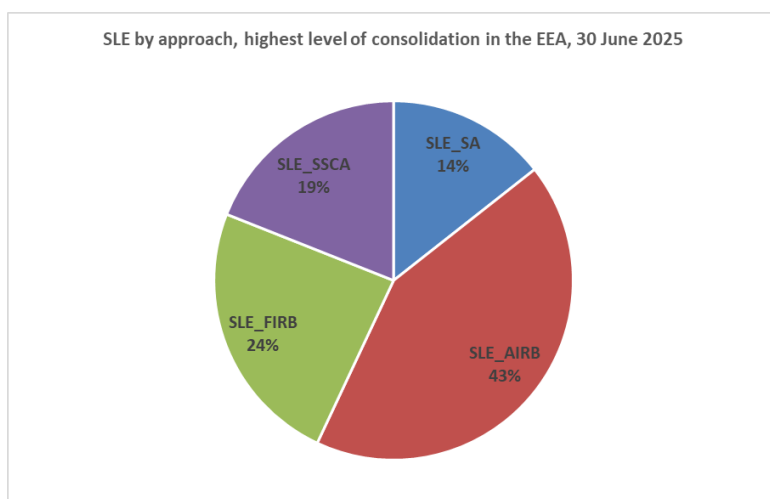
First option (2A) is for the refinancing risk to be included in the separate factor ‘transaction characteristics’, as one of two sub-factors. This would ensure that the refinancing risk, which can be a prominent driver for the risk of the SL exposures, is reflected properly in the final risk weight, without dilution from other drivers.

Second option (2B) is to keep the refinancing risk as a sub-factor under financial strength. This option would ensure continuity with the previous approach, by keeping the refinancing risk as a sub-factor among many others in the financial strength factor. However, its impact on the final risk weight may be significantly diluted in the aggregate view of the factor.

Option 2B was chosen to ensure Basel compliance and ensure that institutions would not be forced to re-develop their assignment methodology.

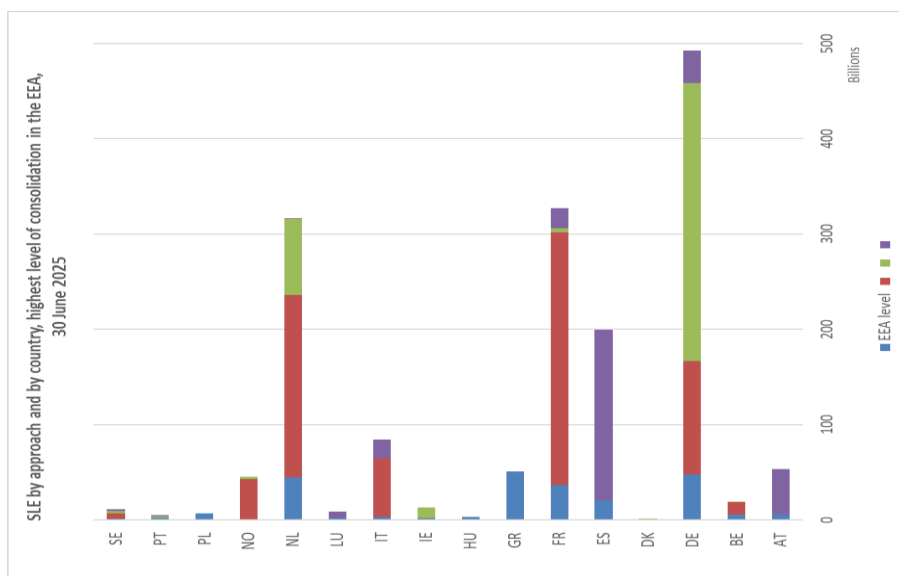
5.1.5. Cost-Benefit Analysis

The changes applied to the RTS will impact only institutions that apply the SSCA. Currently, there is EUR 1.6 trillion of EAD in specialised lending exposures in the EU. Of these, 13% are under SA, 25% are under FIRB, 43% under AIRB and 19% under the SSCA.



While SL exposures treated under SSCA represent an important share of the total SL exposures, SL exposures are concentrated in a few countries.

Among the countries with the largest amount of SL exposures, in Austria, Spain and Luxembourg, the SSCA is the predominant regulatory treatment of specialised lending exposures, while in Germany and France it represents a smaller share of the respective exposures between 8 and 45%. The impact of the changes to the RTS therefore will vary by country.



The overall assessment of benefits and costs of this updated RTS compared to the previous status quo is the following:

Stakeholder	Benefits	Costs
Credit institutions with specialised lending exposures under SSSA	More clarity and consistency across risk categories Guidance on how to incorporate ESG components Simplification where possible	Costs related to the need to adapt the current SSSA rating system to the updated methodology
Other credit institutions	None	None
Competent authorities	Clearer rules, that lead to easy supervision	Review of compliance with updated methodology

5.2. Overview of questions for consultation

Question 1. Materiality and current implementation of the SSCA:

- a. How is the materiality of the SSCA and its usage for PF, IPRE, OF and CF exposures expected to evolve in the future (grow, reduce, stable)?
- b. What are the reasons behind this expected evolution and which role does the expected evolution of the IRB framework play, considering the amendments introduced under the CRR3 and the related Level 2 and Level 3 mandates as well as potential adjustments to the IRB framework that might result from the work on simplification?
- c. What were the main reasons underlying past decisions on the usage of the SSCA?
- d. From an industry perspective, are there any challenges or limitations you experience with the current Supervisory Slotting Criteria Approach—particularly in assessing and quantifying the risk of the exposure? Do the current assignment criteria provided in the Annexes capture all key risk dimensions effectively, or could it be enhanced by adjusting the current factors, sub factors, or sub-factor components? Please provide details, and examples where they apply, and explain the rationale for your feedback.

Question 2. Do you have any comments on the proposed amendments to Article 1 or on the replacement of the references to ‘real estate’ by references to ‘income-producing real estate’?

Question 3. Do you have any comment on paragraph 3 that was newly introduced to Article 3 regarding the consideration of UFCP?

Question 4. Consideration of ESG risk:

- a. Do you have any comment on paragraph 6, on the consideration of ESG risks that is newly introduced to Article 3 of the RTS?
- b. Do you have any comment on the treatment of ESG- related factors or on the ESG-related clarifications for the assessment criteria provided in the annexes of the RTS? Do you have any concerns in terms of feasibility of the assessment considering ESG related factors and do you expect the consideration of ESG-related factors to lead to a better risk differentiation of the SSCA?
- c. Specifically for the newly specified sub-factor component on the CPI: Do you think the cut-off values for the CPI allow for a reasonable risk differentiation? If not, please provide cut-off values that would be meaningful for your specialised lending portfolios.
- d. With specific regard to CF, given the current low uptake of the CF criteria: Do you support the specification of the additional sub-factors for CF, or do you believe that the low uptake of SSCA for CF portfolios indicates the need for simpler criteria? What aspect(s) would be crucial to include in such simpler criteria?

Question 5. Documentation:

Do you have any comments on the clarifications for the documentation of overrides and validation results that were introduced to Article 6 of the RTS, also in view of the supervisory best practices outlined in the Supervisory Handbook on IRB Validation (EBA/REP/2023/29)?

Question 6. Did you face challenges to achieve sufficient risk sensitivity under the RTS as laid down in CDR 2021/598? If yes,

a. would these challenges remain under the proposal to remove the floor for the factor weights and the proposed amendments to the Annexes?

b. please specify in detail, which amendments (removal of caps, removal of the linear aggregation, structural changes or other) would, in your assessment, most effectively enhance risk sensitivity under the SSCA?

Question 7. Do you have any comments

a. on the newly introduced sentence to Article 3(1) of the RTS to clarify the attribution of categories to sub-factors or sub-factor components,

b. to the introduction of descriptions for each factor, or

c. to the implementation of category 4 as residual category, as well as to the quantitative threshold introduced for the assessment of the DSCR as criterion for category 4, in particular on the need of providing further clarifications on the treatment of missing information and its documentation?

Question 8. Specification of new sub-factors and amendments to the sub-factors and sub-factor components:

a. Do you have any comments on the specification of the new sub-factors and the amendments introduced to the sub-factors and sub-factor components? Do you expect an improvement in risk differentiation by the specification of new sub-factors and sub-factor components, and do you expect material model changes introduced by newly specified sub-factors or sub-factor components (related to ESG aspects or other)? Specifically for CF, given the current low usage of the CF criteria: Do you support the specification of additional sub-factors for CF or would it be more commensurate to maintain the current criteria?

b. Specifically for the clarifications to the DSCR for the sub-factor '*financial ratios*', do you have any concerns about reducing the financial ratios to consider just to the DSCR? Are there other products than operational leases, where the DSCR does not allow unbiased risk assessment?

c. Specifically for the sub-factors that refer to the loan-to-value, could you please provide insights in how far the determination of the loan-to-value used is aligned with the exposures-to-value according to Article 124(6) CRR?

d. For the newly specified sub-factor market price volatility, how could the different levels of volatility (low/ moderate/ high) be further specified? For IPRE and OF, is the short-term volatility of market prices a risk driver that is frequently considered in practice as additional information when assessing the assignment criteria? Do you support the specification of a new sub-factor or sub-factor component to capture short-term volatility of market prices for IPRE or OF and if so, why?