



Question ID: 2017_3548

Legal Act: Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 – CRR2

Topic: Supervisory reporting

Article: 99

COM Delegated or Implementing Acts/RTS/ITS/GLs: Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)

Article/Paragraph: Annex II

Type of submitter: Credit institution

Subject Matter: Validation rule e4898_n

Question: Is the validation rule e4898_n of ITS consistent with the Article 134(7) of the CRR?

Background on the question:

The validation rule *e4898_n* forbids the weight ‘Other weights’ for Default exposures, *nevertheless*, some exposures in default are exposures with residual values and so weighted at $1/t$, t being the residual time. To this end, they are classified as Default and weighted in ‘Others’

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EBA Answer:

With regard to the portion of a leasing exposure, which exceeds the payments over the lease term that the lessee is or can be required to make, two different cases have to be distinguished:

- a) this portion is fully covered by a bargain option the exercise of which is reasonably certain,
- b) a residual value of the leased asset exists is not covered by minimum lease payments, i.e. neither by payments over the lease term that the lessee is or can be required to make nor by any bargain option the exercise of which is reasonably certain.

In case a), the bargain option is a minimum lease payment, which is required to be assigned to the relevant exposure class in accordance with Article 112 of Regulation (EU) No

575/2013 (CRR). The applicable risk weights are the ones of the exposure class the exposure is assigned to, without a multiplication by 1/t.

In case b), the residual value does not constitute an exposure to an obligor, thus there cannot be a 'default' in the sense of Article 178 CRR. Consequently, it is to be assigned to the exposure class 'other items' and the risk weighted exposure amount is to be calculated as $1/t * 100\%$ residual value.

Validation rule e4898_n is in line with these considerations and therefore correct with regard to the issue raised in the question.

Similar considerations apply for IRB exposure consisting of residual values of lease items (Articles 147 (9), 156 letter b), 166 (4) CRR).

Status: Final Q&A